

TOWN OF PANAMA, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

TOWN OF PANAMA, OKLAHOMA

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TOWN OF PANAMA, OKLAHOMA

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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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Panama, Oklahoma

We 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 fiscal year ended June 30, 2012, which collectively comprise the Town of Panama, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Panama, Oklahoma's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. 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 opinion.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Panama, Oklahoma, as of June 30, 2012, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2013, on our consideration of the Town of Panama, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information and the notes to the budgetary comparison information are not a required part of the basic

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financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Panama's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

May 1, 2013

TOWN OF PANAMA

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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, 2012, 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 \$96,232 for the year, resulting in a decrease in total net assets of 6.67 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

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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	324,182	333,953	134,521	142,971	458,703	476,924
Capital Assets	262,458	302,708	1,764,280	1,828,101	2,026,738	2,130,809
Total Assets	<u>586,640</u>	<u>636,661</u>	<u>1,898,801</u>	<u>1,971,072</u>	<u>2,485,441</u>	<u>2,607,733</u>
Long term liabilities	39,402	41,453	1,095,174	1,120,083	1,134,576	1,161,536
Other liabilities	3,005	2,105	1,247	1,247	4,252	3,352
Total Liabilities	<u>42,407</u>	<u>43,558</u>	<u>1,096,421</u>	<u>1,121,330</u>	<u>1,138,828</u>	<u>1,164,888</u>
Net Assets:						
Invested in capital assets, net of related debt	223,056	261,255	709,529	748,526	932,585	1,009,781
Restricted	182,605	154,268	93,214	85,157	275,819	239,425
Unrestricted	138,572	177,580	(363)	16,059	138,209	193,639
Total Net Assets	<u>544,233</u>	<u>593,103</u>	<u>802,380</u>	<u>849,742</u>	<u>1,346,613</u>	<u>1,442,845</u>

The Town's combined net assets, resulting from modified cash basis transactions, decreased from approximately \$1,442,845 to \$1,346,613 between fiscal years 2011 and 2012. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had a decrease of \$48,870 and business-type activities decreased by \$47,362.

Net assets of the Town's governmental activities decreased 8.24 percent to \$544,233. However, \$405,661 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 \$138,572 at the end of this year. The net assets of the Town's business-type activities decreased to \$802,380. However, \$802,743 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 (\$363) 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program Revenues:						
Fees, fines and charges for services	144,395	152,806	341,800	343,077	486,195	495,883
Operating grants and contributions	11,242	14,654	-	837	11,242	15,491
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Sales tax	188,413	198,549	-	-	188,413	198,549
Use tax	9,276	10,146	-	-	9,276	10,146
Franchise tax	39,103	38,685	-	-	39,103	38,685
Cigarette tax	2,845	2,835	-	-	2,845	2,835
Intergovt. Revenue	22,664	22,219	-	-	22,664	22,219
Investment earnings	790	1,144	535	759	1,325	1,903
Gain (loss) on sale of assets	-	(31)	(2,757)	-	(2,757)	(31)
Miscellaneous	13,569	14,076	1,702	2,225	15,271	16,301
Total revenues	432,297	455,083	341,280	346,898	773,577	801,981
Expenses:						
General government and administration						
	87,503	87,143	-	-	87,503	87,143
Public safety						
	304,697	314,039	-	-	304,697	314,039
Transportation						
	88,967	76,938	-	-	88,967	76,938
Interest on long term debt						
	-	-	-	-	-	-
Water						
	-	-	129,714	129,396	129,714	129,396
Sewer						
	-	-	183,491	167,768	183,491	167,768
Sanitation						
	-	-	75,436	72,983	75,436	72,983
Total expenses	481,167	478,120	388,641	370,147	869,808	848,267
Increases in net assets before transfers						
	(48,870)	(23,037)	(47,362)	(23,249)	(96,232)	(46,286)
Transfers						
	-	-	-	-	-	-
Net assets - July 1	593,103	616,140	849,742	872,991	1,442,845	1,489,131
Net assets - June 30	544,233	593,103	802,380	849,742	1,346,613	1,442,845

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, 2012, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$481,167. Of these total expenses, taxpayers and other general revenues funded \$276,660, while those directly benefiting from the program funded \$144,395 from charges for services and \$11,242 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 \$(57,049), the water reported net expenses of \$17,410 and sanitation was close to breakeven with a net expense of \$(7,203). 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 \$56,623 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 \$287,564 and expenditures of \$326,572 resulting in an increase in fund balance of \$(39,008).
- General fund revenues decreased under the prior year by \$6,232. The general fund expenditures increased over the prior year by \$5,594.

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, 2012, General Fund expenditures were \$13,862 under final appropriations, while actual resources available for appropriation were \$9,611 under 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, 2012, the Town had \$262,458 invested in capital assets, net of depreciation, including police and fire equipment and buildings. This represents a net decrease of \$40,250, or 13.30 percent, under last year. The Public Works Authority had \$1,764,280 invested in capital assets, net of depreciation including the water and sewer lines. This represents a net decrease of \$63,821 or 3.49 percent, under last year.

This year's more significant capital assets additions include:

General Fund Police - 2012 Kawasaki Mule	\$ 9,903
General Fund Police - Police Dog	3,000
Street and Alley Fund - Lawn Mower	7,474
Public Works Authority - Sewer Pumps	3,479
Public Works Authority - Lift Station Fencing	5,759

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

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	180	180	20,000	20,000	20,180	20,180
Const. In Progress	0	0	0	0	0	0
Buildings	122,278	127,154	2,957	3,082	125,235	130,236
Furniture & Fixtures	220	440	112	216	332	656
Machinery & Equipment	58,540	54,742	20,600	28,294	79,140	83,036
Vehicles	46,363	82,689	0	0	46,363	82,689
Capital Improvements	34,877	37,503	1,720,611	1,776,509	1,755,488	1,814,012
Total	<u>262,458</u>	<u>302,708</u>	<u>1,764,280</u>	<u>1,828,101</u>	<u>2,026,738</u>	<u>2,130,809</u>

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

Long-Term Debt – Modified Cash Basis

At June 30, 2012, the Town had \$1,134,576 in long term debt arising from modified cash basis transactions compared to \$1,161,536 at June 30, 2011. At June 30, 2012, most all of the debt is related to business-type activities. (See table below). This represents a decrease of 2.32 percent.

Primary Government Long-Term Debt -- Modified Cash Basis

	<u>2011</u>	<u>2012</u>
Governmental debt:		
Lease purchase Old National Bank	41,453	23,599
Lease purchase Kansas State Bank	-	8,329
Lease purchase Arvest Equipment Finance		7,474
Total governmental debt	<u>\$ 41,453</u>	<u>\$ 39,402</u>
Business-type debt:		
Refundable utility deposits	\$ 40,508	\$ 40,423
Note payable RUS	967,453	945,747
Note payable RUS	112,122	109,004
Total business-type debt	<u>\$ 1,120,083</u>	<u>\$ 1,095,174</u>
Total all debt	<u>\$ 1,161,536</u>	<u>\$ 1,134,576</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year ending June 30, 2012, 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, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash, and cash equivalents	\$285,983	\$968	\$286,951
Investments	26,237		26,237
Due from other funds	11,962	\$900	12,862
Total current assets	324,182	1,868	326,050
Noncurrent Assets:			
Restricted Cash, and cash equivalents		111,699	111,699
Restricted Investments		20,954	20,954
Capital assets (Note 2.C.):			
Land	180	20,000	20,180
Other capital assets, net of accumulated depreciation	262,278	1,744,280	2,006,558
Total noncurrent assets	262,458	1,896,933	2,159,391
Total assets	586,640	1,898,801	2,485,441
LIABILITIES			
Current Liabilities:			
Payroll taxes payable			0
Due to other funds	3,005	1,247	4,252
Due within one year	28,584	24,827	53,411
Total current liabilities	31,589	26,074	57,663
Noncurrent Liabilities:			
Refundable deposits		40,423	40,423
Long term liabilities (Note 2.D.):			
Notes payable	10,818	1,029,924	1,040,742
Total noncurrent liabilities	10,818	1,070,347	1,081,165
Total Liabilities	42,407	1,096,421	1,138,828
NET ASSETS			
Invested in capital assets, net of related debt	223,056	709,529	932,585
Restricted for:			
Street and Alley	30,725		30,725
Fire Department	151,880		151,880
Debt service		93,214	93,214
Unrestricted	138,572	(363)	138,209
Total Net Assets	\$544,233	\$802,380	\$1,346,613

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, 2012

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	\$5,726	\$323			(5,403)		(5,403)
General Government	\$81,777				(81,777)		(81,777)
Total general government	87,503	323	0	0	(87,180)	0	(87,180)
Public Safety:							
Police	234,503	141,072			(93,431)		(93,431)
Fire	70,194	3,000	4,413		(62,781)		(62,781)
Total Public safety	304,697	144,072	4,413	0	(156,212)	0	(156,212)
Transportation:							
Streets	88,967		6,829		(82,138)		(82,138)
Total transportation	88,967	0	6,829	0	(82,138)	0	(82,138)
Total governmental activities	481,167	144,395	11,242	0	(325,530)	0	(325,530)
Business-type activities:							
Water	129,714	147,124				17,410	17,410
Sewer	183,491	126,442				(57,049)	(57,049)
Sanitation	75,436	68,234				(7,203)	(7,203)
Total business-type activities	388,641	341,800	0	0	0	(46,842)	(46,842)
Total primary government	\$869,808	\$486,195	\$11,242	\$0	(\$325,530)	(46,842)	(372,372)

	Governmental	Business-Type	Total
	(\$325,530)	(\$46,842)	(\$372,372)
General revenues:			
Taxes:			
Sales Tax	188,413		188,413
Use Tax	9,276		9,276
Franchise and public service taxes	39,103		39,103
Cigarette Tax	2,845		2,845
Intergovernmental revenue not restricted to specific programs	22,664		22,664
Interest income	790	535	1,325
Gain (loss) on sale of assets	0	(2,757)	(2,757)
Miscellaneous	13,569	1,702	15,271
Transfers intenal activity			0
Total general revenues and transfers	276,660	(520)	276,140
Charge in net assests	(48,870)	(47,362)	(96,232)
Net assets-beginning	593,103	849,742	1,442,845
Net assets- ending	\$544,233	\$802,380	\$1,346,613

See accompanying notes to the basic financial statements.

TOWN OF PANAMA, OKLAHOMA
BALANCE SHEET -- MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Street and Alley	Fire Department	Total Governmental Funds
ASSETS				
Cash, and cash equivalents	\$126,610	\$33,097	\$126,276	\$285,983
Investments			26,237	26,237
Due from other funds	11,962			11,962
Total assets	138,572	33,097	152,513	\$324,182
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll liabilities				0
Due to other funds		2,372	633	3,005
Total Liabilities	0	2,372	633	3,005
Fund Balances:				
Restricted for:				
Street and Alley		30,725		30,725
Fire Department			151,880	151,880
Assigned	49,680			49,680
Unassigned	88,892			88,892
Total Fund Balances	138,572	30,725	151,880	321,177
Total Liabilities and Fund Balances	\$138,572	\$33,097	\$152,513	

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 \$ 903,106, net of accumulated depreciation of \$ 640,648 are not financial resources and, therefore, are not reported in funds	262,458
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds	(39,402)
Net assets of governmental activities	\$544,233

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, 2012

	General Fund	Street and Alley	Fire Department	Total Governmental Funds
Revenues:				
Taxes	114,029	62,804	62,804	239,637
Intergovernmental	10,386	19,107	4,413	33,906
Charges for services			3,000	3,000
Fines and forfeitures	141,072			141,072
Licenses and permits	323			323
Interest income	345	72	373	790
Miscellaneous	11,409	2,160		13,569
Total Revenues	277,564	84,143	70,590	432,297
Expenditures:				
Current:				
General Government:				
Clerk	5,180			5,180
General Government	76,207			76,207
Public Safety:				
Police	209,802			209,802
Fire			40,241	40,241
Street and Public Works:				
Streets		86,155		86,155
Capital Outlay	13,962	7,474		21,436
Debt Service	21,421			21,421
Total Expenditures	326,572	93,629	40,241	460,442
Excess (deficiency) of revenues over expenditures	(49,008)	(9,486)	30,349	(28,145)
Other Financing Sources (Uses):				
Capital lease proceeds	10,000	7,474		17,474
Transfers in				0
Transfers out				0
Total Other Financing Sources (Uses)	10,000	7,474	0	17,474
Net change in fund balances	(39,008)	(2,012)	30,349	(10,671)
Fund balances - beginning	177,580	32,737	121,531	331,848
Fund balances - ending	138,572	30,725	151,880	321,177
Reconciliation to the Statement of Activities:				
Net change in fund balances -total governmental funds				(\$10,671)
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				20,377
Depreciation expense				(60,627)
Debt service payments are not considered expenditures in the governmental activities report				19,525
Lease proceeds are not considered revenues in the governmental activities report				(17,474)
The net effect of various transactions involving capital assets (i.e. sales, trade ins, and contributions)				0
				(38,199)
				(\$48,870)

See accompanying notes to the basic financial statements.

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

June 30, 2012

	Panama Public Works Enterprise Fund
ASSETS	
Current Assets:	
Cash, and cash equivalents	\$968
Due from other funds	900
Total current assets	1,868
Noncurrent Assets:	
Restricted cash and cash equivalents	111,699
Restricted investments	20,954
Land	20,000
Other capital assets, net of accumulated depreciation	1,744,280
Total noncurrent assets	1,896,933
Total Assets	1,898,801
LIABILITIES	
Current Liabilities:	
Due to other funds	1,247
Notes payable - current portion	24,827
Total current liabilities	26,074
Noncurrent Liabilities:	
Refundable deposits	40,423
Notes payable - long-term portion	1,029,924
Total noncurrent liabilities	1,070,347
Total Liabilities	1,096,421
NET ASSETS	
Invested in capital assets, net of related debt	709,529
Restricted for debt service	93,214
Unrestricted	(363)
Total net assets	802,380

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, 2012

	Panama Public Works Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$141,502
Sewer	123,047
Sanitation	66,318
Water & Sewer Taps	1,700
Penalties	9,233
Miscellaneous	1,702
Total Operating Revenues	343,502
Operating Expenses:	
Administration operations	119,179
Water operations	101,706
Sewer operations	50,315
Depreciation	69,366
Total Operating Expenses	340,566
Net Operating Income (Loss)	2,936
Non-Operating Revenue (Expense):	
Investment income	535
Interest expense and fiscal agent fees	(48,076)
Gain (loss) on sale of assets	(2,757)
Total Non-Operating Revenue (Expense)	(50,298)
Net Income (Loss) Before Operating Transfers	(47,362)
Capital Contributions	
Transfers In	0
Transfers Out	0
	0
Changes in net assests	(47,362)
Total Net Assets-Beginning	849,742
Total Net Assets-Ending	\$802,380

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, 2012

	Panama Public Works Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$343,502
Payments to suppliers	(213,612)
Payments to employees	(57,588)
Receipts of customer utility deposits	10,965
Refunds of customer utility deposits	(11,050)
Net Cash Provided by Operating Activities	72,217
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase in due from other funds	(900)
Transfers from other funds	0
Net Cash Provided (Used) by Operating Activities	(900)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of capital assets	900
Purchases of capital assets	(9,202)
Principal paid on capital debit	(24,824)
Interest and fiscal agent fees paid on capital debit	(48,076)
Net Cash Used in Capital and Related Financing Activities	(81,202)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	535
Net Cash Provided by Investing Activities	535
Net Increase in Cash and Cash Equivalents	(9,350)
Balance- beginning of the year	142,971
Balance- end of the year	\$133,621
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$2,936
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	69,366
Change in assests and liabilites:	
Refundable deposits	(85)
Net cash provided by operating activities	\$72,217

See accompanying notes to combined financial statements.

TOWN OF PANAMA, OKLAHOMA

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

JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash, and cash equivalents	<u>\$8,610</u>
Total assets	<u><u>\$8,610</u></u>
LIABILITIES	
Due to other funds	<u>\$8,610</u>
Total liabilities	<u><u>\$8,610</u></u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012

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, 2012

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:

<i>Fund</i>	<i>Brief Description</i>
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, 2012

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, 2012

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.

CAPITAL 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, 2012

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, 2012

- 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, 2012

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, 2012

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, 2012

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, 2012. 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.

Custody Credit Risk Category

<u>Type of Deposits</u>	<u>Balance</u>	<u>Total Bank</u>			
		<u>1</u>	<u>2</u>	<u>3</u>	
Insured deposits	412,367	412,367	-	-	
Uninsured deposits					
Collateralized	58,956	-	58,956	-	
Uncollateralized	-	-	-	-	
					Total
					Carrying
					Value
Total Deposits	471,323	412,367	58,956	-	454,010
Petty Cash					441
					<u>454,451</u>
<u>Reconciliation to Government-Wide Statements of Net Assets:</u>					
	Cash and cash equivalents				313,188
	Restricted cash and cash equivalents				132,653
	Agency fund cash, including time deposit (not included in government wide statement)				8,610
					<u>454,451</u>

TOWN OF PANAMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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 \$39,440; and the amounts held to comply with the sewer project debt service requirements are \$93,214.

2.C. CAPITAL ASSETS

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

	Balance 07/01/11	Additions	Deductions	Balance 06/30/12
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	247,811	20,377	0	268,188
Vehicles	390,509	0	(6,389)	384,120
Capital improvements	54,043	0	0	54,043
Total other capital assets at historical cost	<u>888,938</u>	<u>20,377</u>	<u>(6,389)</u>	<u>902,926</u>
Less accumulated depreciation for:				
Buildings	67,881	4,876	0	72,757
Furniture and fixtures	1,100	220	0	1,320
Machinery and equipment	193,069	16,579	0	209,648
Vehicles	307,820	36,326	(6,389)	337,757
Capital improvements	16,540	2,626	0	19,166
Total accumulated depreciation	<u>586,410</u>	<u>60,627</u>	<u>(6,389)</u>	<u>640,648</u>
Other capital assets, net	<u>302,528</u>	<u>(40,250)</u>	<u>0</u>	<u>262,278</u>
Governmental activities capital assets, net	<u>302,708</u>	<u>(40,250)</u>	<u>0</u>	<u>262,458</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	123,365	3,443	(12,392)	114,416
Vehicles	17,000	0	(3,500)	13,500
Capital improvements	2,436,243	5,759	0	2,442,002
Total other capital assets at historical cost	<u>2,582,334</u>	<u>9,202</u>	<u>(15,892)</u>	<u>2,575,644</u>
Less accumulated depreciation for:				
Buildings	1,918	125	0	2,043
Furniture and fixtures	510	104	0	614
Machinery and equipment	95,071	7,480	(8,735)	93,816
Vehicles	17,000	0	(3,500)	13,500
Capital improvements	659,734	61,657	0	721,391
Total accumulated depreciation	<u>774,233</u>	<u>69,366</u>	<u>(12,235)</u>	<u>831,364</u>
Other capital assets, net	<u>1,808,101</u>	<u>(60,164)</u>	<u>(3,657)</u>	<u>1,744,280</u>
Business-type activities capital assets, net	<u>1,828,101</u>	<u>(60,164)</u>	<u>(3,657)</u>	<u>1,764,280</u>

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

Primary Government Activities:	
General Government	5,570
Police	22,292
Street & Alley	2,812
Fire	29,953
Total depreciation expense for governmental activities	<u>60,627</u>
Business-Type Activities:	
Administration	1,133
Water	3,956
Sewer	64,277
Total depreciation expense for business-type activities	<u>69,366</u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

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.	23,599
6.985% interest with 12 quarterly payments of principal and interest of \$914, secured by 2012 Kawasaki Mule. Scheduled debt service payments in the General Fund Police.	8,329
5% interest with 12 monthly payments of principal and interest of \$640, secured by Bad Boy Lawn Mower. Scheduled debt service payments in the Street Fund.	<u>7,474</u>
Total Lease Purchases Outstanding	\$ <u>39,402</u>
Current portion	\$ 28,584
Non-current portion	<u>10,818</u>
Total Leases Payable	\$ <u>39,402</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.	\$ 945,747
--	------------

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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.

109,004

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 \$1,054,751

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 \$ 40,423

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

Type of Debt	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
Government Activities:					
Capital Debt Obligations	41,453	17,474	19,525	39,402	28,584
Business-Type Activities:					
Refundable Deposits	40,508	10,965	11,050	40,423	
Leases Payable	0			0	
Notes Payable	<u>1,079,575</u>		<u>24,824</u>	<u>1,054,751</u>	<u>24,827</u>
Total Business-Type Activities:	<u>1,161,536</u>	<u>28,439</u>	<u>55,399</u>	<u>1,134,576</u>	<u>53,411</u>

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, are as follows:

Year Ended June 30,	Capital Debt Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2013	28,584.45	1,429.85	25,967.56	46,932.44
2014	8,165.54	392.10	27,160.53	45,739.47
2015	2,651.67	93.15	28,408.26	44,491.74
2016			29,713.34	43,186.66
2017			31,078.35	41,821.65
2018-2022			178,165.67	186,334.33
2023-2027			223,026.98	141,473.02
2028-2032			279,184.30	85,315.70
2033-2036			232,045.85	20,460.16
Total	<u>39,401.66</u>	<u>1,915.10</u>	<u>1,054,750.84</u>	<u>655,755.17</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, 2012 the Authority's debt service coverage percentage is 110% which meets the promissory note requirement and the reserve balance is \$69,133, which is \$1,227 over the required debt reserve fund balance.

2.E. INTERFUND TRANSFERS AND BALANCES

INTERFUND BALANCES

At June 30, 2012, 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 \$8,610, and the Public Works Authority owed the General Fund \$1,247.

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

INTERFUND TRANSFERS

There were no transfers between funds of the primary government for the year ended June 30, 2012.

NOTE 3. OTHER NOTES

3. A. GRANTS AND CONTRACTS

Federal Emergency Management Agency Grant - The Town was awarded a \$6,829 grant from the Federal Emergency Management Agency for street repairs from storm damage. The Town received and expended \$6,829 in the 2011-12 fiscal year.

Rural Fire Defense Grant - The Town received a grant of \$4,413 from the Oklahoma Department of Agriculture Forestry Services for fire calls.

3.B. COUNTY FIRE DEPARTMENT SALES TAX REVENUE

The LeFlore County Board of Commissioners passed a resolution assessing a .25% sales tax for the benefit of the LeFlore County Fire Departments. The County began collecting the funds July 1, 2011 and remitting monthly into the funds designated by each County Fire Department and maintained under custody and control of the County Treasurer. In accordance with the resolution the funds can generally be used for construction and improvements, various approved equipment, fire training safety and education, and general maintenance and operation of the department. For the period beginning July 1, 2011 thru June 30, 2012 the Town of Shady Point Fire Department has been appropriated \$28,904.27 for its benefit and has expended \$0.00 leaving a balance of \$28,904.27 for future use. Funds requested must be used in accordance with County purchasing policies and procedures as outlined in the resolution.

3.C. 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

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Oklahoma Firefighter's
Pension and
Retirement System

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.
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

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Contributions and Trend Information

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

2010	\$900
2011	1,080
2012	1,020

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

Defined Contribution Plan

The Town provides pension benefits for all of its full-time employees through a defined contribution plan. The employer has adopted a "5304 Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)" Plan for the benefit of eligible employees. The Plan is administered by plan custodian Edward Jones, Inc.

The simple plan is available to employees who are expected to receive at least \$5,000 in compensation for the calendar year. In a simple IRA plan, benefits depend solely on amounts contributed to the plan. The District elects to contribute to each eligible employee a matching contribution equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the year. The maximum contribution amount an employee may defer is limited to the lesser of 100% of earned income up to the contribution limit for each calendar year of \$11,500.

The Town's total payroll in the fiscal year ending June 2012 was \$263,084. The Town's contributions were calculated using the base salary amount of \$110,400. Both the Town and the covered employees made the required contribution of 3%.

The employer required contributions from the current year wages amounted to \$3,432. The covered employees required contributions amounted to \$3,432 and additional voluntary contributions above the required 3% totaled \$2,532 for total plan employee/employer contributions of \$9,396.

Related-Party Investments

As of June 30, 2012, 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, 2012

3.D. 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.E. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

At June 30, 2012, 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 \$3,163 at June 30, 2012, can be summarized as follows:

	<u>Town</u>	<u>Street & Alley</u>	<u>PWA</u>	<u>Total</u>
Vacation	\$ 1,400	\$ 0	\$ 1,763	\$ 3,163

TOWN OF PANAMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.F. 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 May 1, 2013, 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, 2012

	<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	177,580	177,580	177,580	-
Revenues:				
Taxes				
Sales tax	65,148	65,148	62,805	(2,343)
Use tax	4,000	7,500	9,276	1,776
Franchise tax	35,000	38,000	39,103	1,103
Cigarette tax	2,500	2,500	2,845	345
Total Taxes	<u>106,648</u>	<u>113,148</u>	<u>114,029</u>	<u>881</u>
Intergovernmental:				
Alcoholic beverage tax	<u>7,000</u>	<u>7,000</u>	<u>10,386</u>	<u>3,386</u>
Total Intergovernmental	<u>7,000</u>	<u>7,000</u>	<u>10,386</u>	<u>3,386</u>
Fines and forfeitures				
Court Fines	<u>175,000</u>	<u>175,000</u>	<u>141,072</u>	<u>(33,928)</u>
Total Fines and Forfeitures	<u>175,000</u>	<u>175,000</u>	<u>141,072</u>	<u>(33,928)</u>
Licenses and Permits	<u>500</u>	<u>500</u>	<u>323</u>	<u>(177)</u>
Interest Income	<u>500</u>	<u>889</u>	<u>345</u>	<u>(544)</u>
Miscellaneous:				
Misc. revenue	<u>4,500</u>	<u>4,500</u>	<u>11,409</u>	<u>6,909</u>
Total Miscellaneous	<u>4,500</u>	<u>4,500</u>	<u>11,409</u>	<u>6,909</u>
Other Financing Sources:				
Transfers from other funds	0	0	0	0
Capital lease proceeds	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Total Other Financing Sources	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Amounts available for appropriation	<u>471,728</u>	<u>488,617</u>	<u>465,144</u>	<u>(23,473)</u>

TOWN OF PANAMA, OKLAHOMA

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<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	5,730	5,731	4,869	862
Other services and charges	350	350	311	39
Total Clerk	<u>6,080</u>	<u>6,081</u>	<u>5,180</u>	<u>901</u>
General Government:				
Personal services	58,380	57,935	57,465	470
Materials and supplies	6,000	6,367	6,373	(6)
Other services and charges	16,300	13,217	12,369	848
Capital outlay	2,000	2,000	546	1,454
Total General Government	<u>82,680</u>	<u>79,519</u>	<u>76,753</u>	<u>2,766</u>
Police:				
Personal services	142,334	140,106	133,577	6,529
Materials and supplies	19,000	25,000	24,448	552
Other services and charges	55,200	53,395	51,777	1,618
Capital outlay	5,000	14,903	13,416	1,487
Debt service	20,000	21,430	21,421	9
Total Police	<u>241,534</u>	<u>254,834</u>	<u>244,639</u>	<u>10,195</u>
Other Financing Uses:				
Transfers to other funds	0	0	0	0
Total Other Financing Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Charges to Appropriations	330,294	340,434	326,572	13,862
Ending Budgetary Fund Balance	<u>141,434</u>	<u>148,183</u>	<u>138,572</u>	<u>(9,611)</u>

TOWN OF PANAMA, OKLAHOMA

NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2012

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.

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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*

To the Board of Trustees
Town of Panama, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Panama, State of Oklahoma, as of June 30, 2012, which collectively comprise the Town's basic financial statements which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and have issued our report thereon dated May 1, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of the Town of Panama is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Panama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Panama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Panama's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over

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financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Panama's financial statements are free of material misstatement, we performed tests of 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 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 the board of directors and management of the Town of Panama, 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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

May 1, 2013