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

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each fund of the City of Pond Creek, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Pond Creek. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial positions of the governmental activities, the business-type activities, or the proprietary fund of the City of Pond Creek as of June 30, 2012, or their respective changes in financial position for the year then ended.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental fund of the City of Pond Creek as of June 30, 2012, and the changes in the financial position of the

governmental fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, on our consideration of the internal control over financial reporting of the City of Pond Creek, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
September 12, 2012

**THE CITY OF POND CREEK
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS	Governmental Activities	Business-type Activities	Total 2012
ASSETS			
Current Assets			
Cash and demand deposits	41,210	237,159	278,369
Deposits with OMAG	56,677	0	56,677
Certificates of deposit	25,000	45,500	70,500
Restricted cash and investments	872,326	103,165	975,491
Revenue and accounts receivable	41,579	127,253	168,832
Allowance for doubtful accounts	0	(15,120)	(15,120)
Internal balances	(2,484)	2,484	0
Total current assets	1,034,308	500,441	1,534,749
Noncurrent Assets			
Depreciable property and equipment	288,932	1,244,997	1,533,929
Accumulated depreciation	(114,071)	(69,550)	(183,621)
Net property and equipment	174,861	1,175,447	1,350,308
TOTAL ASSETS	1,209,169	1,675,888	2,885,057
LIABILITIES			
Current Liabilities			
Accounts payable	12,528	60,859	73,387
Sales tax payable	0	1,647	1,647
Deferred revenue	3,430	0	3,430
Accrued interest payable	0	771	771
Current portion of notes payable	0	7,633	7,633
Total current liabilities	15,958	70,910	86,868
Noncurrent Liabilities			
Meter deposits refundable	0	61,123	61,123
Notes payable, less current portion	0	260,544	260,544
Total noncurrent liabilities	0	321,667	321,667
TOTAL LIABILITIES	15,958	392,577	408,535
NET ASSETS			
Invested in capital assets, net of related debt	174,861	907,270	1,082,131
Restricted for:			
Streets	108,819	0	108,819
Capital improvements	92,106	0	92,106
Fire department	336,391	0	336,391
Ambulance department	335,009	0	335,009
Debt	0	21,333	21,333
Unrestricted	146,025	354,708	500,733
TOTAL NET ASSETS	1,193,211	1,283,311	2,476,522

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-type Activities	Total 2012
Governmental activities:							
General government	(50,926)	13,082	0		(37,844)		(37,844)
Library	(21,854)	616	755	0	(20,483)		(20,483)
Park	(30,140)	6,422	500	0	(23,218)		(23,218)
Police	(101,743)	9,423	0	0	(92,320)		(92,320)
Fire	(37,716)	1,075	182,607	0	145,966		145,966
Ambulance	(51,395)	43,072	178,000	0	169,677		169,677
Streets	(55,508)	2,782	8,308	7,237	(37,181)		(37,181)
Total governmental activities	(349,282)	76,472	370,170	7,237	104,597	0	104,597
Business-type activities:							
Administration	(141,441)	46,141	0	0		(95,300)	(95,300)
Electric	(637,200)	807,673	0	0		170,473	170,473
Sewer	(95,009)	75,888	0	0		(19,121)	(19,121)
Trash	(71,852)	90,114	0	0		18,262	18,262
Water	(133,766)	174,401	0	0		40,635	40,635
Total business-type activities	(1,079,268)	1,194,217	0	0	0	114,949	114,949
Total all activities	(1,428,550)	1,270,689	370,170	7,237	104,597	114,949	219,546
		General revenues:					
		Taxes:					
					147,310	0	147,310
					51,154	0	51,154
					76,732	0	76,732
					11,646	0	11,646
					24,488	0	24,488
					1,222	961	2,183
					(7,326)	7,326	0
					305,226	8,287	313,513
					409,823	123,236	533,059
					783,388	1,160,075	1,943,463
					1,193,211	1,283,311	2,476,522

* Interest expense of \$13,586 is included in the sewer department

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>
ASSETS	
Cash and demand deposits	41,210
Restricted cash	872,326
Deposits with OMAG	56,677
Certificates of deposit	25,000
Revenue receivable	<u>41,579</u>
TOTAL ASSETS	<u><u>1,036,792</u></u>
LIABILITIES	
Accounts payable	12,528
Deferred revenues	3,430
Due to other funds	<u>2,484</u>
TOTAL LIABILITIES	<u>18,442</u>
FUND BALANCE	
Restricted for:	
Streets	108,819
Capital improvements	92,106
Fire department	336,391
Ambulance department	335,009
Unassigned	<u>146,025</u>
TOTAL FUND BALANCE	<u>1,018,350</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>1,036,792</u></u>

Reconciliation of fund balance to net assets
of governmental activities:

Fund balance	1,018,350
Capital assets	288,932
Accumulated depreciation	<u>(114,071)</u>
Net assets	<u><u>1,193,211</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>
REVENUES	
Sales and use taxes	147,310
Sales taxes restricted for capital outlay	51,154
Sales taxes restricted for streets	76,732
Franchise taxes	11,646
Shared taxes	388,990
Grants	11,650
Fines and fees	10,039
Ambulance runs	43,072
Interest	1,222
Other revenues	24,616
TOTAL REVENUES	<u>766,431</u>
EXPENDITURES	
General government	49,789
Library	21,854
Park	28,578
Police	97,301
Fire	31,973
Ambulance	44,942
Street & alley	37,828
Capital outlay	48,078
TOTAL EXPENDITURES	<u>360,343</u>
REVENUES OVER (UNDER) EXPENDITURES	406,088
OTHER FINANCING SOURCES (USES)	
Transfers out	<u>(7,326)</u>
NET CHANGE IN FUND BALANCES	398,762
BEGINNING FUND BALANCE	619,588
ENDING FUND BALANCE	<u><u>1,018,350</u></u>
Reconciliation of net change in fund balance to change in net assets of governmental activities:	
Net change in fund balances - total governmental	398,762
Capital asset purchases capitalized	48,078
Depreciation expense	(37,017)
Change in Net Assets of Governmental Activities	<u><u>409,823</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	<u>Utility Fund</u>
ASSETS	
Current Assets	
Cash and demand deposits	237,159
Certificates of deposit	45,500
Restricted cash and investments	103,165
Accounts receivable	127,253
Allowance for doubtful accounts	(15,120)
Due from other funds	2,484
Total current assets	<u>500,441</u>
Noncurrent Assets	
Depreciable property and equipment	1,244,997
Accumulated depreciation	<u>(69,550)</u>
Net depreciable property and equipment	<u>1,175,447</u>
TOTAL ASSETS	<u><u>1,675,888</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	60,859
Sales tax payable	1,647
Accrued interest payable	771
Current portion of notes payable	7,633
Total current liabilities	<u>70,910</u>
Noncurrent Liabilities	
Meter deposits refundable	61,123
Notes payable, less current portion	<u>260,544</u>
Total noncurrent liabilities	<u>321,667</u>
TOTAL LIABILITIES	<u>392,577</u>
NET ASSETS	
Invested in capital assets, net of related debt	907,270
Restricted for debt	21,333
Unrestricted	<u>354,708</u>
TOTAL NET ASSETS	<u><u>1,283,311</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Utility Fund</u>
OPERATING REVENUES (Security for note payable)	
Electric revenues	807,673
Sewer revenues	75,888
Trash revenues	90,114
Water revenues	174,401
Late fees	21,613
Other income	24,528
TOTAL OPERATING REVENUES	<u>1,194,217</u>
OPERATING EXPENSES	
Administration department	141,441
Electric department	637,200
Sewer department	81,423
Trash department	71,852
Water department	133,766
TOTAL OPERATING EXPENSES	<u>1,065,682</u>
OPERATING INCOME	128,535
NON-OPERATING REVENUES (EXPENSES)	
Interest income	961
Interest expense	<u>(13,586)</u>
NET NON-OPERATING REVENUES (EXPENSES)	(12,625)
INCOME BEFORE TRANSFERS	115,910
Transfers-in	<u>7,326</u>
INCREASE IN NET ASSETS	123,236
BEGINNING NET ASSETS	<u>1,160,075</u>
ENDING NET ASSETS	<u><u>1,283,311</u></u>

The accompanying notes are an integral part of these financial statements

**THE CITY OF POND CREEK
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Utility Fund</u>
Cash flows from operations:	
Cash received from:	
Customers	1,179,418
Others	21,381
Cash payments for:	
Goods and services	(746,937)
Employees	(294,850)
Net cash provided from operations	<u>159,012</u>
Cash flows from capital financing activities:	
Principal payments	(7,261)
Interest payments	(13,607)
Transfers for capital purchases	7,326
Purchase of capital assets	(18,776)
Net cash from capital financing activities	<u>(32,318)</u>
Cash flows from investing activities:	
Interest income	283
Net cash from investing activities	<u>283</u>
Net increase (decrease) in cash	<u>126,977</u>
Beginning cash	<u>110,182</u>
Ending cash	<u><u>237,159</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	128,535
Adjustments to income from operations:	
Depreciation	33,379
Change in assets and liabilities:	
(Increase) decrease in receivables	992
(Increase) decrease in interfund receivables	(2,484)
Increase (decrease) in payables	(7,000)
Increase (decrease) in refundable deposits	5,590
Net cash provided by operations	<u><u>159,012</u></u>
** Activity in escrow account:	
FmHA Escrow Account	
Beginning investments	21,234
Investment income	99
Ending investments	<u><u>21,333</u></u>

** Supplemental information.

The accompanying notes are an integral part of these financial statements

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

1. Summary of Significant Accounting Policies

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

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

1A. Financial Reporting Entity

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

1B. Blended Component Units

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

1C. Basic Financial Statements

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

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

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

1D. Government-wide Financial Statements

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

1E. Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

1F. Basis of Accounting

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

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

Accrual Basis

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

Modified Accrual Basis

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

1G. Cash and Cash Equivalents

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

1H. Deposits and Investments

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

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

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

1I. Receivables

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

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

1K. Interfund Activity

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

1L. Capital Assets

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

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

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

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

1M. Compensated Absences

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

1N. Revenues and Expenditures

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

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

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

2. Compliance and Accountability

The PWA is required to maintain \$20,868 in an escrow account for their Rural Development loan. Currently, that account contains \$21,333.

3. Deposits and Investments

The City has deposits of \$400,662 in excess of insured limits that are collateralized by securities held by the pledging financial institutions trust department or agent but not in the City's name. The City also has deposits of \$15,214 which are not insured or collateralized as required by state law.

4. Restricted Cash and Investments

Sales taxes restricted for streets and capital outlay are maintained in restricted accounts and recorded as restricted cash in the general fund. The balances at June 30 are: streets - \$108,819; capital outlay - \$92,106.

Grant County sales taxes restricted for the Pond Creek fire and ambulance departments are recorded as restricted cash in the general fund. Although county funds, the City records them on its books for purposes of oversight and control since the expenditure of these funds is material to the operation of the fire and ambulance departments and to the financial statements of the general fund. The balances at June 30 are: fire department - \$336,391; ambulance department - \$335,009.

In the utility fund, restricted cash consists of \$21,333 in demand deposits restricted for debt service; and \$81,832 restricted for meter deposits.

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

5. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Buildings	8,480	0	0	8,480
Leased equipment	22,211	0	0	22,211
Equipment	141,263	48,078	0	189,342
Infrastructure	68,899	0	0	68,899
Total depreciable assets	<u>240,854</u>	<u>48,078</u>	<u>0</u>	<u>288,932</u>
Accumulated depreciation				
Buildings	(1,647)	(765)	0	(2,412)
Leased equipment	(11,106)	(4,442)	0	(15,548)
Equipment	(56,102)	(24,920)	0	(81,022)
Infrastructure	(8,199)	(6,890)	0	(15,089)
Total depreciation	<u>(77,054)</u>	<u>(37,017)</u>	<u>0</u>	<u>(114,071)</u>
Net depreciable assets	<u>163,800</u>	<u>11,061</u>	<u>0</u>	<u>174,861</u>
Net governmental assets	<u>163,800</u>	<u>11,061</u>	<u>0</u>	<u>174,861</u>
Business-type activities				
Depreciable assets				
Buildings	875,113	7,326	0	882,439
Equipment	151,561	2,500	0	154,061
Utility systems	199,548	8,950	0	208,498
Total depreciable assets	<u>1,226,221</u>	<u>18,776</u>	<u>0</u>	<u>1,244,998</u>
Accumulated depreciation				
Buildings	(435)	(656)	0	(1,091)
Equipment	(19,464)	(17,926)	0	(37,390)
Utility systems	(16,272)	(14,797)	0	(31,069)
Total depreciation	<u>(36,171)</u>	<u>(33,379)</u>	<u>0</u>	<u>(69,550)</u>
Net depreciable assets	<u>1,190,050</u>	<u>(14,602)</u>	<u>0</u>	<u>1,175,448</u>
Net business-type assets	<u>1,190,050</u>	<u>(14,602)</u>	<u>0</u>	<u>1,175,448</u>

The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012

Depreciation expense was charged to functions as follows:

Governmental activities		Business-type activities	
General government	1,137	Administration	11,842
Park department	1,562	Electric department	10,322
Police department	4,442	Sewer department	6,238
Fire department	5,744	Water department	4,976
Ambulance department	6,452	Total business-type depreciation	<u>33,379</u>
Street department	17,680		
Total governmental depreciation	<u>37,017</u>		

6. Long-term Debt

BUSINESS-TYPE ACTIVITIES

Debt outstanding at year end consisted of the following:

Purpose	Issue Date	Issued	Outstanding	Interest Rate	Maturity Date	Required Escrow	Collateral
Sewer	11/09/1994	360,000	268,177	5%	01/09/33	20,868	System and revenues

Long-term debt activity for the year ended June 30, 2012, was as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
275,438	0	(7,261)	268,177	7,632

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

	<u>Business-type Activities</u>	
	Principal	Interest
2013	7,632	13,235
2014	8,023	12,845
2015	8,433	12,435
2016	8,865	12,003
2017	9,318	11,550
2018-2022	54,251	50,089
2023-2027	69,623	34,717
2028-2032	89,352	14,989
2033	12,680	221
Total	<u>268,177</u>	<u>162,084</u>

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

7. Defined Benefit Pension Plans

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

CITY EMPLOYEES

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

Funding Policy. Plan members are required to contribute 3.75% of their annual covered salary. The City is required to contribute at an actuarially determined rate, currently 14.76% of covered payroll. The contribution requirements of Plan members and the City are established and may be amended by the Oklahoma Municipal Retirement Fund Board of Trustees.

Annual Pension Cost and Net Pension Obligation. For the year ended June 30, 2012, the City's annual pension cost and required contribution was \$32,743. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal cost method which is computed as the level percent of pay which, if paid from the time an employee becomes a participant until assumed retirement, would accumulate funds sufficient to pay all plan benefits. The actuarial assumptions include (a) 7.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by year based on the age of the employee; and (c) 3% per year cost-of-living adjustments. The actuarial value of the Plan's assets was determined using a 7.5% yield on the actuarial value at the beginning of the period, increased or decreased by a cumulative adjustment using a range of 70% to 130% of the current market value of the fund. The Plan's unfunded actuarial liability (redetermined each year) is being amortized as a level dollar amount over 30 years from the valuation date.

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)	Actuarial Type	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/12	473,131	Actuarial	774,184	EAN	301,054	61.1%	221,336	136.0%

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

Year Ending	Annual Pension Cost	Annual Contribution	% Contributed	Net Pension Obligation
06/30/10	30,396	32,740	108%	0
06/30/11	31,598	33,017	104%	0
06/30/12	32,743	32,743	100%	0

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

VOLUNTEER FIREFIGHTERS

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

Funding Policy. Volunteer firefighters are not required to contribute, but the City is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statutes and are not based on actuarial calculations. The City's contribution to the System for the year ended June 30, 2012, 2011, and 2010 was \$1,020, \$1,020, and \$1,020 respectively, equal to the required contribution for each year.

8. Workers' Compensation Plan

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

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any loss funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the Plan. City funds on deposit with OMAG at year end were \$56,677 and are reported separately in the financial statements.

9. Risk Management

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended the City received \$22,296 for various claims related to storm damage.

10. Budgets and Budgetary Accounting

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

11. Inter-fund Transactions

Inter-fund loans were made as follows:

	General Fund	Utility Fund	Total
Payroll	(2,484)	2,484	0

**The City of Pond Creek
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2012**

Inter-fund transfers were made as follows:

	General Fund	Utility Fund	Total
Capital outlay	(7,326)	7,326	0

12. Subsequent Events

Management performed an evaluation of the City's activity through September 12, 2012, the date the audit was available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

**THE CITY OF POND CREEK
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales and use taxes	100,000	130,000	147,310	17,310
Sales taxes restricted for capital outlay	40,000	40,000	51,154	11,154
Sales taxes restricted for streets	60,000	80,000	76,732	(3,268)
Franchise taxes	12,000	12,000	11,646	(354)
Shared taxes	30,000	30,000	388,990	358,990
Grants	5,500	5,500	11,650	6,150
Fines and fees	15,000	21,000	10,039	(10,961)
Ambulance runs	20,000	46,500	43,072	(3,428)
Interest	1,000	1,000	1,222	222
Other revenues	35,500	35,500	24,616	(10,884)
TOTAL REVENUES	319,000	401,500	766,431	364,931
EXPENDITURES				
General government	45,000	95,000	49,789	45,211
Library	20,000	22,000	21,854	146
Park	23,000	27,000	28,578	(1,578)
Police	87,000	113,000	97,301	15,699
Fire	25,000	25,000	31,973	(6,973)
Ambulance	19,000	43,000	44,942	(1,942)
Street & alley	50,000	40,000	37,828	2,172
Capital outlay	0	34,000	48,078	(14,078)
TOTAL EXPENDITURES	269,000	399,000	360,343	38,657
REVENUES OVER EXPENDITURES	50,000	2,500	406,088	(403,588)
OTHER FINANCING (USES)				
Transfers-out	0	0	(7,326)	7,326
NET CHANGE IN FUND BALANCES	50,000	2,500	398,762	(396,262)
BEGINNING FUND BALANCE	619,588	619,588	619,588	0
ENDING FUND BALANCE	669,588	622,088	1,018,350	(396,262)

Notes to the budgetary comparison schedule:

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

**The City of Pond Creek
Supplemental Pension Disclosures
As of and for the Year Ended June 30, 2012**

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)	Type	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/03	337,853	Actuarial	546,756	EAN	208,903	61.8%	258,888	80.7%
01/01/04	349,561	Actuarial	573,374	EAN	223,813	61.0%	233,294	95.9%
01/01/05	364,035	Actuarial	610,581	EAN	246,545	59.6%	224,647	109.7%
01/01/06	380,827	Actuarial	645,422	EAN	264,595	59.0%	252,197	104.9%
01/01/07	399,397	Actuarial	649,656	EAN	250,259	61.5%	191,889	130.4%
01/01/08	416,593	Actuarial	745,757	EAN	329,163	55.9%	221,617	148.5%
01/01/09	399,216	Actuarial	713,516	EAN	314,300	56.0%	238,652	131.7%
01/01/10	418,897	Actuarial	649,564	EAN	230,667	64.5%	232,496	99.2%
01/01/11	452,851	Actuarial	685,005	EAN	232,154	66.1%	238,309	97.4%
01/01/12	473,131	Actuarial	774,184	EAN	301,054	61.1%	221,336	136.0%

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

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

The Board of Aldermen
The City of Pond Creek, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the City of Pond Creek, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City of Pond Creek, and have issued our report thereon, dated September 12, 2012. In our report, the City of Pond Creek's governmental activities, business-type activities, and proprietary fund received adverse opinions since capital assets and their related depreciation were not recorded prior to fiscal year 2008. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-1 through 2012-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Pond Creek are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-5 and 2012-6.

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

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



C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
September 12, 2012

SCHEDULE OF FINDINGS AND RESPONSES

- 2012-1 The general ledger was not reviewed for posting errors during the year causing monthly financial statements to be misstated. We recommend that the general ledger be reviewed at least monthly for posting errors so that financial statements are not misstated. (Repeat finding)
- Response We will review the general ledger for posting errors during the year in order to correct them and ensure that monthly financial statements are not misstated.
- 2012-2 There is no segregation of duties in utility billing and collection procedures and no compensating procedures to provide oversight of these activities. We recommend that procedures be established to provide oversight of the utility billing and collection process. (Repeat finding)
- Response We will make an effort to establish procedures to compensate for the lack of segregation of duties in utility billing and collection procedures.
- 2012-3 There are no established procedures to ensure that meter deposits are correctly recorded in the utility billing system; that they are properly recorded in the general ledger; or that the two are reconciled to each other monthly. We recommend that meter deposits be entered into the utility billing system and that meter deposits be reconciled to the general ledger monthly. (Repeat finding)
- Response We will establish procedures to make sure that all meter deposits are correctly recorded in the utility billing system and the financial records and that they are reconciled monthly.
- 2012-4 There are no established procedures to ensure that utility accounts receivable are correctly recorded in the general ledger, or that they are reconciled to the utility billing system at least monthly. We recommend that procedures be established to reconcile utility accounts receivable to the general ledger at least monthly.
- Response We will establish procedures to make sure that utility accounts receivable are correctly recorded in the general ledger and that they are reconciled to the utility billing system at least monthly.
- 2012-5 There are no procedures to correctly capitalize and depreciate capital assets or for maintaining capital asset records. We recommend that procedures be established to inventory capital assets at least annually and to maintain capital asset records which can be reconciled to the general ledger at least annually. (Repeat finding)

Response We are in the process of compiling capital asset records for our assets purchased prior to fiscal year 2008. We are now keeping capital asset records for purchases since fiscal year 2008 and are working on training employees to better identify purchases which should be capitalized.

2012-6 State statutes require deposits in excess of insured amounts to be collateralized. At year end, \$15,214 of City deposits were neither insured nor collateralized as required. I recommend procedures be developed to more closely monitor deposits for proper collateralization.

Response We will establish procedures to better monitor our deposits.