

TOWN OF PANAMA, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

TOWN OF PANAMA, OKLAHOMA

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TOWN OF PANAMA, OKLAHOMA

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Report on Compliance and on Internal Control Over Financial Reporting
Based on Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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TOWN OF PANAMA, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

Board of Trustees

Johnny Martin	Mayor
Barbara Klahn	Vice Mayor
Charles Pierce	Member
Tim Crase	Member
Lloyd Hale	Member

Town Clerk & Treasurer

El Doris Weaver

Town Attorney

Ronald H. Lawson

INDEPENDENT AUDITORS REPORT

**Honorable Mayor and Board of Trustees
Town of Panama, Oklahoma**

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

Also, as described in note 1, these financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Panama, Oklahoma, as of June 30, 2011, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, I have also issued a report dated March 5, 2012, on my consideration of the Town of Panama's internal control over financial reporting and my tests of its compliance with certain provisions of laws,

DAVID F. HEDGES, CPA

Honorable Mayor and Board of Trustees

Town of Panama, Oklahoma

Page 2

regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 39 through 41 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Panama, Oklahoma, financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Spiro, Oklahoma

March 5, 2012

TOWN OF PANAMA

Phone 918-963-4116

P O Box 760, Panama, Oklahoma 74951-0760

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MANAGEMENT AND DISCUSSION ANALYSIS

(Unaudited)

Our discussion and analysis of the Town of Panama's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2011, within the limitations of the Town's modified cash basis of accounting. Please read it in conjunction with the Town's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- The Town's total expenses exceeded total revenues, on the modified cash basis of accounting, by \$46,286 for the year, resulting in a decrease in total net assets of 3.11 percent under the previous year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Town's modified cash basis of accounting.

Report Components This annual report consists of five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (*on page 14*) provide information about the activities of the Town government-wide (or "as a whole") and present a longer-term view of the Town's finances.

Fund Financial Statements: The fund financial statements (*starting on page 15*) focus on the individual parts of the Town government. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the Town operates like businesses, such as water, sewer and sanitation services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 2 (Unaudited)**

Required Supplementary Information: This Management's Discussion and Analysis and the Governmental Funds Budgetary Comparison Schedules (*starting on page 39*) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Basis of Accounting

The Town has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Town's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Town as a Whole

The Town's Reporting Entity Presentation

This annual report includes all activities for which the Town of Panama Council is fiscally responsible. These activities, defined as the Town's reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit.

The primary government includes the following legal entities:

- The Town of Panama
- Panama Public Works Authority

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 3 (Unaudited)**

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the Town as a whole begins on page 8. The government-wide financial statements are presented on pages 13 and 14. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all of the Town's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the Town's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Town's net assets—the difference between assets and liabilities—as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's sales tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

Governmental activities. Most of the Town's basic services are reported here, including the police, fire, general administration, streets, parks, cemetery, and senior citizens. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

Business-type activities. The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water, sewer and sanitation systems are reported here.

Reporting the Town's Most Significant Funds

The Fund Financial Statements

Our analysis of the Town's major funds begins on page 10. The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The

TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 4 (Unaudited)

Town's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

Governmental funds—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements. The Town considers the General Fund and the Capital Improvement Fund to be significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds—When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the Town's proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. The Town only has one enterprise fund—the Public Works Authority Utilities Fund.

The Town currently has no fiduciary funds. *Fiduciary funds* are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 5 (Unaudited)**

A FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net Assets – Modified Cash Basis

TOWN OF PANAMA'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	333,953	323,329	142,971	125,003	476,924	448,332
Capital Assets	302,708	357,697	1,828,101	1,892,806	2,130,809	2,250,503
Total Assets	<u>636,661</u>	<u>681,026</u>	<u>1,971,072</u>	<u>2,017,809</u>	<u>2,607,733</u>	<u>2,698,835</u>
Long term liabilities	41,453	62,781	1,120,083	1,143,571	1,161,536	1,206,352
Other liabilities	2,105	2,105	1,247	1,247	3,352	3,352
Total Liabilities	<u>43,558</u>	<u>64,886</u>	<u>1,121,330</u>	<u>1,144,818</u>	<u>1,164,888</u>	<u>1,209,704</u>
Net Assets:						
Invested in capital assets, net of related debt	261,255	294,916	748,526	789,497	1,009,781	1,084,413
Restricted	154,268	0	85,157	77,687	239,425	77,687
Unrestricted	177,580	321,224	16,059	5,807	193,639	327,031
Total Net Assets	<u>593,103</u>	<u>616,140</u>	<u>849,742</u>	<u>872,991</u>	<u>1,442,845</u>	<u>1,489,131</u>

The Town's combined net assets, resulting from modified cash basis transactions, decreased from approximately \$1,489,131 to \$1,442,845 between fiscal years 2010 and 2011. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had a decrease of \$23,037 and business-type activities decreased by \$23,249.

Net assets of the Town's governmental activities decreased 3.73 percent to \$593,103. However, \$261,255 of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed \$331,848 at the end of this year. The net assets of the Town's business-type activities decreased to \$849,742. However, \$833,683 of those net assets are restricted as to the purposes they can be used for or are invested in capital assets (buildings, electric, water, sewer, and so on). Consequently, unrestricted net assets were \$16,059 at the end of this year.

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 6 (Unaudited)**

TOWN OF PANAMA'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program Revenues:						
Fees, fines and charges for services	152,806	170,760	343,077	341,024	495,883	511,784
Operating grants and contributions	14,654	5,100	837	-	15,491	5,100
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Sales tax	198,549	184,476	-	-	198,549	184,476
Use tax	10,146	21,344	-	-	10,146	21,344
Franchise tax	38,685	39,204	-	-	38,685	39,204
Cigarette tax	2,835	2,594	-	-	2,835	2,594
Intergovt. Revenue	22,219	24,605	-	-	22,219	24,605
Investment earnings	1,144	1,775	759	918	1,903	2,693
Gain (loss) on sale of assets	(31)	(60)	-	-	(31)	(60)
Miscellaneous	14,076	22,429	2,225	5,818	16,301	28,247
Total revenues	455,083	472,227	346,898	347,760	801,981	819,987
Expenses:						
General government and administration	87,143	78,319	-	-	87,143	78,319
Public safety	314,039	312,464	-	-	314,039	312,464
Transportation	76,938	93,351	-	-	76,938	93,351
Interest on long term debt	-	-	-	-	-	-
Water	-	-	129,396	155,098	129,396	155,098
Sewer	-	-	167,768	167,631	167,768	167,631
Sanitation	-	-	72,983	74,140	72,983	74,140
Total expenses	478,120	484,134	370,147	396,869	848,267	881,003
Increases in net assets before transfers	(23,037)	(11,907)	(23,249)	(49,109)	(46,286)	(61,016)
Transfers	-	(17,500)	-	17,500	-	-
Net assets - July 1	616,140	645,547	872,991	904,600	1,489,131	1,550,147
Net assets - June 30	593,103	616,140	849,742	872,991	1,442,845	1,489,131

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 7 (Unaudited)**

For the year ended June 30, 2011, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$478,120. Of these total expenses, taxpayers and other general revenues funded \$287,623, while those directly benefiting from the program funded \$152,806 from charges for services and \$14,654 was funded by grants.

Business-Type Activities

In reviewing the business-type activities' net (expense)/revenue resulting from modified cash basis transactions. While the sewer service activities reported net expenses of \$(42,227), the water reported net expenses of \$17,309 and sanitation was close to breakeven with a net expense of \$(2,153). The sanitation service is operated under private contract and the narrow net revenue is typical. In arriving at the business type activity expenses the administration expenses of \$47,074 are allocated based on each activities expenses to the total.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues of \$293,796 and expenditures of \$320,978 resulting in an increase in fund balance of \$(27,182).
- General fund revenues decreased under the prior year by \$30,439. The general fund expenditures increased over the prior year by \$1,839.

General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget.

For the year ended June 30, 2011, General Fund expenditures were \$23,504 under final appropriations, while actual resources available for appropriation were \$8,162 over the final budgeted amount.

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 8 (Unaudited)
CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets – Modified Cash Basis

At June 30, 2011, the Town had \$302,708 invested in capital assets, net of depreciation, including police and fire equipment and buildings. This represents a net decrease of \$54,989, or 15.37 percent, under last year. The Public Works Authority had \$1,828,101 invested in capital assets, net of depreciation including the water and sewer lines. This represents a net decrease of \$64,705 or 3.42 percent, under last year.

This year's more significant capital assets additions include:

General Fund General Government - 2 Computers	\$ 1,531
General Fund Police - 4 Armor Vests	2,232
Fire Fund - 12 Radios	4,475
Public Works Authority - Sewer Pumps	3,479

**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	180	180	20,000	20,000	20,180	20,180
Const. In Progress	0	0	0	0	0	0
Buildings	127,154	132,030	3,082	3,207	130,236	135,237
Furniture & Fixtures	440	660	216	320	656	980
Machinery & Equipment	54,742	64,655	28,294	31,281	83,036	95,936
Vehicles	82,689	120,043	0	0	82,689	120,043
Capital Improvements	37,503	40,129	1,776,509	1,837,998	1,814,012	1,878,127
Total	<u>302,708</u>	<u>357,697</u>	<u>1,828,101</u>	<u>1,892,806</u>	<u>2,130,809</u>	<u>2,250,503</u>

**TOWN OF PANAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
PAGE 9 (Unaudited)**

Long-Term Debt -- Modified Cash Basis

At June 30, 2011, the Town had \$1,161,536 in long term debt arising from modified cash basis transactions compared to \$1,206,352 at June 30, 2010. At June 30, 2011, most all of the debt is related to business-type activities. (See table below). This represents a decrease of 3.72 percent.

Primary Government Long-Term Debt -- Modified Cash Basis

	<u>2010</u>	<u>2011</u>
Governmental debt:		
Lease purchase Old National Bank	58,442	41,453
Lease purchase Kubota Credit Copr	4,339	-
Total governmental debt	<u>\$ 62,781</u>	<u>\$ 41,453</u>
Business-type debt:		
Refundable utility deposits	\$ 40,262	\$ 40,508
Note payable RUS	988,206	967,453
Note payable RUS	115,103	112,122
Total business-type debt	<u>\$ 1,143,571</u>	<u>\$ 1,120,083</u>
Total all debt	<u>\$ 1,206,352</u>	<u>\$ 1,161,536</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year ending June 30, 2011, the Town's budget is fairly consistent with this year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Town Clerk's office at 100 North Kentucky, Panama, Oklahoma or telephone at (918) 963-4116.

TOWN OF PANAMA, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash, and cash equivalents	\$293,089	\$17,546	\$310,635
Investments	26,157		26,157
Due from other funds	14,707		14,707
Total current assets	<u>333,953</u>	<u>17,546</u>	<u>351,499</u>
Noncurrent Assets:			
Restricted Cash, and cash equivalents		104,471	104,471
Restricted Investments		20,954	20,954
Capital assets (Note 2.C.):			
Land	180	20,000	20,180
Other capital assets, net of accumulated depreciation	302,528	1,808,101	2,110,629
Total noncurrent assets	<u>302,708</u>	<u>1,953,526</u>	<u>2,256,234</u>
Total assets	<u>636,661</u>	<u>1,971,072</u>	<u>2,607,733</u>
LIABILITIES			
Current Liabilities:			
Payroll taxes payable			0
Due to other funds	2,105	1,247	3,352
Due within one year	17,854	24,827	42,681
Total current liabilities	<u>19,959</u>	<u>26,074</u>	<u>46,033</u>
Noncurrent Liabilities:			
Refundable deposits		40,508	40,508
Long term liabilities (Note 2.D.)			
Notes payable	23,599	1,054,748	1,078,347
Total noncurrent liabilities	<u>23,599</u>	<u>1,095,256</u>	<u>1,118,855</u>
Total Liabilities	<u>43,558</u>	<u>1,121,330</u>	<u>1,164,888</u>
NET ASSETS			
Invested in capital assets, net of related debt	261,255	748,526	1,009,781
Restricted for:			
Street and Alley	32,737		32,737
Fire Department	121,531		121,531
Debt service		85,157	85,157
Unrestricted	177,580	16,059	193,639
Total Net Assets	<u>\$593,103</u>	<u>\$849,742</u>	<u>\$1,442,845</u>

See accompanying notes to the basic financial statements.

TOWN OF PANAMA, OKLAHOMA

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities							
Clerk	\$5,434	\$613			(4,821)		(4,821)
General Government	\$81,709				(81,709)		(81,709)
Total general government	87,143	613	0	0	(86,530)	0	(86,530)
Public Safety:							
Police	231,396	152,193			(79,203)		(79,203)
Fire	82,643		4,398		(78,245)		(78,245)
Total Public safety	314,039	152,193	4,398	0	(157,448)	0	(157,448)
Transportation:							
Streets	76,938		10,256		(66,682)		(66,682)
Total transportation	76,938	0	10,256	0	(66,682)	0	(66,682)
Total governmental activities	478,120	152,806	14,654	0	(310,660)	0	(310,660)
Business-type activities:							
Water	129,396	146,705				17,309	17,309
Sewer	167,768	125,541				(42,227)	(42,227)
Sanitation	72,983	70,830				(2,153)	(2,153)
Total business-type activities	370,147	343,077	0	0	0	(27,070)	(27,070)
Total primary government	\$848,267	\$495,883	\$14,654	\$0	(\$310,660)	(27,070)	(337,730)

	Governmental	Business-Type	Total
	(\$310,660)	(\$27,070)	(\$337,730)
General revenues:			
Taxes:			
Sales Tax	198,549		198,549
Use Tax	10,146		10,146
Franchise and public service taxes	38,685		38,685
Cigarette Tax	2,835		2,835
Intergovernmental revenue not restricted to specific programs	22,219	837	23,056
Interest income	1,144	759	1,903
Gain (loss) on sale of assets	(31)		(31)
Miscellaneous	14,076	2,225	16,301
Transfers intenal activity			0
Total general revenues and transfers	287,623	3,821	291,444
Charge in net assests	(23,037)	(23,249)	(46,286)
Net assets-beginning	616,140	872,991	1,489,131
Net assets- ending	\$593,103	\$849,742	\$1,442,845

See accompanying notes to the basic financial statements.

TOWN OF PANAMA, OKLAHOMA

BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

June 30, 2011

	<u>General Fund</u>	<u>Steet and Alley</u>	<u>Fire Department</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash, and cash equivalents	\$162,873	\$34,209	\$96,007	\$293,089
Investments			26,157	26,157
Due from other funds	14,707			14,707
Total assets	<u>177,580</u>	<u>34,209</u>	<u>122,164</u>	<u>\$333,953</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll liabilities				0
Due to other funds		1,472	633	2,105
Total Liabilities	<u>0</u>	<u>1,472</u>	<u>633</u>	<u>2,105</u>
Fund Balances:				
Restricted for:				
Street and Alley		32,737		32,737
Fire Department			121,531	121,531
Assigned	36,145			36,145
Unassigned	141,435			141,435
Total Fund Balances	<u>177,580</u>	<u>32,737</u>	<u>121,531</u>	<u>331,848</u>
Total Liabilities and Fund Balances	<u>\$177,580</u>	<u>\$34,209</u>	<u>\$122,164</u>	

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of \$ 889,118, net of accumulated depreciation of \$ 586,410 are not financial resources and, therefore, are not reported in funds	302,708
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(41,453)</u>
Net assets of governmental activities	<u>\$593,103</u>

See accompanying notes to the financial statements.

TOWN OF PANAMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	Street and Alley	Fire Department	Total Governmental Funds
Revenues:				
Taxes	117,849	66,183	66,183	250,215
Intergovernmental	9,857	22,618	4,398	36,873
Fines and forfeitures	152,193			152,193
Licenses and permits	613			613
Interest income	732	84	328	1,144
Miscellaneous	12,552	1,024	500	14,076
Total Revenues	<u>293,796</u>	<u>89,909</u>	<u>71,409</u>	<u>455,114</u>
Expenditures:				
Current:				
General Government:				
Clerk	5,434			5,434
General Government	76,003			76,003
Public Safety:				
Police	206,186			206,186
Fire			50,651	50,651
Street and Public Works:				
Streets		73,827		73,827
Capital Outlay	3,763		4,475	8,238
Debt Service	19,592	4,559		24,151
Total Expenditures	<u>310,978</u>	<u>78,386</u>	<u>55,126</u>	<u>444,490</u>
Excess (deficiency) of revenues over expenditures	(17,182)	11,523	16,283	10,624
Other Financing Sources (Uses):				
Capital lease proceeds				0
Transfers in		10,000		10,000
Transfers out	(10,000)			(10,000)
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>10,000</u>	<u>0</u>	<u>0</u>
Net change in fund balances	(27,182)	21,523	16,283	10,624
Fund balances - beginning	204,762	11,214	105,248	321,224
Fund balances - ending	<u>177,580</u>	<u>32,737</u>	<u>121,531</u>	<u>331,848</u>

Reconciliation to the Statement of Activities:

Net change in fund balances -total governmental funds \$10,624

Amounts reported for governmental activities in 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	8,238
Depreciation expense	(63,196)
Debt service payments are not considered expenditures in the governmental activities report	21,328
Lease proceeds are not considered revenues in the governmental activities report	0
The net effect of various transactions involving capital assets (i.e. sales, trade ins, and contributions)	(31)
	<u>(33,661)</u>
Change in Net Assets of Governmental Activities	<u>(\$23,037)</u>

See accompanying notes to the basic financial statements.

TOWN OF PANAMA, OKLAHOMA

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND**

June 30, 2011

	Panama Public Works Authority
ASSETS	
Current Assets:	
Cash, and cash equivalents	\$17,546
Total current assets	<u>17,546</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	104,471
Restricted investments	20,954
Land	20,000
Other capital assets, net of accumulated depreciation	1,808,101
Total noncurrent assets	<u>1,953,526</u>
Total Assets	<u>1,971,072</u>
LIABILITIES	
Current Liabilities:	
Due to other funds	1,247
Notes payable - current portion	24,827
Total current liabilities	<u>26,074</u>
Noncurrent Liabilities:	
Refundable deposits	40,508
Notes payable - long-term portion	1,054,748
Total noncurrent liabilities	<u>1,095,256</u>
Total Liabilities	<u>1,121,330</u>
NET ASSETS	
Invested in capital assets, net of related debt	748,526
Restricted for debt service	85,157
Unrestricted	16,059
Total net assets	<u>849,742</u>

See accompanying notes to combined financial statements.

TOWN OF PANAMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSESTS
MODIFIED CASH BASIS PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Panama Public Works Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$140,926
Sewer	122,010
Sanitation	68,838
Water & Sewer Taps	1,700
Penalties	9,602
Miscellaneous	2,225
Total Operating Revenues	<u><u>345,301</u></u>
Operating Expenses:	
Administration operations	109,156
Water operations	105,445
Sewer operations	37,245
Depreciation	69,134
Total Operating Expenses	<u><u>320,980</u></u>
 Net Operating Income (Loss)	 24,321
Non-Operating Revenue (Expense):	
Grant income	837
Investment income	759
Interest expense and fiscal agent fees	(49,166)
Gain (loss) on sale of assets	0
Total Non-Operating Revenue (Expense)	<u><u>(47,570)</u></u>
 Net Income (Loss) Before Operating Transfers	 (23,249)
 Capital Contributions	
Transfers In	0
Transfers Out	0
	<u>0</u>
 Changes in net assests	 (23,249)
 Total Net Assets-Beginning	 872,991
 Total Net Assets-Ending	 <u><u>\$849,742</u></u>

See accompanying notes to combined financial statements.

TOWN OF PANAMA, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Panama Public Works Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$345,301
Payments to suppliers	(200,754)
Payments to employees	(51,092)
Receipts of customer utility deposits	11,386
Refunds of customer utility deposits	(11,140)
Net Cash Provided by Operating Activities	<u>93,701</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase in due to other funds	0
Transfers from other funds	0
Net Cash Provided (Used) by Operating Activities	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of capital assets	0
Purchases of capital assets	(4,429)
Principal paid on capital debit	(23,734)
Interest and fiscal agent fees paid on capital debit	(49,166)
Net Cash Used in Capital and Related Financing Activities	<u>(77,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Grant income	837
Interest and dividends	759
Net Cash Provided by Investing Activities	<u>1,596</u>
Net Increase in Cash and Cash Equivalents	17,968
Balance- beginning of the year	125,003
Balance- end of the year	<u>\$142,971</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$24,321
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	69,134
Change in assets and liabilities:	
Refundable deposits	246
Net cash provided by operating activities	<u>\$93,701</u>

See accompanying notes to combined financial statements.

TOWN OF PANAMA, OKLAHOMA

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2011**

	<u>Agency Funds</u>
ASSETS	
Cash, and cash equivalents	\$11,355
Total assets	<u>\$11,355</u>
LIABILITIES	
Due to other funds	\$11,355
Total liabilities	<u>\$11,355</u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Town are described below.

1.A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is composed of the following:

Primary Government:	Town of Panama
Blended Component Unit:	Panama Public Works Authority

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

BLENDED COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council, or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

Component Unit	Brief Description/Inclusion Criteria	Fund Included In
Panama Public Works Authority	<i>Created February 8, 1972 to finance, develop, and operate the water, wastewater, and sanitation activities of the Town. Current Town Council serves as entire governing Body (Trustees). Debt issued by Authority Requires two-thirds approval of the Town Council</i>	<i>PWA Enterprise Fund</i>

The component unit does not issue separately audited component unit financial statements.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties of goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds:

<u>Fund</u>	<u>Brief Description</u>
Street and Alley Fund	Accounts for gasoline excise and commercial vehicle taxes and 33% of the 3 cent sales tax collected legally restricted for street and alley improvements.
Fire Fund	Accounts for a special 1 cent sales tax and fire runs for benefit of the fire department.

Capital Project Funds

Capital project funds area used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity presently includes no capital project fund.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Panama Public Works Authority	Accounts for the activities of the public trust in providing water and wastewater services to the public.

1.C. MEASUREMENT FOCUS ON BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

TOWN OF PANAMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources

MEASUREMENT FOCUS

measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the funds financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

1.D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments. Trust account investments in open-ended mutual funds shares are also considered cash equivalents.

INVESTMENTS

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPTIAL ASSETS

The Town’s modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds’ infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. A capitalization

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

EQUITY CLASSIFICATION

Government-Wide 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 borrowing that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

TOWN OF PANAMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

- 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 Town’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.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

1. E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Town’s taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

General Government	Licenses and permits.
Public Safety	Fine revenue and Fire run revenue; operating and capital grants include Cops School Grant and KEDDO
Streets and Public Works	Commercial vehicle and gasoline excise tax shared by the State

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans—Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services—Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements—Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers—Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances—Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities—Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers--Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.
3. Primary government and component unit activity and balances—Resource flows between the primary government (the Town and Public Works Improvement Authority) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1.G. FUND EQUITY

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (Such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt services, or for other purposes).

1.H. USE OF STATEMENTS

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

TOWN OF PANAMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2. DETAIL NOTES—TRANSACTIONS CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

2.A. CASH AND INVESTMENTS

CUSTODIAL CREDIT RISK-DEPOSITS

The table presented below is designed to disclose the level of custodial credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2011. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

- Category 1-- Insured by Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town (or public trust) or by its agent in its name.
- Category 2-- Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- Category 3-- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Town's name; or properly collateralized with no written and approved collateral agreement.

<i>Custody Credit Risk Category</i>		<u>Total Bank</u>			
<u>Type of Deposits</u>	<u>Balance</u>	<u>1</u>	<u>2</u>	<u>3</u>	
Insured deposits	384,759	384,759	-	-	
Uninsured deposits					
Collateralized	106,900	-	106,900	-	
Uncollateralized	-	-	-	-	Total
					<u>Carrying</u>
Total Deposits	491,659	384,759	106,900	-	Value
Petty Cash					473,131
					<u>441</u>
					<u>473,572</u>
<u>Reconciliation to Government-Wide Statements of Net Assets:</u>					
					336,792
					125,425
					11,355
					<u>473,572</u>

TOWN OF PANAMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2.B. RESTRICTED ASSETS

The amounts reported as restricted assets are composed of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill) of \$40,268; and the amounts held to comply with the sewer project debt service requirements are \$ 85,157.

2.C. CAPITAL ASSETS

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year.

	Balance 07/01/10	Additions	Deductions	Balance 06/30/11
Governmental activities:				
Capital assets not being depreciated:				
Land	180	0	0	180
Construction in Process	0	0	0	0
Total capital assets not being depreciated	<u>180</u>	<u>0</u>	<u>0</u>	<u>180</u>
Other capital assets:				
Buildings	195,035	0	0	195,035
Furniture and fixtures	1,540	0	0	1,540
Machinery and equipment	242,140	8,238	(2,567)	247,811
Vehicles	397,846	0	(7,337)	390,509
Capital improvements	54,043	0	0	54,043
Total other capital assets at historical cost	<u>890,604</u>	<u>8,238</u>	<u>(9,904)</u>	<u>888,938</u>
Less accumulated depreciation for:				
Buildings	63,005	4,876	0	67,881
Furniture and fixtures	880	220	0	1,100
Machinery and equipment	177,485	18,120	(2,536)	193,069
Vehicles	277,803	37,354	(7,337)	307,820
Capital improvements	13,914	2,626	0	16,540
Total accumulated depreciation	<u>533,087</u>	<u>63,196</u>	<u>(9,873)</u>	<u>586,410</u>
Other capital assets, net	<u>357,517</u>	<u>(54,958)</u>	<u>(31)</u>	<u>302,528</u>
Governmental activities capital assets, net	<u>357,697</u>	<u>(54,958)</u>	<u>(31)</u>	<u>302,708</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	20,000	0	0	20,000
Total capital assets not being depreciated	<u>20,000</u>	<u>0</u>	<u>0</u>	<u>20,000</u>
Other capital assets:				
Buildings	5,000	0	0	5,000
Furniture and fixtures	726	0	0	726
Machinery and equipment	118,936	4,429	0	123,365
Vehicles	17,000	0	0	17,000
Capital improvements	2,436,243	0	0	2,436,243
Total other capital assets at historical cost	<u>2,577,905</u>	<u>4,429</u>	<u>0</u>	<u>2,582,334</u>
Less accumulated depreciation for:				
Buildings	1,793	125	0	1,918
Furniture and fixtures	406	104	0	510
Machinery and equipment	87,655	7,416	0	95,071
Vehicles	17,000	0	0	17,000
Capital improvements	598,245	61,489	0	659,734
Total accumulated depreciation	<u>705,099</u>	<u>69,134</u>	<u>0</u>	<u>774,233</u>
Other capital assets, net	<u>1,872,806</u>	<u>(64,705)</u>	<u>0</u>	<u>1,808,101</u>
Business-type activities capital assets, net	<u>1,892,806</u>	<u>(64,705)</u>	<u>0</u>	<u>1,828,101</u>

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

Primary Government	
Government Activities:	
General Government	5,706
Police	22,608
Street & Alley	2,890
Fire	31,992
Total depreciation expense for governmental activities	<u>63,196</u>
Business-Type Activities:	
Administration	1,133
Water	3,956
Sewer	64,045
Total depreciation expense for business-type activities	<u>69,134</u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2.D. LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

GOVERNMENTAL ACTIVITIES

Lease Purchase Obligations:

As of June 30, 2011, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Lease purchase obligations due Old National Bank Leasing:

4.99% interest with 17 quarterly payments of principal and interest of \$4,898, secured by 4 Dodge Charger Police Cars. Scheduled debt service payments in the General Fund Police.	<u>41,453</u>
Total Lease Purchases Outstanding	\$ <u>41,453</u>
Current portion	\$ 17,854
Non-current portion	<u>23,599</u>
Total Leases Payable	\$ <u>41,453</u>

BUSINESS-TYPE ACTIVITIES

Notes Payable:

Note due to Rural Utilities Service Department of Agriculture in the amount of \$1,200,000. The note was for the purpose of providing a portion of the cost of acquiring and constructing of Panama Public Works Authority sewer improvements. The original principal amount of \$1,200,000 has a fixed interest rate of 4.5% with 480 monthly payments of principal and interest of \$5,400 due October 2038.	\$ 967,453
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The note is collateralized by a mortgage on the Panama Public Works Authority's sewer system and a first lien on and pledge of the revenues produced.

TOWN OF PANAMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note due to Rural Utilities Service Department of Agriculture in the amount of \$150,000. The note was for the purpose of providing a portion of the cost of acquiring and constructing of Panama Public Works Authority sewer improvements. The original principal amount of \$150,000 has a fixed interest rate of 4.5% with 480 monthly payments of principal and interest of \$675 due October 2038. 112,122

The note is collateralized by a mortgage on the Panama Public Works Authority's sewer system and a first lien on and pledge of the revenues produced.

Total Notes Payable Outstanding	<u>\$1,079,575</u>
Current portion	\$ 24,827
Non-current portion	<u>1,054,748</u>
Total Notes Payable	<u>\$ 1,079,575</u>

Refundable Deposits:

Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits –Refundable	<u>\$ 40,508</u>
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CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

<u>Type of Debt</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
Government Activities:					
Capital Debt Obligations	62,781		21,328	41,453	17,854
Business-Type Activities:					
Refundable Deposits	40,262	11,386	11,140	40,508	
Leases Payable	0			0	
Notes Payable	<u>1,103,309</u>		<u>23,734</u>	<u>1,079,575</u>	<u>24,827</u>
Total Business-Type Activities:	<u>1,206,352</u>	<u>11,386</u>	<u>56,202</u>	<u>1,161,536</u>	<u>42,681</u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except for refundable deposits, as of June 30, 2011, are as follows:

Year Ended June 30,	Capital Debt Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2012	17,853.67	1,737.85	24,827.02	48,072.98
2013	18,761.38	830.14	25,967.56	46,932.44
2014	4,837.52	60.36	27,160.53	45,739.47
2015			28,408.26	44,491.74
2016			29,713.34	43,186.66
2017-2021			170,340.25	194,159.75
2022-2026			213,231.19	151,268.81
2027-2031			266,921.94	97,578.06
2032-2036			293,005.16	32,398.24
Total	<u>41,452.57</u>	<u>2,628.35</u>	<u>1,079,575.25</u>	<u>703,828.15</u>

DEBT SERVICE COVERAGE AND RESERVE REQUIREMENT

The Public Works Authority's Rural Development Promissory Notes are collateralized by the revenue of the Panama Public Works Authority Sewer System. The agreement contains provisions which require the Town to maintain pledged revenue, of at least 100% of the annual debt service and a debt reserve fund addition of 10% of the monthly debt payment until a reserve balance of 10% of the note balance is obtained. As of June 30, 2011 the Authority's debt service coverage percentage is 128% which meets the promissory note requirement and the reserve balance is \$61,076, which is \$460 over the required debt reserve fund balance.

2.E. INTERFUND TRANSFERS AND BALANCES

INTERFUND BALANCES

At June 30, 2011, the Street and Alley Special Revenue Fund owed the General Fund \$1,472, the Fire Fund owed the General Fund \$633, the Trust and Agency Fund owed the General Fund \$11,355, and the Public Works Authority owed the General Fund \$1,247.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

INTERFUND TRANSFERS

Transfers between funds of the primary government for the year ended June 30, 2011, were as follows:

<u>MAJOR FUNDS:</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
<u>GENERAL FUND:</u>		
Street		10,000
Panama Public Works Authority		
Total General Fund	0	10,000
<u>STREET FUND:</u>		
General Fund	10,000	
Total Street Fund	10,000	0
<u>FIRE FUND:</u>		
General Fund		
Total Fire Fund	0	0
<u>ENTERPRISE FUNDS:</u>		
Panama Public Works Authority:		
General Fund		
Total Enterprise Funds	0	0
GRAND TOTALS	\$ 10,000	\$ 10,000

NOTE 3. OTHER NOTES

3. A. GRANTS AND CONTRACTS

Oklahoma Civil Emergency Management - The Town was awarded a \$10,256 grant from the Oklahoma Civil Emergency Management Agency for road repair from winter storm damage. The Town received and expended \$10,256 in the 2010-11 fiscal year.

Rural Fire Defense Grant - The Town received a grant of \$4,398 from the Oklahoma Department of Agriculture Forestry Services for fire calls.

Oklahoma Civil Emergency Management - The Town was awarded a \$837 grant from the Oklahoma Civil Emergency Management Agency for repair of water main and water meters from winter storm damage. The Town received and expended \$837 in the 2010-11 fiscal year.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3.B. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

Volunteer firemen of the Town of Panama, Oklahoma, participate in the Oklahoma Firefighters Pension and Retirement System. The plan covers all volunteer fireman hired before age 45 if they are working in a participating municipality. These firemen are not paid a salary.

A. Eligibility Factors, Contribution Methods, and Benefit Provisions

	Oklahoma Firefighter's Pension and <u>Retirement System</u>
Obtaining separately issued financial statements	Firefighters Pension & Retirement 4545 N. Lincoln Blvd. Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate	N/A
Town's contribution rate (\$60 per volunteer)	\$60
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	20 years of service
Eligibility and benefits for distribution (full-time)	20 years credited service, 2 ½% of Final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested; at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.

TOWN OF PANAMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years
Provisions for: Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Provisions for: Death (duty, non-duty, post retirement)	Yes
Disability (duty, non-duty)	Yes
Cost of living allowances	Yes

Contributions and Trend Information

Contributions required by State Statute and made for each of the past three fiscal years are:

2009	\$900
2010	900
2011	1,080

These contributions represent 100% of the required contribution in each fiscal year.

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

Related-Party Investments

As of June 30, 2011, the System held no related-party investments of the Town or of its component units.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3.C. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; employee's health and life; and natural disasters.

The Town manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk Retained
Torts, errors and omissions	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
Injuries to employees (workers' compensation)	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
Physical property loss and natural disasters	Purchased insurance with Oklahoma Municipal Assurance Group and	(1)
Health and life	Participates in the Oklahoma State Education Employee Group Insurance Board	None

The Town participates in the Oklahoma Municipal Assurance Group Liability Protection Plan and Life and Health Benefit Plan (risk entity pools).

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

3.D. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

At June 30, 2011, the Town had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service.

The compensated absences commitment of \$4,450 at June 30, 2011, can be summarized as follows:

	<u>Town</u>	<u>Street & Alley</u>	<u>PWA</u>	<u>Total</u>
Vacation	\$ 2,436	\$ 0	\$ 2,014	\$ 4,450

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

3.E. SUBSEQUENT EVENTS

The organization has adopted FASB ASC 855-10-50, formerly SFAS No. 165, *Subsequent Events*, which is effective for periods ending after June 15, 2009. The standard reflects the existing principles of current subsequent event accounting guidance and requires disclosure of the date through which subsequent events have been evaluated. Management performed an evaluation of the Organization's activity through March 5, 2012, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

TOWN OF PANAMA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
MODIFIED CASH BASIS
GENERAL FUND

FOR THE FISCAL YEAR ENDED 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	204,762	204,762	204,762	-
Revenues:				
Taxes				
Sales tax	60,938	60,938	66,183	5,245
Use tax	3,000	9,000	10,146	1,146
Franchise tax	34,000	37,000	38,685	1,685
Cigarette tax	2,000	2,000	2,835	835
Total Taxes	<u>99,938</u>	<u>108,938</u>	<u>117,849</u>	<u>8,911</u>
Intergovernmental:				
Alcoholic beverage tax	6,000	10,000	9,857	(143)
Total Intergovernmental	<u>6,000</u>	<u>10,000</u>	<u>9,857</u>	<u>(143)</u>
Fines and forfeitures				
Court Fines	175,000	175,000	152,193	(22,807)
Total Fines and Forfeitures	<u>175,000</u>	<u>175,000</u>	<u>152,193</u>	<u>(22,807)</u>
Licenses and Permits	<u>500</u>	<u>500</u>	<u>613</u>	<u>113</u>
Interest Income	<u>500</u>	<u>500</u>	<u>732</u>	<u>232</u>
Miscellaneous:				
Misc. revenue	4,500	14,200	12,552	(1,648)
Total Miscellaneous	<u>4,500</u>	<u>14,200</u>	<u>12,552</u>	<u>(1,648)</u>
Other Financing Sources:				
Transfers from other funds	0	0	0	0
Capital lease proceeds	0	0	0	0
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amounts available for appropriation	<u>491,200</u>	<u>513,900</u>	<u>498,558</u>	<u>(15,342)</u>

**BUDEATARY COMPARISON SCHEDULE
MODIFIED CASH BASIS
GENERAL FUND**

FOR THE FISCAL YEAR ENDED 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>		
Charges to Appropriations (Outflows):				
Clerk:				
Personal services	5,729	5,730	5,311	419
Other services and charges	350	300	123	177
Total Clerk	<u>6,079</u>	<u>6,030</u>	<u>5,434</u>	<u>596</u>
General Government:				
Personal services	58,380	58,247	54,822	3,425
Materials and supplies	6,000	6,300	5,037	1,263
Other services and charges	16,300	16,772	16,144	628
Capital outlay	2,000	2,000	1,531	469
Total General Government	<u>82,680</u>	<u>83,319</u>	<u>77,534</u>	<u>5,785</u>
Police:				
Personal services	141,247	141,247	129,430	11,817
Materials and supplies	18,500	18,755	17,157	1,598
Other services and charges	43,200	63,010	59,599	3,411
Capital outlay	1,800	2,521	2,232	289
Debt service	20,000	19,600	19,592	8
Total Police	<u>224,747</u>	<u>245,133</u>	<u>228,010</u>	<u>17,123</u>
Other Financing Uses:				
Transfers to other funds	10,000	10,000	10,000	0
Total Other Financing Uses	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Total Charges to Appropriations	323,506	344,482	320,978	23,504
Ending Budgetary Fund Balance	<u>167,694</u>	<u>169,418</u>	<u>177,580</u>	<u>8,162</u>

TOWN OF PANAMA, OKLAHOMA

NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2011

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Council.
- d. The adopted budget is filed with the Office of State Auditor and Inspector.
 - The legal level of control at which expenditures may not legally exceed appropriations is by department within a fund.

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the same modified cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions.

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

**Honorable Mayor and Board of Trustees
Town of Panama, Oklahoma**

I have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Town of Panama, Oklahoma, as of and for the year ended June 30, 2011 which collectively comprise the Town of Panama, Oklahoma's basic financial statements, which was presented on an other comprehensive basis of accounting and have issued my report thereon dated March 5, 2012. I conducted my 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 my audit, I considered the Town of Panama, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Panama, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Panama, Oklahoma'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Honorable Mayor and Board of Trustees
Town of Panama, Oklahoma
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My 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Panama, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the organization, City Council, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Spiro, Oklahoma
March 5, 2012