

AUDIT REPORT  
CITY OF NOWATA, OKLAHOMA  
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

CITY OF NOWATA, OKLAHOMA  
JUNE 30, 2012

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CITY OF NOWATA, OKLAHOMA  
JUNE 30, 2012

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# KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE, OKLAHOMA 74401  
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E-MAIL: REK@KERSHAWCPA.COM

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## INDEPENDENT AUDITOR'S REPORT

To the City Commission  
City of Nowata, Oklahoma

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nowata, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City of Nowata, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Nowata, Oklahoma's management.

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.

Management did not properly record transactions in the books of account; Management did not assume responsibility for the selection and method of appropriate accounting principles and their application; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including reviewing proposed entries and understanding the nature and impact of proposed entries to the financial statements; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for adjusting the financial statements for all material adjustments, individually and in the aggregate, to the financial statements taken as a whole.

Because of the significance of the matter(s) described in the preceding paragraph, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nowata, Oklahoma, as of and for the year ended June 30, 2012. Accordingly, we do not

# KERSHAW CPA & ASSOCIATES, PC

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express an opinion on these financial statements as of and for the year ended June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2013, on our consideration of the City of Nowata, 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 budgetary comparison information and the notes to the budgetary comparison information are not a required part of the 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.

The City of Nowata has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the City has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

October 24, 2013

CITY OF NOWATA, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2012

|   | Governmental<br>Activities | Business-Type<br>Activities | 2012<br>Total       |
|---|----------------------------|-----------------------------|---------------------|
| <b><u>ASSETS</u></b>                            |                            |                             |                     |
| <b><u>Current Assets:</u></b>                   |                            |                             |                     |
| Cash and cash equivalents                       | \$ (112,635)               | \$ (64,116)                 | \$ (176,751)        |
| Investments                                     | -                          | -                           | -                   |
| Internal Balances                               | 25,601                     | (8,090)                     | 17,512              |
| Other receivable                                | (275)                      | (109,391)                   | (109,666)           |
| Total Current Assets                            | <u>(87,309)</u>            | <u>(181,597)</u>            | <u>(268,906)</u>    |
| <b><u>Restricted &amp; Other Assets:</u></b>    |                            |                             |                     |
| Cash and cash equivalents                       | -                          | 698,874                     | 698,874             |
| Investments                                     | -                          | 94,410                      | 94,410              |
| Deferred Costs                                  | -                          | 212,385                     | 212,385             |
| Total Restricted Assets                         | <u>-</u>                   | <u>1,005,669</u>            | <u>1,005,669</u>    |
| <b><u>Capital Assets:</u></b>                   |                            |                             |                     |
| Land  | 8,448                      | 24,510                      | 32,958              |
| Other Capital Assets, Net of Accum. Depr.       | 3,174,081                  | 3,587,153                   | 6,761,234           |
| Total Capital Assets                            | <u>3,182,529</u>           | <u>3,611,663</u>            | <u>6,794,192</u>    |
| <b>TOTAL ASSETS</b>                             | <u>3,095,220</u>           | <u>4,435,735</u>            | <u>7,530,955</u>    |
| <b><u>LIABILITIES</u></b>                       |                            |                             |                     |
| <b><u>Current Liabilities:</u></b>              |                            |                             |                     |
| Accounts payable                                | (129,126)                  | (72,407)                    | (201,533)           |
| Due to depositors                               | -                          | 118,992                     | 118,992             |
| Current Portion of Long-Term Debt               | 4,897                      | 112,672                     | 117,569             |
| Total Current Liabilities                       | <u>(124,229)</u>           | <u>159,257</u>              | <u>35,028</u>       |
| <b><u>Long-Term Liabilities:</u></b>            |                            |                             |                     |
| Capital Lease Payable                           | 4,897                      | 91,755                      | 96,652              |
| Revenue Bonds Payable                           | -                          | 3,370,000                   | 3,370,000           |
| Less: Current Portion of Long-Term Debt         | (4,897)                    | (112,672)                   | (117,569)           |
| Total Long-Term Liabilities                     | <u>-</u>                   | <u>3,349,083</u>            | <u>3,349,083</u>    |
| <b>TOTAL LIABILITIES</b>                        | <u>(124,229)</u>           | <u>3,508,340</u>            | <u>3,384,111</u>    |
| <b><u>NET ASSETS</u></b>                        |                            |                             |                     |
| Invested in capital assets, net of related debt | 3,177,632                  | 149,908                     | 3,424,192           |
| Restricted for:                                 |                            |                             |                     |
| Debt Service                                    | -                          | 698,874                     | 698,874             |
| Other Purposes                                  | -                          | -                           | -                   |
| Unrestricted                                    | 41,817                     | 78,614                      | 23,778              |
| <b>TOTAL NET ASSETS</b>                         | <u>\$ 3,219,449</u>        | <u>\$ 927,396</u>           | <u>\$ 4,146,845</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| Functions/Programs                    | Expenses            | Program Revenues        |  |  | Net<br>(Expenses)/<br>Revenue |
|---------------------------------------|---------------------|-------------------------|--|--|-------------------------------|
|                                       |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                               |
| <b>Governmental activities:</b>       |                     |                         |  |  |                               |
| City administration                   | \$ 100,160          | \$ -                    | \$ -                                     | \$ -                                   | \$ (100,160)                  |
| Municipal court                       | -                   | -                       | -  | -                                      | -                             |
| Police                                | 522,548             | 56,258                  | -  | -                                      | (466,290)                     |
| Parks                                 | 54,708              | -                       | -  | -                                      | (54,708)                      |
| Fire                                  | 267,615             | 17,443                  | -  | -                                      | (250,172)                     |
| Cemetery                              | 74,633              | 14,671                  | -  | -                                      | (59,962)                      |
| General government                    | 250,891             | 6,944                   | 40                                       | -                                      | (243,906)                     |
| Streets                               | 178,848             | -                       | -  | -                                      | (178,848)                     |
| Library                               | -                   | -                       | -  | -                                      | -                             |
| City shop                             | 36,788              | -                       | -  | -                                      | (36,788)                      |
| Civil defense                         | -                   | -                       | -  | -                                      | -                             |
| EMS                                   | 10,606              | -                       | -  | -                                      | (10,606)                      |
| Dispatch                              | -                   | -                       | -  | -                                      | -                             |
| <b>Total Governmental Activities</b>  | <b>1,496,796</b>    | <b>95,316</b>           | <b>40</b>                                | <b>-</b>                               | <b>(1,401,440)</b>            |
| <b>Business-type activities:</b>      |                     |                         |  |  |                               |
| Airport                               | 2,033               | 80                      | -  | -                                      | (1,953)                       |
| Sanitation                            | 297,919             | 392,888                 | -  | -                                      | 94,969                        |
| Water                                 | 540,626             | 629,370                 | -  | -                                      | 88,744                        |
| Sewer                                 | 454,464             | 398,570                 | -  | -                                      | (55,894)                      |
| Miscellaneous                         | 820,277             | 473,340                 | -  | -                                      | (346,937)                     |
| <b>Total Business-type Activities</b> | <b>2,115,319</b>    | <b>1,894,247</b>        | <b>-</b>                                 | <b>-</b>                               | <b>(221,071)</b>              |
| <b>Total</b>                          | <b>\$ 3,612,115</b> | <b>\$ 1,989,564</b>     | <b>\$ 40</b>                             | <b>\$ -</b>                            | <b>\$ (1,622,511)</b>         |

## Changes in Net Assets:

|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|---|----------------------------|-----------------------------|---------------------|
| Net (expense)/revenue                         | \$ (1,401,440)             | \$ (221,071)                | \$ (1,622,511)      |
| <b>General revenues:</b>                      |                            |                             |                     |
| <b>Taxes:</b>                                 |                            |                             |                     |
| Franchise Tax                                 | 123,599                    | -                           | 123,599             |
| Sales & Use Tax                               | 887,478                    | -                           | 887,478             |
| Tobacco Tax                                   | 12,865                     | -                           | 12,865              |
| <b>Intergovernmental:</b>                     |                            |                             |                     |
| Alcoholic Beverage Tax                        | 43,650                     | -                           | 43,650              |
| Gasoline Excise Tax                           | 10,476                     | -                           | 10,476              |
| Motor Vehicle Tax                             | 25,601                     | -                           | 25,601              |
| Licenses & Permits                            | 26,349                     | -                           | 26,349              |
| Miscellaneous Income                          | 238,203                    | -                           | 238,203             |
| Interest Income                               | 566                        | 317                         | 883                 |
| Transfers - Internal Activity                 | -                          | -                           | -                   |
| <b>Total general revenues &amp; transfers</b> | <b>1,368,786</b>           | <b>317</b>                  | <b>1,369,103</b>    |
| <b>Changes in net assets</b>                  | <b>(32,653)</b>            | <b>(220,754)</b>            | <b>(253,408)</b>    |
| Net assets - beginning                        | 2,619,026                  | 1,351,429                   | 3,970,455           |
| Net assets - prior year adjustment            | 633,076                    | (203,279)                   | 429,797             |
| <b>Net assets - ending</b>                    | <b>\$ 3,219,449</b>        | <b>\$ 927,396</b>           | <b>\$ 4,146,845</b> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

|   | General<br>Fund     | EMS<br>Ambulance<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                          |                                |                                |
| Cash and cash equivalents                                 | \$ (114,635)        | \$ 1,700                 | \$ 300                         | \$ (112,635)                   |
| Investments   | -                   | -                        | -                              | -                              |
| Due from other funds                                      | 14,285              | -                        | 81,000                         | 95,285                         |
| Other receivables   | (275)               | -                        | -                              | (275)                          |
| <b>TOTAL ASSETS</b>                                       | <b>\$ (100,625)</b> | <b>\$ 1,700</b>          | <b>\$ 81,300</b>               | <b>\$ (17,625)</b>             |
| <b>LIABILITIES &amp; FUND EQUITY</b>                      |                     |                          |                                |                                |
| <b>LIABILITIES:</b>                                       |                     |                          |                                |                                |
| Due to other funds  | \$ 49,767           | \$ -                     | \$ 19,917                      | \$ 69,684                      |
| Accounts payable  | (129,126)           | -                        | -                              | (129,126)                      |
| <b>TOTAL LIABILITIES</b>                                  | <b>(79,359)</b>     | <b>-</b>                 | <b>19,917</b>                  | <b>(59,442)</b>                |
| <b>FUND BALANCES:</b>                                     |                     |                          |                                |                                |
| Unreserved  | (21,266)            | -                        | -                              | (21,266)                       |
| Unreserved, reported in nonmajor<br>special revenue funds | -                   | 1,700                    | 61,383                         | 63,083                         |
| <b>TOTAL FUND BALANCES</b>                                | <b>(21,266)</b>     | <b>1,700</b>             | <b>61,383</b>                  | <b>41,817</b>                  |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                | <b>\$ (100,625)</b> | <b>\$ 1,700</b>          | <b>\$ 81,300</b>               |                                |

## 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 \$3,182,529, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. | 3,182,529           |
| Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.                          | (4,897)             |
| <b>Net Assets of Governmental Activities</b>  | <b>\$ 3,219,449</b> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|   | General<br>Fund    | EMS<br>Ambulance<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|--------------------------|--------------------------------|--------------------------------|
| <b>REVENUES:</b>  |                    |                          |                                |                                |
| Taxes:  |                    |                          |                                |                                |
| Sales & Use Tax   | \$ 887,478         | \$ -                     | \$ -                           | 887,478                        |
| Tobacco Tax   | 12,865             | -                        | -                              | 12,865                         |
| Franchise Tax   | 123,599            | -                        | -                              | 123,599                        |
| Intergovernmental:                                      |                    |                          |                                |                                |
| Alcoholic Beverage Tax                                  | 43,650             | -                        | -                              | 43,650                         |
| Gasoline Excise Tax                                     | 10,476             | -                        | -                              | 10,476                         |
| Motor Vehicle Tax                                       | 25,601             | -                        | -                              | 25,601                         |
| Grants  | 40                 | -                        | -                              | 40                             |
| Licenses & Permits                                      | 26,349             | -                        | -                              | 26,349                         |
| Charges for services                                    | 34,808             | -                        | 4,251                          | 39,058                         |
| Fines & Forfeitures                                     | 56,258             | -                        | -                              | 56,258                         |
| Miscellaneous Income                                    | 236,083            | 2,291                    | (170)                          | 238,203                        |
| Interest Income   | 521                | -                        | 44                             | 566                            |
| <b>TOTAL REVENUES</b>                                   | <b>1,457,728</b>   | <b>2,291</b>             | <b>4,125</b>                   | <b>1,464,143</b>               |
| <b>EXPENDITURES:</b>                                    |                    |                          |                                |                                |
| City administration                                     | 100,160            | -                        | -                              | 100,160                        |
| Municipal court   | -                  | -                        | -                              | -                              |
| Police  | 515,352            | -                        | 5,377                          | 520,728                        |
| Parks   | 54,708             | -                        | -                              | 54,708                         |
| Fire  | 267,615            | -                        | -                              | 267,615                        |
| Cemetery  | 74,633             | -                        | -                              | 74,633                         |
| General government                                      | 250,891            | -                        | -                              | 250,891                        |
| Streets   | 178,848            | -                        | -                              | 178,848                        |
| Library   | -                  | -                        | -                              | -                              |
| City shop   | 36,788             | -                        | -                              | 36,788                         |
| Civil defense   | -                  | -                        | -                              | -                              |
| EMS   | -                  | 10,606                   | -                              | 10,606                         |
| Dispatch  | -                  | -                        | -                              | -                              |
| Capital Outlay  | -                  | -                        | 1,820                          | 1,820                          |
| <b>TOTAL EXPENDITURES</b>                               | <b>1,478,994</b>   | <b>10,606</b>            | <b>7,197</b>                   | <b>1,496,796</b>               |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>(21,266)</b>    | <b>(8,315)</b>           | <b>(3,072)</b>                 | <b>(32,653)</b>                |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                    |                          |                                |                                |
| Operating Transfers In                                  | -                  | -                        | -                              | -                              |
| Operating Transfers Out                                 | -                  | -                        | -                              | -                              |
| Capital Debt Proceeds                                   | -                  | -                        | -                              | -                              |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <b>-</b>           | <b>-</b>                 | <b>-</b>                       | <b>-</b>                       |
| <b>NET CHANGES IN FUND BALANCES</b>                     | <b>(21,266)</b>    | <b>(8,315)</b>           | <b>(3,072)</b>                 | <b>(32,653)</b>                |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>                 | <b>(1,486,685)</b> | <b>765,690</b>           | <b>162,389</b>                 | <b>(558,606)</b>               |
| <b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>             | <b>1,486,685</b>   | <b>(755,674)</b>         | <b>(97,935)</b>                | <b>633,076</b>                 |
| <b>FUND BALANCE - END OF YEAR</b>                       | <b>\$ (21,266)</b> | <b>\$ 1,700</b>          | <b>\$ 61,383</b>               | <b>41,817</b>                  |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



CITY OF NOWATA, OKLAHOMA  
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 PROPRIETARY FUND  
 JUNE 30, 2012

Nowata Municipal  
 Authority  
 Enterprise Fund  
 June 30, 2012

**ASSETS****Current Assets:**

|                             |                         |
|-----------------------------|-------------------------|
| Cash and cash equivalents   | \$ (64,116)             |
| Investments                 | -                       |
| Due from other funds        | 20                      |
| Accounts Receivable         | <u>(109,391)</u>        |
| <b>Total Current Assets</b> | <b><u>(173,487)</u></b> |

**Noncurrent Assets:**

|   |                         |
|---|-------------------------|
| Restricted Cash and cash equivalents                  | 698,874                 |
| Restricted Investments                                | 94,410                  |
| Deferred costs  | 212,385                 |
| Other capital assets, net of accumulated depreciation | <u>3,611,663</u>        |
| <b>Total Noncurrent Assets</b>                        | <b><u>4,617,332</u></b> |

**TOTAL ASSETS**

**4,443,845**

**LIABILITIES & FUND EQUITY****Current Liabilities:**

|                                   |                       |
|-----------------------------------|-----------------------|
| Due to other funds                | 8,110                 |
| Accounts payable                  | (72,407)              |
| Due to depositors                 | 118,992               |
| Current Portion of Long-Term Debt | <u>112,672</u>        |
| <b>Total Current Liabilities</b>  | <b><u>167,366</u></b> |

**Noncurrent Liabilities:**

|   |                         |
|---|-------------------------|
| Capital Lease Payable                   | 91,755                  |
| Revenue Bonds Payable                   | 3,370,000               |
| Less: Current Portion of Long-Term Debt | <u>(112,672)</u>        |
| <b>Total Noncurrent Liabilities</b>     | <b><u>3,349,083</u></b> |

**TOTAL LIABILITIES**

**3,516,449**

**NET ASSETS:**

|   |                          |
|---|--------------------------|
| Invested in capital assets, net of related debt | 149,908                  |
| Restricted for debt service                     | 698,874                  |
| Unrestricted                                    | 78,614                   |
| <b>TOTAL NET ASSETS</b>                         | <b><u>\$ 927,396</u></b> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF NOWATA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS**  
**PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

|   | <b>Nowata Municipal<br/> Authority<br/> Enterprise Fund<br/> June 30, 2012</b> |
|---|--|
| <b><u>OPERATING REVENUES:</u></b>                             |  |
| Charges for Services:   |  |
| Airport   | \$          80   |
| Sanitation  | 392,888  |
| Water   | 629,370  |
| Sewer   | 398,570  |
| Miscellaneous Income  | <u>473,340</u>   |
| <b>TOTAL OPERATING REVENUES</b>                               | <u><b>1,894,247</b></u>  |
| <b><u>OPERATING EXPENSES:</u></b>                             |  |
| Airport   | 2,033  |
| Sanitation  | 297,919  |
| Water   | 540,626  |
| Sewer   | 454,464  |
| Utility office  | 695,252  |
| Depreciation and amortization                                 | <u>-</u>   |
| <b>TOTAL OPERATING EXPENSES</b>                               | <u><b>1,990,294</b></u>  |
| <b>NET OPERATING INCOME (LOSS)</b>                            | <u><b>(96,046)</b></u>   |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                      |  |
| Interest Income   | 317  |
| Interest Expense  | <u>(125,025)</u>   |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>                | <u><b>(124,708)</b></u>  |
| <b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b> | <b>(220,754)</b>   |
| Capital Contributions   | -  |
| Transfers in  |  |
| Transfers out   | <u>-</u>   |
| <b>CHANGE IN NET ASSETS</b>                                   | <b>(220,754)</b>   |
| <b>TOTAL NET ASSETS - BEGINNING</b>                           | <b>1,351,429</b>   |
| <b>TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT</b>               | <u><b>(203,279)</b></u>  |
| <b>TOTAL NET ASSETS - ENDING</b>                              | <u><u><b>\$          927,396</b></u></u>                                       |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|  | <u>June 30, 2012</u>       |
|--|----------------------------|
| <b><u>Net Cash Flows from Operating Activities:</u></b>  |                            |
| Cash Receipts from Customers   | \$ 2,171,117               |
| Other Cash Receipts  | -                          |
| Payments to Suppliers & Laborers for Goods & Services  | <u>(2,390,955)</u>         |
| Net Cash Provided (Used) by Operating Activities   | <u>(219,838)</u>           |
| <b><u>Net Cash Flows from Non-Capital Financing Activities:</u></b>                                  |                            |
| Transfers to other funds   | (0)                        |
| Transfers from other funds   | <u>(20)</u>                |
| Net Cash Provided (Used) by Non-Capital Financing Activities   | <u>(20)</u>                |
| <b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>                        |                            |
| Grant Income   | -                          |
| Additions to Capital Assets  | -                          |
| Proceeds from sale of Capital Assets   | -                          |
| Loan Proceeds received   | -                          |
| Principal paid on Notes Payable  | -                          |
| Interest paid  | <u>(125,025)</u>           |
| Net Cash Provided (Used) by Capital & Related Financing Activities                                   | <u>(125,025)</u>           |
| <b>Net Cash Flows from Investing Activities:</b>   |                            |
| Interest Income  | <u>317</u>                 |
| Net Cash Provided (Used) by Investing Activities   | <u>317</u>                 |
| Net Increase (Decrease) in Cash and Cash Equivalents   | (344,566)                  |
| Cash & Cash Equivalents, Beginning of Year   | 1,277,012                  |
| Cash & Cash Equivalents, Prior Year Adjustment   | <u>(203,279)</u>           |
| Cash & Cash Equivalents, End of Year   | <u><u>\$ 729,168</u></u>   |
| <b><u>Reconciliation of operating income (loss) to net cash provided</u></b>                         |                            |
| <b><u>operating activities:</u></b>  |                            |
| Operating Income (Loss)  | \$ (96,046)                |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities |                            |
| Depreciation and Amortization  | -                          |
| (Increase)Decrease in Accounts Receivable  | 276,870                    |
| Increase(Decrease) in Accounts Payable   | (411,889)                  |
| Increase(Decrease) in Due to Depositors  | <u>11,228</u>              |
| Net Cash Provided (Used) by Operating Activities   | <u><u>\$ (219,838)</u></u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 FIDUCIARY FUND TYPES  
 JUNE 30, 2012

|                           | <u>Agency Funds</u>      |
|---------------------------|--------------------------|
| <b><u>ASSETS</u></b>      |                          |
| Cash and cash equivalents | \$ (9,250)               |
| Investments               | -                        |
| Due from other funds      | -                        |
| Accounts receivable       | -                        |
|                           | <hr/>                    |
| <b>TOTAL ASSETS</b>       | <b><u>\$ (9,250)</u></b> |
| <br>                      |                          |
| <b><u>LIABILITIES</u></b> |                          |
| Due to other funds        | \$ 27,404                |
| Due to Bondholders        | (12,966)                 |
| Due to other governments  | (23,689)                 |
|                           | <hr/>                    |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ (9,250)</u></b> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF NOWATA, OKLAHOMA  
NOTE TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Except as discussed in Note 1.H, the City of Nowata, Oklahoma (“the City”) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements; however, proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or November 1, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1.A. FINANCIAL REPORTING ENTITY**

The City’s financial reporting entity is comprised of the following:

|                                       |   |
|---------------------------------------|---|
| Primary Government:                   | City of Nowata  |
| Blended Component Unit:               | Nowata Municipal Authority  |
| Discretely Presented Component Units: | Nowata Industrial Authority<br>(Inactive)<br>Nowata Economic Development<br>Authority(Inactive) |

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, “The Financial Reporting Entity” and includes all component units of which the City appointed a voting majority of the units’ board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. A Public Trust (Authority) has no taxing power. The Authority is generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Commission to delegate certain functions to the governing body (Trustees) of the Authority. The Authority debt or other Authority generally retains title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation of the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

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**Blended Component Unit**

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the City Commission or the component unit provides services entirely to the City. The component unit is blended into the funds of the City by appropriate fund type to comprise the primary government presentation. The component unit that is blended into the primary government's fund types of the City's report is presented below.

| <u>Component Unit</u>            | <u>Brief Description/Inclusion Criteria</u>   | <u>Included Fund</u> |
|----------------------------------|---|----------------------|
| Nowata Municipal Authority (NMA) | Created April 1, 1975 to finance, develop, and operate the water, sewer, Sanitation, and other activities of the City. The current City Commission Serves as entire governing body (Trustees). Debt issued by the Authority Requires 2/3 approval of the City Commission. | Enterprise Fund      |

**Discretely Presented Component Unit**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component units that would be discretely presented in the City's report, if active, are presented below:

|  |   |
|--|---|
| Nowata Industrial Authority (NIA)            | Created April 19, 1967, to finance, develop and promote industrial development activities of the City. Trustees are appointed by the City Commission. Any issuances of debt would require 2/3 approval of the City Commission. The trust was inactive for the year ended June 30, 2012. |
| Nowata Economic Development Authority (NEDA) | Created April 11, 1996, to finance, develop and promote industrial development activities of the City. Trustees are appointed by the City Commission. Any issuances of debt would require 2/3 approval of the City Commission. The trust was inactive for the year ended June 30, 2012. |

**1.B. BASIS OF PRESENTATION**

The accounts 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

CITY OF NOWATA, OKLAHOMA  
NOTE TO THE FINANCIAL STATEMENTS  
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providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into four major categories: governmental, proprietary, fiduciary, and account groups. Funds within each major category are grouped by fund type in the combined financial statements. The major fund categories, fund types, and account groups of the financial reporting entity are described as follows:

**Governmental Fund Types**

**General Fund**

The General Fund is the primary operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specific purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds:

| <u>Funds</u>        | <u>Brief Description</u>   |
|---------------------|--|
| Cemetery Care Fund  | Accounts for 12.5 percent of cemetery revenue restricted by State law for cemetery capital improvements. |
| Airport Runway Fund | Accounts for certain revenues and expenditures of airport runway improvements.                           |

**Proprietary Fund Type**

**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:

| <u>Funds</u>                    | <u>Brief Description</u>  |
|---------------------------------|---|
| Nowata Municipal Authority Fund | Accounts for the activities of the public trust in providing water, sewer, sanitation and other services to the public. |

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**Fiduciary Fund Types**

**Trust and Agency Funds**

Trust and agency funds account for assets held by the City in a fiduciary capacity. The reporting entity presently includes one trust fund and one agency fund. Expendable trust funds account for monies that are limited in use by a formal trust agreement where the trust principal and interest may be used for the trust purposes. Agency funds are custodial in nature (i.e., assets equal liabilities) do not involve the measurement of results of operations. Trust and agency funds of the City include the following:

| <u>Agency Fund</u>   | <u>Brief Description</u>  |
|----------------------|---|
| Municipal Court Fund | Accounts for municipal court bonds held pending case resolution and state assessed fees held for remittance to the state. |

**Total Columns (Memorandum Only)**

Total columns on the combined financial statements are captioned “memorandum only” to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**Measurement Focus**

All governmental fund types and expendable trust funds utilize a spending or “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 fund types use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary fund types utilize a capital maintenance or “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with a proprietary type fund’s activities are included on its balance sheet.

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Proprietary fund equity is segregated into contributed capital and retained earnings.

**Basis of Accounting**

The City utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. A modified cash basis of accounting is the basis of cash receipts and disbursements modified for certain accounts or accounting treatment that has substantial support in GAAP. Under this modified cash basis of accounting, assets, liabilities and related revenues and expenditures/expenses are recorded when they result from cash transactions, except for a provision for depreciation in the Enterprise Funds.

If the City utilized the basis of accounting recognized as generally accepted, the governmental fund types would use the modified accrual basis of accounting, while the proprietary fund type would use the accrual basis of accounting.

Modified Accrual Basis - Revenues would be recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) would be recorded when the related fund liability is incurred, except for general obligation bond principal and interest which would be reported when due.

Accrual Basis - Revenues would be recognized when earned. Expenses (including depreciation and amortization) would be recorded when the liability was incurred or economic assets used.

**1.D. BUDGETARY ACCOUNTING AND CONTROL**

**Budget Law**

The City has adopted the provisions of the Municipal Budget Act of 1979 (the “Budget Act”). In accordance with the Budget Act, the following process is used to adopt the annual budget:

- a. Prior to June 1, the City Manager submits to the City Commission 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.
- c. Subsequent to the public hearings but no later than 7 days prior to July 1, the budget is adopted by resolution of the City Commission.
- d. The adopted budget is filed with the Office of the State Auditor and Inspector.

All funds of the City with revenues and expenditures are required to have legally adopted annual budgets. The level of control at which expenditures may not

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legally exceed appropriations is the object category level by department within a fund. The Budget Act recognized the following object categories as the minimum legal level of control by department within a fund:

- Personal Services
- Materials and Supplies
- Other Services and Charges
- Capital Outlay Debt Service
- Interfund Transfers

All transfers of appropriations and supplemental appropriations require the City Commission approval. Supplemental appropriations must also be filed with the Office of the State Auditor and Inspector.

In accordance with Title 60 of the Oklahoma State Statutes, the Nowata Municipal Authority component unit is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of the budget or definition of a legal spending limit; therefore, no budget and accrual financial presentation of the Nowata Municipal Authority component unit is made in this report.

**Budgetary Accounting**

The annual operating budgets are prepared and presented on the modified cash basis of accounting as previously described.

As a Result of an ordinance passed by the City, encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve a portion of the applicable appropriation, is used on a limited basis by the budgeted funds. The City considers all appropriations to lapse at year end; any open commitments to be honored in the subsequent year are re-appropriated in the expenditures for budgetary reporting purposes in these financial statements.

**1.E. ASSETS, LIABILITIES AND EQUITY**

**Cash and Cash Equivalents**

For the purposes of the combined balance sheet and statement of cash flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments in open-ended mutual funds held in the trustee accounts are also considered cash equivalents.

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**Investments**

Investments classified on the combined balance sheet consist entirely of certificates of deposit whose original maturity term exceeds three months. Due to the use of the modified cash basis of accounting, investments are carried at cost, which approximates fair value. Additional cash and investment disclosures are presented in Note 2.C. and Note 3.A.

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that result in amounts being owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds”. Short-term interfund loans are reported as “interfund receivables and payables”. Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds”. See Note 3.E. for details of interfund transactions, including receivables and payables at year-end.

**Accounts Receivable**

As a result of the use of the cash basis of accounting, accounts receivable and other revenue related receivables are not reported on the financial statements.

**Inventories**

As a result of the use of the modified cash basis of accounting, consumable materials and supplies are recorded as expenditures/expenses at the time of purchase, and, therefore, no balances for inventory on-hand are reported in the balance sheet.

**Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund type operations or proprietary fund type operations.

Capital assets used in governmental fund type operations (general fixed assets) are accounted for as capital outlay expenditures of the governmental type fund acquisition and are recorded as property, plant, and equipment in the Government Wide Financial Statements.

Capital assets used in proprietary fund type operations are accounted for as property, plant, and equipment within the proprietary fund itself.

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Capital assets used by the Authority Enterprise Fund are accounted for as property, plant, and equipment in that fund.

All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 1991.

Depreciation of all exhaustible capital assets of the proprietary type fund is recorded as an expense in its operating statements, with accumulated depreciation reflected on its balance sheet. Depreciation is provided over the assets' estimated useful lives using the straight-line depreciation method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings 25-50 years
- Machinery and equipment 2-20 years
- Utility system 25-50 years

Depreciation and accumulated depreciation are not recorded for governmental fund capital assets.

The capitalization threshold is determined on a case-by case basis.

**Restricted Assets**

Restricted assets include current assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits and revenue bond trustee accounts.

**Long-term Debt**

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund type or proprietary fund type resources. Long-term debt to be repaid from governmental fund type resources would be reported in the Government Wide financial statements only. Long-term debt to be repaid from proprietary fund type resources is reported as a fund liability.

**Compensated Absences**

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

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**Equity Classification**

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**1.F. REVENUES, EXPENDITURES, AND EXPENSES**

**Sales Tax**

The City presently levies a three-cent sales tax within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the tax Commission. The entire sales tax is deposited and recorded in the General Fund. Upon receipt, the General Fund distributes the dedicated portion of the sales tax as follows:

- 2 cents retained by the General Fund
- 1 cent transferred to the NMA revenue bond debt service

Unused sales tax by the Nowata Municipal Authority is transferred back to the City. For the year ended June 30, 2012, the General Fund received \$884,478 of sales tax, of which \$0 was transferred to the Nowata Municipal Authority. Subsequently, the Authority transferred the full \$0 back to the City’s General Fund.

**Property Tax**

At the present time, the City levies no property tax. Under State Law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

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**Expenditures/Expenses**

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

- Governmental fund Types - By Character:
  - Current (further classified by activity)
  - Capital Outlay
- Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types and expendable trust funds report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent re-allocation of resources between funds of the reporting entity are classified as transfers.

**1.G. USE OF ESTIMATES**

The preparation of financial statements to conformity with the other comprehensive basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**1.H. DIFFERENCES FROM GAAP**

**Basis of Accounting**

As discussed in Note 1.C., the City reports all its funds on a modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the City and its units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws, regulations, grants, and contracts and demonstration of its stewardship over City resources follows:

**2.A. FUND ACCOUNTING REQUIREMENTS**

The legally required funds which should be used by the City include the following:

| <u>Fund</u>        | <u>Required by</u> |
|--------------------|--------------------|
| Cemetery Care Fund | State Law          |

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Municipal Authority Fund

Trust Indenture

For the year ended June 30, 2012, the City complied, in all material respects, with the above requirements for the use of these separate funds.

Supplemental appropriations reflected in the budget amounts reported in the combined financial statements were properly approved by the City Commission.

**2.B. BUDGET REQUIREMENTS**

For the year ended June 30, 2012, the expenditures for the year exceeded appropriations. Therefore, the City did not comply with the applicable budget laws.

**2.C. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS**

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government of Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds, and certain letters of credit. As required by 12 U.S.C.A Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2012, the City's uninsured deposits were properly collateralized.

Investments of the City (excluding Public Trusts) are limited by State law to the following:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.
- b. Certificates of deposit or savings accounts which are either insured or secured with acceptable collateral with in-state financial institutions.
- c. With certain limitation, negotiable certificates of deposits, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

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Public trusts created under O.S. Title 60, are not subject to the above noted investment limitations and are primarily governed by and restrictions in their trust or bond indentures. For the year ended June 30, 2012, the City and its included component unit compiled, in all material respects, with the above noted investment restrictions.

**2.D. REVENUE RESTRICTIONS**

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

| <u>Revenue Source</u>                    | <u>Legal Restrictions of Use</u>    |
|--|-------------------------------------|
| Sales Tax                                | See Note 1.F.                       |
| Gasoline Excise & Commercial Vehicle Tax | Street and Alley Purposes           |
| Water and Sewer Revenue                  | Debt Service and Utility Operations |
| Cemetery Revenue 12.5%                   | Cemetery Capital Improvements       |
| Grant Revenues                           | Grant Agreement Requirements        |

For the year ended June 30, 2012, the City complied, in all material respects, with these revenue restrictions.

**2.E DEBT RESTRICTIONS AND COVENANTS**

**General Obligation Debt**

The City is limited by State law in the amount of general obligation debt that may be outstanding at any one time, however, as of June 30, 2012, the City had no general obligation debt outstanding subject to this limitation.

**Other Long-Term Debt**

As required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur and indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. During the year ended June 30, 2012, no such debt was incurred by the City resulting from cash transactions. However, as a result of a modified cash basis of accounting, compliance with this constitutional provision cannot be reasonably measured.

**Enterprise Fund Debt**

The various bond indentures relating to the revenue bond issuance of the Nowata Municipal Authority and loan agreements relating to the Rural Development Utilities Programs (RDUP), formerly known as FMHA, of the

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Nowata Municipal Authority contain a number of restrictions or covenants that are financially related. These include covenants such as a requirement and require reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2012.

| <u>Requirement</u>  | <u>Level of Compliance</u>   |
|---|--|
| <p><b>a. Flow of Funds</b><br/>           Municipal Authority</p> <ul style="list-style-type: none"> <li>• Revenue Account</li> <li>• Debt Service Account</li> <li>• Sinking Fund Account</li> <li>• Sinking Fund Reserve Account</li> </ul> | <p>The Authority maintained all accounts as required.</p>  |
| <p><b>b. Debt Service Coverage Requirement:</b><br/>           Net revenues of the Authority plus pledged sales tax of the City equal at least 1.25 times the average annual debt service on the bonds.</p>                                   | <p>For the year ended June 30, 2012, net revenues plus sales tax transferred amounted to \$319,747. The total average annual debt service was \$214,118. Actual coverage was 1.49 times the average annual debt service.</p> |
| <p><b>c. Sinking Fund Reserve (2007 Series Bonds):</b></p> <p>Account balances should be equal to \$216,465</p>   | <p>For the year ended June 30, 2012, the balance was \$216,469.</p>  |
| <p><b>d. Sinking Fund Reserve (1989 Series Bonds):</b></p> <p>Account balance should be Equal to \$24,000</p>   | <p>For the year ended June 30, 2012, the balance was \$25,373</p>  |

**2.F. FUND EQUITY RESTRICTIONS**

**Deficit Prohibition**

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Title, 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. For the year ended June 30, 2012, the City had not incurred any fund balance deficits in any individual fund. This requirement does not apply to the NMA public trust which is accounted for as the City's Enterprise Fund.

**Fund Balance Reserves**

The only required reserves of fund balance relate to restricted revenue accounted for within the General Fund. The only restricted revenue of the City is a gasoline excise/commercial vehicle tax (as described in Note 2.D.). As of June 30, 2012, all such restricted revenue had been used in accordance with their specified purposes; therefore no reserves are required at June 30, 2012.

**Retained Earnings Required Reserves**

The required reserves of retained earnings relate to assets held to meet revenue bond and promissory notes requirements (as described in Note 2.E.). Details on these reserves at June 30, 2012, are disclosed in Note 3.F.

**3. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS**

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

**3.A. CASH AND INVESTMENTS**

**Custodial Credit Risk**

At June 30, 2012, the Town held deposits of approximately \$522,123 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

**Investment Interest Rate Risk**

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

At June 30, 2012, the carrying value and fair value of investments totaled \$0. For purposes of the combined balance sheet and the statement of cash flows, these investments are cash and cash equivalents.

**3.B. RESTRICTED ASSETS**

The amounts reported as restricted assets of the Enterprise Fund on the combined balance sheet are comprised of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill), and the amount of cash and investments held by the Authority or the trustee bank on behalf of the Authority related to its required revenue bond indenture and promissory note accounts as described in Note 2.E.

CITY OF NOWATA, OKLAHOMA  
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| Type of Restricted Assets    | Cash and Cash<br>Equivalents | Investments      | Total             |
|------------------------------|------------------------------|------------------|-------------------|
| Utility Deposit              | \$ 54,058                    | \$ 94,410        | \$ 148,468        |
| 1989 Revenue Bonds:          |                              |                  |                   |
| Revenue Bond Escrow Fund     | 80,134                       | -                | 80,134            |
| Sinking Fund Reserve Account | 25,373                       | -                | 25,373            |
| 2007 Revenue Bonds:          |                              |                  |                   |
| Construction Fund            | 252,287                      | -                | 252,287           |
| Sinking Fund                 | 216,469                      | -                | 216,469           |
| Sinking Fund Reserve Account | 70,554                       | -                | 70,554            |
| Total                        | <u>\$ 698,874</u>            | <u>\$ 94,410</u> | <u>\$ 793,284</u> |

### 3.C. PROPERTY, PLANT, AND EQUIPMENT

#### Capital Assets

The following table provides a summary of changes in capital assets for the fiscal year ended June 30, 2012.

|  | Balance at<br>7/1/2011 | Additions   | Disposals   | Balance at<br>6/30/2012 |
|--|------------------------|-------------|-------------|-------------------------|
| <i><u>Governmental Activities</u></i>  |                        |             |             |                         |
| Land                                   | \$ 8,448               | \$ -        | \$ -        | \$ 8,448                |
| Buildings                              | 388,345                | -           | -           | 388,345                 |
| Improvements other than<br>buildings   | 868,226                | -           | -           | 868,226                 |
| Machinery, furniture and<br>equipment  | 1,917,509              | -           | -           | 1,917,509               |
| Total                                  | <u>\$ 3,182,529</u>    | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,182,529</u>     |
| <i><u>Business-Type Activities</u></i> |                        |             |             |                         |
| Land                                   | \$ 24,510              | \$ -        | \$ -        | \$ 24,510               |
| Buildings                              | 271,501                | -           | -           | 271,501                 |
| Improvements other than<br>buildings   | 181,095                | -           | -           | 181,095                 |
| Machinery, furniture and<br>equipment  | 994,194                | -           | -           | 994,194                 |
| Utility property and improve           | 11,896,718             | -           | -           | 11,896,718              |
| Total                                  | <u>13,368,018</u>      | <u>-</u>    | <u>-</u>    | <u>13,368,018</u>       |
| Less: Accumulated Depreciation:        |                        |             |             |                         |
| Buildings                              | 150,162                | -           | -           | 150,162                 |
| Improvements other than<br>buildings   | 150,796                | -           | -           | 150,796                 |
| Machinery, furniture and<br>equipment  | 885,673                | -           | -           | 885,673                 |
| Utility property and improve           | 8,569,724              | -           | -           | 8,569,724               |
|  | <u>9,756,355</u>       | <u>-</u>    | <u>-</u>    | <u>9,756,355</u>        |
|  | <u>\$ 3,611,663</u>    | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,611,663</u>     |

CITY OF NOWATA, OKLAHOMA  
NOTE TO THE FINANCIAL STATEMENTS  
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**3.D. LONG-TERM DEBT**

**Governmental Fund Long-Term Debt**

**Capital Lease Payable**

The City (Fire Department Fund) has a capital lease payable to PNC Equipment Finance. The lease was for an original amount of \$151,000 with monthly payments of \$1,657.43 at an interest rate of 5.646% maturing November 1, 2011.

**Enterprise Fund Long-Term Debt**

**Capital Lease Payable**

The Enterprise Fund has a capital lease payable to Empire Financial Services. The lease was for an original amount of \$139,900 with monthly payments of \$2,735 at an interest rate of 5.095% maturing July 10, 2014.

**Revenue Bonds Payable**

1989 Utility System Revenue Bonds, original issue amount of \$265,000, dated February 1, 1989, issued by Nowata Municipal Authority, secured by utility revenues and pledged sales tax, interest rates from 6.6% to 7.85%, with final maturity February 1, 2014.

2007 Utility System Refunding and Capital Improvement Revenue Bonds, original issue amount of \$3,555,000, dated March 1, 2007, issued by the Nowata Municipal Authority, secured by utility revenues and pledged sales tax, interest rates from 3.80% to 4.75%, with final maturity March 1, 2037.

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**Changes in Long-Term Debt**

| <u>Description<br/>and purpose</u> | <u>Balance<br/>7/1/2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance<br/>6/30/2012</u> | <u>Due within<br/>one year</u> |
|------------------------------------|-----------------------------|------------------|-------------------|------------------------------|--------------------------------|
| Governmental Activities            |                             |                  |                   |                              |                                |
| Capital Lease Payable              | \$ 4,897                    | \$ -             | \$ -              | \$ 4,897                     | \$ 4,897                       |
|                                    | <u>4,897</u>                | <u>-</u>         | <u>-</u>          | <u>4,897</u>                 | <u>4,897</u>                   |
| Business-type activities           |                             |                  |                   |                              |                                |
| Capital Lease Payable              | 91,754                      | -                | -                 | 91,754                       | 27,672                         |
| 1989 Revenue Bonds                 | 60,000                      | -                | -                 | 60,000                       | 20,000                         |
| 2007 Revenue Bonds                 | 3,310,000                   | -                | -                 | 3,310,000                    | 65,000                         |
|                                    | <u>3,461,754</u>            | <u>-</u>         | <u>-</u>          | <u>3,461,754</u>             | <u>112,672</u>                 |
|                                    | <u>\$ 3,466,651</u>         | <u>\$ -</u>      | <u>\$ -</u>       | <u>\$ 3,466,651</u>          | <u>\$ 117,569</u>              |

**Annual Debt Service Requirements**

Governmental Fund - Capital Lease Payable (PNC Equipment)

For the Fiscal

Year Ending June

| 30,       | <u>Principal</u> | <u>Interest</u> | <u>Total</u>    |
|-----------|------------------|-----------------|-----------------|
| 2013      | \$ 4,897         | \$ 116          | \$ 5,013        |
| 2014      | -                | -               | -               |
| 2015      | -                | -               | -               |
| 2016      | -                | -               | -               |
| 2017      | -                | -               | -               |
| 2018-2022 | -                | -               | -               |
| Total     | <u>\$ 4,897</u>  | <u>\$ 116</u>   | <u>\$ 5,013</u> |

Enterprise Fund - Capital Lease Payable (Empire Financial Services)

For the Fiscal

Year Ending June

| 30,       | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|-----------|------------------|-----------------|------------------|
| 2013      | \$ 27,672        | \$ 3,948        | \$ 31,620        |
| 2014      | 29,116           | 2,504           | 31,620           |
| 2015      | 30,634           | 986             | 31,620           |
| 2016      | 4,332            | 33              | 4,365            |
| 2017      | -                | -               | -                |
| 2018-2022 | -                | -               | -                |
| Total     | <u>\$ 91,754</u> | <u>\$ 7,471</u> | <u>\$ 99,225</u> |

CITY OF NOWATA, OKLAHOMA  
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Enterprise Fund - 1989 Revenue Bonds

| For the Fiscal   |                  |                 |                  |
|------------------|------------------|-----------------|------------------|
| Year Ending June |                  |                 |                  |
| 30,              | Principal        | Interest        | Total            |
| 2013             | \$ 20,000        | \$ 4,680        | \$ 24,680        |
| 2014             | 20,000           | 3,140           | 23,140           |
| 2015             | 20,000           | 1,570           | 21,570           |
| 2016             | -                | -               | -                |
| 2017             | -                | -               | -                |
| 2018-2022        | -                | -               | -                |
| Total            | <u>\$ 60,000</u> | <u>\$ 9,390</u> | <u>\$ 69,390</u> |

Enterprise Fund - 2007 Revenue Bonds

| For the Fiscal   |                     |                     |                     |
|------------------|---------------------|---------------------|---------------------|
| Year Ending June |                     |                     |                     |
| 30,              | Principal           | Interest            | Total               |
| 2013             | \$ 65,000           | \$ 146,615          | \$ 211,615          |
| 2014             | 70,000              | 144,080             | 214,080             |
| 2015             | 75,000              | 141,350             | 216,350             |
| 2016             | 75,000              | 138,425             | 213,425             |
| 2017             | 80,000              | 135,500             | 215,500             |
| 2018-2022        | 440,000             | 627,130             | 1,067,130           |
| 2023-2027        | 550,000             | 521,363             | 1,071,363           |
| 2028-2032        | 690,000             | 380,755             | 1,070,755           |
| 2033-2037        | 855,000             | 212,668             | 1,067,668           |
| 2038             | 410,000             | 18,655              | 428,655             |
| Total            | <u>\$ 3,310,000</u> | <u>\$ 2,466,540</u> | <u>\$ 5,776,540</u> |

**3.E. INTERFUND TRANSACTIONS AND BALANCES**

Interfund receivables and payables at June 30, 2012 were as follows:

|                          | Due From         | Due To           |
|--------------------------|------------------|------------------|
| GENERAL FUND:            |                  |                  |
| Municipal Court Fund     | \$ 25,601        | \$ -             |
|                          | <u>\$ 25,601</u> | <u>\$ -</u>      |
| AGENCY FUND:             |                  |                  |
| Enterprise Fund:         |                  |                  |
| Nowata Municipal Authori | \$ -             | \$ 25,601        |
|                          | <u>\$ -</u>      | <u>\$ 25,601</u> |

CITY OF NOWATA, OKLAHOMA  
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Interfund transfers at June 30, 2012 were as follows:

|                        | Transfers<br>In | Transfers<br>Out |
|------------------------|-----------------|------------------|
| GENERAL FUND:          |                 |                  |
| Ambulance Fund         | \$ -            | \$ -             |
| Runway Fund (Airport)  | -               | -                |
|                        | <u>\$ -</u>     | <u>\$ -</u>      |
| SPECIAL REVENUE FUNDS: |                 |                  |
| Ambulance Fund:        |                 |                  |
| General Fund           | \$ -            | \$ -             |
| Runway Fund (Airport)  |                 |                  |
| General Fund           | -               | -                |
|                        | <u>\$ -</u>     | <u>\$ -</u>      |

### 3.F. FUND EQUITY

As described in the Notes above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

### 4. OTHER NOTES

#### 4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in three employee pension systems as follows:

- Oklahoma Police Pension and Retirement Fund
  - Cost Sharing Multiple Employer – Defined Benefit Plan
- Oklahoma Firefighters Pension and Retirement Fund
  - Cost Sharing Multiple Employer – Defined Benefit Plan
- Oklahoma Municipal Retirement Fund (OMRF)
  - Agent Multiple Employer – Defined Benefit Plan

#### **Oklahoma Police and Firefighter’s Pension and Retirement Systems**

The City of Nowata, as the employer, participates in two statewide cost-sharing multiple employer defined benefit plans on behalf of the police officers and firefighters. The systems are funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

#### **A. Eligibility Factors, Contribution Methods, and Benefit Provisions**

CITY OF NOWATA, OKLAHOMA  
 NOTE TO THE FINANCIAL STATEMENTS  
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|  |   |
|--|---|
|  | <u>Oklahoma Police Pension<br/>and Retirement System</u>  |
| Eligibility to participate   |   |
|  | Police Pension and<br>Retirement<br>1001 N.W. 63 <sup>rd</sup> St., Suite 605<br>Oklahoma City, Ok 73116-<br>7335   |
| Authority establishing<br>contribution obligations and<br>benefits |   |
| Employee's contribution rate<br>(percent of covered payroll)       | All full-time officers,<br>employed by a participating<br>municipality, not less than 21<br>years of age or more than 45<br>years of age when hired.  |
| City's contribution rate<br>(percentage of covered<br>payroll)     | State Statute   |
| State obligation   |   |
|  | 8%  |
| Period required to vest  |   |
|  | 13%   |
| Eligibility and benefits for<br>distribution (full-time)           |   |
|  | State appropriation to fund<br>the unfunded actuarial<br>accrued liability  |
|  | 10 years  |
|  | 20 years credited service,<br>2.5% of final average salary<br>multiplied by the years of<br>credited service with a max.<br>of 30 years considered; if<br>vested, at or after age 50, or<br>after 10 but before 20 years<br>of credited service, with<br>reduced benefits |

Obtaining separately issued  
financial statements

CITY OF NOWATA, OKLAHOMA  
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|  |               |  |
|--|---------------|--|
| <u>Oklahoma Firefighters Pension and Retirement System</u>   | State Statute | State appropriation to fund the unfunded actuarial accrued liability   |
| Firefighters' Pension & Retirement<br>4545 N. Lincoln Blvd., Suite 265<br>Oklahoma City, OK 73105-3414 | 8%<br><br>13% | 10 years<br><br>20 years credited service, 2.5% of final average salary multiplied by the years of credited service with a max. of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits. |
| All full-time or voluntary firefighters of a participating municipality hired before age 45            |               |  |

**A. Eligibility Factors, Contribution Methods, and Benefit Provisions (continued)**

|   | <u>Oklahoma Police Pension and Retirement System</u>                                       | <u>Oklahoma Firefighter's Pension and Retirement System</u>   |
|---|--|---|
| 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 service with an additional option to participate in Louisiana Plan. | Yes, 20 years credited service with continued service for a maximum of 30 or more years.                        |
| <b>Provisions for:</b>                                |  |   |
| Cost of living adjustments (normal retirement)        | Yes  | Yes, if vested by 5/83  |
| Death (duty, non-duty, post retirement)               | Yes  | Yes   |
| Disability (duty, non-duty)                           | Yes  | Yes   |
| Cost of living allowances                             | Yes  | Yes   |

CITY OF NOWATA, OKLAHOMA  
 NOTE TO THE FINANCIAL STATEMENTS  
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**B. Trend Information**

City contributions required by state statute:

| <u>Fiscal year</u> | <u>Oklahoma Police Pension and Retirement System</u> |                               | <u>Oklahoma Firefighter's Pension and Retirement System</u> |                               |
|--------------------|--|-------------------------------|---|-------------------------------|
|                    | <u>Required Contribution</u>                         | <u>Percentage Contributed</u> | <u>Required Contribution</u>                                | <u>Percentage Contributed</u> |
| 2009               | \$20,694   | 100%                          | \$13,205  | 100%                          |
| 2010               | \$25,401   | 100%                          | \$17,969  | 100%                          |
| 2011               | \$21,281   | 100%                          | \$19,250  | 100%                          |

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

**C. Related Party Investments**

As of June 30, 2012, the Systems held no related-party investments of the city or of its related entities.

**Oklahoma Municipal Retirement Fund**

**A. Plan Description, Eligibility Factors, Contribution Methods, and Benefit Provisions**

**1. Plan Description**

Effective January 1, 1985, the City began contributing to the City of Nowata Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan. Administration of the City's individual plan rests with the City Commission. The overall operations of OMRF are supervised by a nine-member Board of Trustees elected by the participating municipalities. Bank One Trust Company of Oklahoma City acts as administrator and securities custodian. OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 100 N Broadway, Oklahoma City, OK 73102.

CITY OF NOWATA, OKLAHOMA  
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**2. Eligibility Factors, Contribution Methods and Benefit Provision**

- a. Eligible to Participate
  - i. All regular, full-time employees of the City or Authority except police, firefighters and other employees covered under a state system.
- b. Contribution Requirements:
  - i. Authorization - By City Ordinance
  - ii. Actuarially Determined - Yes
  - iii. Employer Rate 2.58% of covered payroll
  - iv. Employee Rate 5% of earnings
- c. Period Required to Vest - 5 years of credit service
- d. Eligibility for Distribution
  - i. Normal Retirement at age 65 with 5 years of service
  - ii. Early retirement at age 55 with 5 years of service
  - iii. Total and permanent disability after 5 years of service
  - iv. Death benefit with 5 years of service for married employees.
- e. Benefit Determination Base
  - i. Final average salary - the average of the five highest consecutive annual salaries out of the last ten calendar years of service
- f. **Benefit Determination Methods:**
  - i. Normal Retirement
    - 3% of final average salary multiplied by credited years of service
  - ii. Early Retirement
    - Actuarially reduced benefit based upon age and years of service at termination.
  - iii. Disability Retirement
    - Benefit computed as for normal retirement based on average salary and service as of the date of disability.
  - iv. Death Benefit
    - 50% of the employee's accrued benefit, but terminates upon spouses remarriage.
  - v. Prior to 5 years Service
    - Return of employee contributions with accrued interest.
- g. Form of Benefit Payments
  - Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

**B. Annual Pension Costs**

**a. Current Year Contribution Information**

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For the year ended June 30, 2012, the City's annual pension cost was zero due to the city being fully funded in the current year.

**b. Actuarial Assumptions:**

Date of Last Actuarial Valuation – For Plan Year July 1, 2008

|   |  |
|---|--|
| Actuarial Cost Method                                       | Actuarial Cost Method  |
| Rate of Return on Investments                               | 7.5%   |
| Projected Salary Increase                                   | 5%   |
| Post Retirement Cost of Living Increase                     |  |
| Inflation Rate  | Separate inflation rate not available; inflation included in projected salary increase.  |
| Amortization Method of Unfunded Actuarial Accrued Liability | Level percentage of projected payroll.   |
| Remaining Amortization Period                               | Fully Funded   |
| Asset Valuation Method                                      | A tentative actuarial value, calculated as 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 90% to 110% of the current market value of the fund. |

**C. Trend Information**

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC contributed</u> | <u>Net Pension Obligation (Excess)</u> |
|---------------------------|----------------------------------|--------------------------------------|--|
| 6/30/2010                 | \$ -                             | 100.00%                              | \$ -                                   |
| 6/30/2011                 | \$ -                             | 100.00%                              | \$ -                                   |
| 6/30/2012                 | \$ -                             | 100.00%                              | \$ -                                   |

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**Other Post-Employment Benefits**

For the year ended June 30, 2012, the City Provided no post-employment benefits (other than pension) to terminated employees.

**4.B. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these various risks of loss as follows:

| <u>Type of Loss</u>   | <u>Method Managed</u>  | <u>Risk of Loss Retained</u> |
|---|--|------------------------------|
| Torts, errors and omissions, asset loss and natural disasters | Participation in Oklahoma Municipal Assurance Group risk entity pool | (1)                          |
| Injuries to employees (workers compensation)                  | Purchased commercial insurance                                       | None                         |
| Employee health and life                                      | Participation in Oklahoma Municipal Assurance Group risk entity pool | (1)                          |

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**1. Oklahoma Municipal Assurance Group (OMAG)**

**Liability Protection Plan**

The basis insurance agreements cover claims against municipalities for all government functions, utilities, and services covered in the Plan. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the state tort claims law and federal civil rights laws. All public officials, employees, services, and municipal functions are covered unless they are specifically listed as exclusions in the Plan.

Title to all assets acquired by the Plan is vested in the Group. In the event of termination of the Group, such property shall belong to the then member of the group in equal shares. Each participating City pays for all costs, premiums, or other fees attributable to its respective participation in the Plan, policy or service established under the agreement establishing the Oklahoma Municipal Assurance Group, and is responsible for its obligations under any contract entered into with the Plan.

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

**Life and Health Benefit Plan**

The City participates in the Oklahoma Municipal Assurance Group Life and Health Benefit Plan ("the Plan") as a Class (III) participant. The title to all assets acquired by the Plan is vested in the Plan. In the event of termination of the Plan, such property shall belong to the then members of the Plan in equal shares. Each participating City pays for all costs, contributions, or other fees attributable to its respective participation in any plan, policy or service established under this agreement, and is responsible for its obligation under any contract entered into with the Plan.

The Plan's reserves for policy and contract claims are provided on municipalities in which the Plan has insured risk and include provisions for reported claims and an estimate for claims incurred but not reported. The

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JUNE 30, 2012

reserves are based on the estimated ultimate cost of settling the claims, including the effects of general economic conditions, and were determined using paid claims data for claims paid subsequent to year-end and the Plan's historical claims experience.

The Plan has excess stop-loss agreements which cover losses in excess of specific and aggregate retention levels. Such agreements are closely connected to the Plan's underwriting process such that the coverage is provided based upon a participating municipality's classification. The Plan classified participating municipalities into three categories: Class I, Class II, and Class III. Such classification is dependent upon the number of covered employees with Class I municipalities having the most employees and Class III having the least employees.

Class II and Class III are pooled together under one excess stop-loss agreement between the Plan and the stop-loss carrier. This agreement is similar in nature to the Class I municipality agreements; however, no amounts are refundable to Class II and Class III municipalities for contributions collected in excess of benefits paid and the Plan is responsible for claims incurred but not paid as of June 30, 2012. If a Class II and Class III municipality renews, the renewal excess stop-loss agreement covers claims incurred before June 30, 2012, and paid in the renewal period.

**4.C. COMMITMENTS AND CONTINGENCIES**

**Commitments:**

**Compensated Absences**

As a result of the City's use of the modified cash basis of accounting, accrued amounts related to compensated absences (vacation only; sick leave does not vest) and compensatory time earned but unpaid at year-end are not reflected in the combined financial statements.

**Contingencies:**

**Grant Program Involvement**

In the normal course of operations, the City 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 specific conditions of the grant or loan. Any liability of reimbursement which 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.

CITY OF NOWATA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**Litigation**

The City and the Municipal Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City.

While the outcome of the above-noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City. This statutory taxing ability is not available to the City's public trusts (Authorities).

**4.D. SUBSEQUENT EVENTS**

The City did not have any subsequent events through October 24, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

## EXHIBIT I

CITY OF NOWATA, OKLAHOMA  
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
 GENERAL FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|  | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget |
|--|------------------|------------------|-------------------|-------------------------------|
|  | Original         | Final            |                   | Positive (Negative)           |
| Beginning Budgetary Fund Balance:            | \$ -             | \$ -             | \$(1,486,685)     | \$ (1,486,685)                |
| <b>Resources (Inflows):</b>                  |                  |                  |                   |                               |
| Taxes:                                       |                  |                  |                   |                               |
| Franchise Tax                                | 137,208          | 137,208          | 123,599           | (13,609)                      |
| Sales & Use Tax                              | 718,938          | 718,938          | 887,478           | 168,540                       |
| Tobacco Tax                                  | 10,776           | 10,776           | 12,865            | 2,088                         |
| Intergovernmental:                           |                  |                  |                   |                               |
| Alcoholic Beverage Tax                       | 44,073           | 44,073           | 43,650            | (424)                         |
| Gasoline Excise Tax                          | 10,434           | 10,434           | 10,476            | 42                            |
| Motor Vehicle Tax                            | 25,521           | 25,521           | 25,601            | 80                            |
| Grants                                       | 30               | 30               | 40                | 10                            |
| Licenses & Permits                           | 23,648           | 23,648           | 26,349            | 2,700                         |
| Charges for Services                         | 30,766           | 30,766           | 34,808            | 4,042                         |
| Fines & Forfeitures                          | 79,954           | 79,954           | 56,258            | (23,696)                      |
| Miscellaneous Income                         | 311,125          | 311,125          | 236,083           | (75,043)                      |
| Interest Income                              | 459              | 459              | 521               | 62                            |
| Transfers In                                 | -                | -                | -                 | -                             |
| Amounts available for appropriation          | <u>1,392,933</u> | <u>1,392,933</u> | <u>(28,957)</u>   | <u>(1,421,890)</u>            |
| <b>Charges to Appropriations (Outflows):</b> |                  |                  |                   |                               |
| City administration                          | 98,162           | 98,162           | 100,160           | (1,998)                       |
| Municipal court                              | -                | -                | -                 | -                             |
| Police                                       | 503,879          | 503,879          | 532,908           | (29,030)                      |
| Parks  | 44,467           | 44,467           | 54,708            | (10,241)                      |
| Fire   | 260,554          | 260,554          | 300,457           | (39,903)                      |
| Cemetery                                     | 67,162           | 67,162           | 76,690            | (9,528)                       |
| General government                           | 185,919          | 185,919          | 250,891           | (64,972)                      |
| Streets                                      | 180,270          | 180,270          | 255,201           | (74,930)                      |
| Library                                      | -                | -                | -                 | -                             |
| City shop                                    | 37,846           | 37,846           | 36,788            | 1,059                         |
| Civil defense                                | -                | -                | -                 | -                             |
| EMS  | -                | -                | -                 | -                             |
| Dispatch                                     | -                | -                | -                 | -                             |
| Transfers Out                                | -                | -                | -                 | -                             |
| Total Charges to Appropriations              | <u>1,378,259</u> | <u>1,378,259</u> | <u>1,607,801</u>  | <u>(229,542)</u>              |
| Prior Year Adjustments to Fund Balance       | -                | -                | 1,486,685         | 1,486,685                     |
| Ending Budgetary Fund Balance                | <u>14,674</u>    | <u>14,674</u>    | <u>(150,074)</u>  | <u>(164,748)</u>              |

CITY OF NOWATA, OKLAHOMA  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2012

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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

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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  
City of Nowata, Oklahoma

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the City of Nowata, State of Oklahoma, as of June 30, 2012, 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 which collectively comprise the City's basic financial statements and have issued our report thereon dated October 24, 2013, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. The City of Nowata has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the City did not present the required MD&A.

### Internal Control Over Financial Reporting

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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
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WEB: KERSHAWCPA.COM  
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deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01, 12-02, 12-03 and 12-04. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nowata'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 12-05. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

City of Nowata's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit City of Nowata's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, and the Oklahoma State Auditor and Inspector's office 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

October 24, 2013

CITY OF NOWATA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the City's major areas of internal control, that would be prevalent in a larger City, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

Item 12-02: Refundable Customer Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority does not keep a ledger or any other documentation regarding the balance of customer deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The documentation has not been maintained by previous management that would allow the Authority to reconstruct such a ledger.

CITY OF NOWATA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

Item 12-03: Bank Reconciliation

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: Personnel of the City prepared a bank reconciliation of pooled cash. However, the allocation of pooled cash to individual funds could not be determined and the reconciled cash figure did not reconcile to the general ledger.

Cause/Effect: The bank statements have not been reconciled to the general ledger. The financial statements may contain misstatements and omit financial information.

Recommendation: Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements and general ledger.

Response: The City is aware of the problem.

Item 12-04: Fund Accounting

Criteria: Fund accounting requires the City to organize accounts on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The individual funds account for the government resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Condition: During the fiscal year ending June 30, 2011, the City moved all fund activity for the Ambulance Fund into the Municipal Authority Fund trial balance.

Cause/Effect: The accounts are not easily identifiable as to fund type.

CITY OF NOWATA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

Recommendation: The City should utilize the newly created separate trial balance established for the EMS/Ambulance Fund rather than including it with the NMA. This would allow the funds to have a separate chart of accounts, to account for each separate fund's assets, liabilities, fund equity, revenues and expenses or expenditures.

Response: The movement of the EMS fund into the NMA was at the suggestion of previous management.

COMPLIANCE FINDINGS:

Item 12-05: Budget

Criteria: Oklahoma State Law prescribes that no encumbrances or expenditures may be authorized or made, by an officer or employee, which exceeds the available appropriations for each object category within a department or fund.

Condition: Expenditures exceeded appropriations at the legal level of control for all of the General Fund Departments, except three. The total excess over appropriations was \$672,402.

Cause/Effect: Exceeding appropriations, leaves the Town out of compliance with Oklahoma Statutes.

Recommendation: The City should adopt formal budget amendments, especially at or near yearend by department.

Response: The City is aware of the problem and current management was not responsible for the financial statements at that time.

CITY OF NOWATA, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

|   | <u>SPECIAL REVENUE FUNDS</u>  |                                    |                      | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|-------------------------------|------------------------------------|----------------------|--|
|   | <u>CEMETERY<br/>CARE FUND</u> | <u>AIRPORT<br/>RUNWAY<br/>FUND</u> | <u>DARE<br/>FUND</u> |  |
| <b><u>ASSETS</u></b>                                      |                               |                                    |                      |  |
| Cash and cash equivalents                                 | \$ 26,853                     | \$ (27,488)                        | \$ 935               | \$ 300                                     |
| Investments   | -                             | -                                  | -                    | -  |
| Due from General Fund                                     | -                             | 81,000                             | -                    | 81,000                                     |
| Due from other governments                                | -                             | -                                  | -                    | -  |
| <b>TOTAL ASSETS</b>                                       | <b><u>\$ 26,853</u></b>       | <b><u>\$ 53,512</u></b>            | <b><u>\$ 935</u></b> | <b><u>\$ 81,300</u></b>                    |
| <b><u>LIABILITIES &amp; FUND EQUITY</u></b>               |                               |                                    |                      |  |
| <b><u>LIABILITIES:</u></b>                                |                               |                                    |                      |  |
| Due to Other Governments                                  | \$ 1,820                      | \$ 18,097                          | \$ -                 | \$ 19,917                                  |
| Payroll Taxes   | -                             | -                                  | -                    | -  |
| <b>TOTAL LIABILITIES</b>                                  | <b><u>1,820</u></b>           | <b><u>18,097</u></b>               | <b><u>-</u></b>      | <b><u>19,917</u></b>                       |
| <b><u>FUND BALANCES:</u></b>                              |                               |                                    |                      |  |
| Unreserved, reported in nonmajor<br>special revenue funds | 25,033                        | 35,415                             | 935                  | 61,383                                     |
| <b>TOTAL FUND BALANCES</b>                                | <b><u>25,033</u></b>          | <b><u>35,415</u></b>               | <b><u>935</u></b>    | <b><u>61,383</u></b>                       |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                | <b><u>\$ 26,853</u></b>       | <b><u>\$ 53,512</u></b>            | <b><u>\$ 935</u></b> | <b><u>\$ 81,300</u></b>                    |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF NOWATA, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

|   | <u>SPECIAL REVENUE FUNDS</u>  |                                    |                      | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|-------------------------------|------------------------------------|----------------------|--|
|   | <u>CEMETERY<br/>CARE FUND</u> | <u>AIRPORT<br/>RUNWAY<br/>FUND</u> | <u>DARE<br/>FUND</u> |  |
| <b>REVENUES:</b>  |                               |                                    |                      |  |
| Charges for Services                                    | \$ 4,251                      | \$ -                               | \$ -                 | \$ 4,251                                   |
| Miscellaneous Income                                    | 107                           | (5,998)                            | 5,721                | (170)                                      |
| Interest Income   | 1                             | 41                                 | 2                    | 44   |
| <b>TOTAL REVENUES</b>                                   | <u>4,359</u>                  | <u>(5,957)</u>                     | <u>5,723</u>         | <u>4,125</u>                               |
| <b>EXPENDITURES:</b>                                    |                               |                                    |                      |  |
| Current:  |                               |                                    |                      |  |
| Personal Services                                       | -                             | -                                  | -                    | -  |
| Maintenance & Operations                                | -                             | -                                  | 5,377                | 5,377                                      |
| Capital Outlay  | 1,820                         | -                                  | -                    | 1,820                                      |
| Debt Service - Principal & Interest                     | -                             | -                                  | -                    | -  |
| <b>TOTAL EXPENDITURES</b>                               | <u>1,820</u>                  | <u>-</u>                           | <u>5,377</u>         | <u>7,197</u>                               |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>2,539</b>                  | <b>(5,957)</b>                     | <b>347</b>           | <b>(3,072)</b>                             |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                               |                                    |                      |  |
| Operating Transfers In                                  | -                             | -                                  | -                    | -  |
| Operating Transfers Out                                 | -                             | -                                  | -                    | -  |
| Capital Debt Proceeds                                   | -                             | -                                  | -                    | -  |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <u>-</u>                      | <u>-</u>                           | <u>-</u>             | <u>-</u>                                   |
| <b>NET CHANGES IN FUND BALANCES</b>                     | <b>2,539</b>                  | <b>(5,957)</b>                     | <b>347</b>           | <b>(3,072)</b>                             |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>                 | <b>138,005</b>                | <b>23,796</b>                      | <b>588</b>           | <b>162,389</b>                             |
| <b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>             | <u>(115,510)</u>              | <u>17,576</u>                      | <u>-</u>             | <u>(97,935)</u>                            |
| <b>FUND BALANCE - END OF YEAR</b>                       | <u><u>\$ 25,033</u></u>       | <u><u>\$ 35,415</u></u>            | <u><u>\$ 935</u></u> | <u><u>\$ 61,383</u></u>                    |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements