

**CITY OF PAWNEE**  
Pawnee, Oklahoma

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2011

**City of Pawnee  
Pawnee, Oklahoma**

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**City of Pawnee  
Pawnee, Oklahoma**

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The Board of City Commissioners  
City of Pawnee  
Pawnee, Oklahoma

### Independent Auditor's Report

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

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

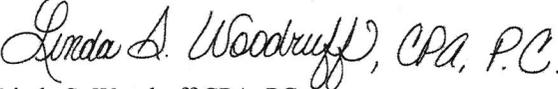
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information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

In accordance with *Government Auditing Standards*, I have also issued my report dated January 23, 2012, on my consideration of the City of Pawnee, State of Oklahoma's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States

of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pawnee, State of Oklahoma's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

  
Linda S. Woodruff CPA, PC

January 23, 2012  
Yukon, Oklahoma

**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2011**  
**Unaudited**

As management of the City of Pawnee (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

The total net assets of the City increased \$1,366,714. Net assets of governmental activities increased \$189,705 or 7.36% over the fiscal year.

General revenues accounted for \$733,462 or 53.7% of total governmental activities revenue. Program specific revenues accounted for \$632,443 or 46.3% of total governmental activities revenue.

Governmental activities capital assets, net increased \$160,978, which includes purchases of a 48" deck lawn mower, an ambulance, a salt and sand spreader, a police car, bullet proof vests, a book return cart and depreciation. Business-type activities capital assets, net-increased \$913,418, included are \$372,500 in sewer improvements, \$67,350 in distribution improvements, \$13,500 for a Ford F-350 pickup and \$250,538 from depreciation.

The City had \$1,521,035 in expenses related to governmental activities; \$632,443 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$888,592 were not totally offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$733,462. An additional transfer from the other funds (primarily the business-type activities) of \$344,835 was needed to offset the additional expenses.

Net assets for the business activities, which are made up of the Water & Electric, Sewage & Solid Waste and the Industrial Authority increased over the fiscal year by \$1,177,009 or 69.3%.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information as well as other supplemental information.

**Government-wide Financial Statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (fire, ambulance, police and animal control), streets, judicial, culture, parks and recreation, public improvements and planning and zoning. The business-type activities of the City include public works (electric, water, sewer and refuse) and industrial building rentals.

The government-wide financial statements can be found on page 13-14 of this report.

**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2011**  
**Unaudited**

**Fund Financial Statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories – governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decision. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twelve individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Municipal Hospital Authority and Capital Projects funds, all of which are considered to be major funds. Data from the other nine funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, Special Revenue and Capital Projects Funds. Budgetary comparison schedules have been provided for the General Fund, each major Special Revenue Fund and Capital Projects Fund that adopts a budget to demonstrate compliance with the budget and are presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 16-18 of this report.

**Proprietary Funds** – The City maintains four different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer and refuse, industrial building rentals and golf course rental.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water & Electric, Sewage & Solid Waste and the Pawnee Industrial Authority since they are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 22 of this report.

**Component Units** – The City includes one separate legal entity in its report – the Pawnee Municipal Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2011**  
*Unaudited*

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-45 of this report.

**Required Supplementary Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparisons, progress in funding its obligation to provide pension benefits to its employees and corresponding notes. Required supplementary information can be found on pages 46-50 of this report.

**Other Information** – The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining and individual statements and schedules can be found on pages 51-54 of this report.

**Governmental-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pawnee, assets exceed liabilities by \$5,641,825 as of June 30, 2011.

The largest portion of the City's net assets reflects its investments in capital assets (e.g., land, buildings, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

**City of Pawnee's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Current and other assets	\$ 371,732	\$ 770,788	\$ 2,869,403	\$ 2,012,186	\$ 3,241,135	\$ 2,782,974
Capital assets	2,595,334	2,434,356	5,433,190	5,230,652	8,028,524	7,665,008
Total assets	<u>2,967,066</u>	<u>3,205,144</u>	<u>8,302,593</u>	<u>7,242,838</u>	<u>11,269,659</u>	<u>10,447,982</u>
Long-term liabilities	76,947	597,580	5,014,182	5,228,042	5,091,129	5,825,622
Other liabilities	123,251	118,378	413,454	316,848	536,705	435,226
Total liabilities	<u>200,198</u>	<u>715,958</u>	<u>5,427,636</u>	<u>5,544,890</u>	<u>5,627,834</u>	<u>6,260,848</u>
Net assets:						
Invested in capital assets, net of related debt	2,518,387	1,836,776	419,008	2,610	2,937,395	1,839,386
Restricted	221,029	154,837	1,009,815	672,127	1,230,844	826,964
Unrestricted	27,452	497,573	1,446,134	1,023,211	1,473,586	1,520,784
Total net assets	<u>\$ 2,766,868</u>	<u>\$ 2,489,186</u>	<u>\$ 2,874,957</u>	<u>\$ 1,697,948</u>	<u>\$ 5,641,825</u>	<u>\$ 4,187,134</u>

As of June 30, 2011, the City is able to report positive balances in all three categories of net assets for the government as a whole and for its separate categories – governmental and business-type activities.

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended June 30, 2011. Governmental activities increased the City of Pawnee's net assets by \$189,705 and Business-type activities increased the City's net assets by \$1,177,009, accounting for a gain in net assets

**Management's Discussion and Analysis  
for the Fiscal Year Ended June 30, 2011  
Unaudited**

**City of Pawnee's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
<b>Revenues:</b>						
<b>Program revenues</b>						
Charges for services	\$ 497,334	\$ 408,582	\$ 3,332,416	\$ 2,985,144	\$ 3,829,750	\$ 3,393,726
Operating grants and contributions	38,420	15,909	-	-	38,420	15,909
Capital grants and contributions	96,689	53,091	895,884	393,720	992,573	446,811
<b>General revenues:</b>						
Sales, use and cigarette taxes	638,731	591,793	-	-	638,731	591,793
Cigarette taxes	8,864	7,828	-	-	-	-
Franchise fees	21,435	26,500	-	-	21,435	26,500
Intergovernmental	43,199	42,107	-	-	43,199	42,107
Investment earnings	4,574	12,590	5,198	8,611	9,772	21,201
Miscellaneous	16,659	18,076	88,326	139,354	104,985	157,430
Property sales	-	-	-	-	-	-
Insect spray	-	-	1,576	12,484	1,576	12,484
Late charges	-	-	39,246	30,474	39,246	30,474
<b>Total revenues</b>	<b>1,365,905</b>	<b>1,176,476</b>	<b>4,362,646</b>	<b>3,569,787</b>	<b>5,719,687</b>	<b>4,738,435</b>
<b>Expenses:</b>						
General government	266,631	260,509	-	-	266,631	260,509
Public safety and judiciary	785,829	686,871	-	-	785,829	686,871
Transportation	172,703	172,800	-	-	172,703	172,800
Cultural, parks and recreation	171,950	166,359	-	-	171,950	166,359
Hospital/economic development	26,073	91,305	-	-	26,073	91,305
Unallocated depreciation	97,849	168,742	227,931	200,295	325,780	369,037
Rental activities	-	-	30,986	31,459	30,986	31,459
Utilities	-	-	2,306,062	2,114,572	2,306,062	2,114,572
Financing	-	-	275,823	261,964	275,823	261,964
<b>Total expenses</b>	<b>1,521,035</b>	<b>1,546,586</b>	<b>2,840,802</b>	<b>2,608,290</b>	<b>4,361,837</b>	<b>4,154,876</b>
<b>Increases in net assets</b>						
before transfers	(155,130)	(370,110)	1,521,844	961,497	1,357,850	583,559
Transfers	344,835	356,400	(344,835)	(356,400)	-	-
<b>Increase in net assets</b>	<b>189,705</b>	<b>(13,710)</b>	<b>1,177,009</b>	<b>605,097</b>	<b>1,357,850</b>	<b>583,559</b>
Net assets - beginning of year	2,577,163	2,590,873	1,697,948	1,092,851	4,275,111	3,683,724
<b>Net assets - end of year</b>	<b>\$ 2,766,868</b>	<b>\$ 2,577,163</b>	<b>\$ 2,874,957</b>	<b>\$ 1,697,948</b>	<b>\$ 5,632,961</b>	<b>\$ 4,267,283</b>

**Financial Analysis of the Government's Funds**

**Governmental Funds** – The focus of the City of Pawnee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Pawnee's governmental funds reported combined ending fund balances of \$2,766,868. Approximately 1% of the total amount (\$27,452) constitutes unrestricted fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted 1) for Special Projects (\$221,029).

In the general fund, the City budgeted for a break even in the fund balance. However, without subsidies from the Water & Electric totaling \$385,000, the General fund would have reported a decrease in net assets.

**Proprietary Funds** – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are Water & Electric – \$784,705, Sewage & Solid Waste – \$585,636 and the Industrial Authority – \$75,793.

**Management's Discussion and Analysis**  
**for the Fiscal Year Ended June 30, 2011**  
**Unaudited**

**Capital Assets**

The City of Pawnee's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$8,028,524 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. Major capital asset events during the current fiscal year included the following:

Governmental activities include: 48" deck lawn mower, ambulance, salt and sand spreader, police car, bullet proof vest and a book return cart.

Business-type activities include: sewer improvements, distribution improvements and truck.

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

	Governmental Activities		Business-Type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Land	\$ 131,500	\$ 131,500	\$ 82,611	\$ 82,611	\$ 214,111	\$ 214,111
Construction in process	-	-	-	-	-	-
Buildings & Improvements	1,498,671	1,521,895	599,170	635,241	2,097,841	2,157,136
Sewer Treatment Facility	-	-	2,068,922	1,762,004	2,068,922	1,762,004
Water Treatment Plant	-	-	664,432	689,989	664,432	689,989
Electric System	-	-	761,628	790,836	761,628	790,836
Distribution Systems	-	-	1,123,896	1,130,320	1,123,896	1,130,320
Furniture & Major Movable Equipment	386,669	185,778	132,531	139,651	519,200	325,429
Infrastructure	578,494	595,183	-	-	578,494	595,183
Total	\$ 2,595,334	\$ 2,434,356	\$ 5,433,190	\$ 5,230,652	\$ 8,028,524	\$ 7,665,008

Additional information on the City of Pawnee's capital assets can be found in note 2 on pages 29-30 of this report.

**Debt Administration**

At the end of the current fiscal year, the City of Pawnee had total bonded debt, notes payable and leases payable of \$5,091,129. Of this amount, \$3,995,000 comprises the bonded debt backed by the full faith and credit of the government, \$1,009,799 represents notes secured solely by enterprise revenues and \$86,330 leases secured solely by the assets lease purchased.

**Outstanding Debt at Year-end Bonds and Notes Payable**

	Governmental Activities		Business-Type Activities		Total	
	6/30/11	6/30/10	6/30/11	6/30/10	6/30/11	6/30/10
Revenue bonds payable	\$ -	\$ -	\$ 3,995,000	\$ 4,110,000	\$ 3,995,000	\$ 4,110,000
Notes payable	-	530,560	1,009,799	1,102,628	1,009,799	1,633,188
Leases payable	76,947	67,020	9,383	15,414	86,330	82,434
Total	\$ 76,947	\$ 597,580	\$ 5,014,182	\$ 5,228,042	\$ 5,091,129	\$ 5,825,622

Additional information on the City of Pawnee's long-term debt can be found in footnote 2 on pages 35-39 of this report.

**Management's Discussion and Analysis**  
***for the Fiscal Year Ended June 30, 2011***  
***Unaudited***

**Economic Factors and Next Year's Budgets and Rates**

In the 2011-12 Budget, General Fund revenues and transfers in are budgeted to increase by 5.6% from the 2010-11 budget year with sales taxes making up about 36.94% of general fund budgeted revenues and transfers in. The City's budgets for all funds have not benefited from a slowing economy over the past year, sales tax receipts are expected to even out. This revenue source is the most volatile and subject to decline if an economic slowdown happens, such as the recession.

As a result of the potential impact in revenue, the City has made a concerted effort to limit appropriations to only those items truly necessary. This includes a reduction in the amount spent by the City in all areas.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the City Mayor, 510 Illinois Street, Pawnee, OK 74058, or call 918-762-2658.

CITY OF PAWNEE  
Pawnee, Oklahoma

BASIC FINANCIAL STATEMENTS  
June 30, 2011

**City of Pawnee**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets:</b>				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 159,223	\$ 349,540	\$ 508,763	\$ 2,569
Investments, at cost	8,663	221,103	229,766	-
Receivables (net of allowance for uncollectibles):				
Accounts receivable	82,567	547,222	629,789	-
Grants	4,539.00	-	4,539	-
Taxes	116,546	248	116,794	-
Interest	0	-	-	-
Restricted assets:				
Cash & cash equivalents (Note 3)	-	1,009,815	1,009,815	-
<b>Capital assets:</b>				
Land	131,500	82,611	214,111	61,124
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	2,463,834	5,350,579	7,814,413	29,894
<b>Deferred charges:</b>				
Bond issue cost (net of accumulated amortization) (Note 1)	-	741,475	741,475	-
<b>Total assets</b>	<u>\$ 2,966,872</u>	<u>\$ 8,302,593</u>	<u>\$ 11,269,465</u>	<u>\$ 93,587</u>
<b>Liabilities:</b>				
Accounts payable	\$ 45,219	\$ 175,854	\$ 221,073	\$ -
Accrued compensation	78,032	16,298	94,330	-
Bank overdraft	-	128,955	128,955	-
Sales tax payable	-	3,797	3,797	-
Interest payable	-	7,678	7,678	-
Payable from restricted assets:				
Interest payable	-	80,872	80,872	-
Capital lease payable	76,947	9,383	86,330	-
Notes payable (Note 3)	-	1,009,799	1,009,799	-
Revenue bonds payable (Notes 3 & 4)	-	3,995,000	3,995,000	-
<b>Total liabilities</b>	<u>200,198</u>	<u>5,427,636</u>	<u>5,627,834</u>	<u>-</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	2,518,387	419,008	2,937,395	91,018
Restricted	221,029	1,009,815	1,230,844	-
Unrestricted	27,452	1,446,134	1,473,586	2,569
<b>Total net assets</b>	<u>\$ 2,766,868</u>	<u>\$ 2,874,957</u>	<u>\$ 5,641,825</u>	<u>\$ 93,587</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
General government:					
City clerk	\$ 146,021	\$ -	\$ -	\$ -	\$ (146,021)
City mayor	69,744	-	-	-	(69,744)
City treasurer	9,998	-	-	-	(9,998)
General government	40,868	8,978	-	-	(31,890)
Total general government	266,631	8,978	-	-	(257,653)
Public safety and judiciary:					
Animal control	13,616	-	-	-	(13,616)
Code enforcement	2,323	-	-	-	(2,323)
911 fund	95,614	93,297	-	-	(2,317)
City attorney	17,603	-	-	-	(17,603)
Fire and ambulance	356,844	301,021	27,068	75,000	46,245
Municipal court	7,374	30,708	-	-	23,334
Police	292,455	-	-	7,500	(284,955)
Total public safety and judiciary	785,829	425,026	27,068	82,500	(251,235)
Transportation:					
Streets	172,703	-	-	14,189	(158,514)
Total transportation	172,703	-	-	14,189	(158,514)
Cultural, parks and recreation:					
Cemetery	61,527	29,081	5,300	-	(27,146)
Lake	-	21,870	-	-	21,870
Library	63,657	-	6,052	-	(57,605)
Buffalo Theatre	-	-	-	-	-
Parks & bath house	46,766	3,429	-	-	(43,337)
Total cultural, parks and recreation	171,950	54,380	11,352	-	(106,218)
Hospital/economic development					
Hospital activities	11,884	8,950	-	-	(2,934)
Economic development	-	-	-	-	-
Total hospital/economic development	11,884	8,950	-	-	(2,934)
Unallocated depreciation*	97,849	-	-	-	(97,849)
<b>Total governmental activities</b>	<b>1,506,846</b>	<b>497,334</b>	<b>38,420</b>	<b>96,689</b>	<b>(874,403)</b>
<b>Business-type activities</b>					
General & administrative	279,581	-	-	-	(279,581)
Personal services	315,985	-	-	-	(315,985)
Electric service	1,325,697	2,268,435	-	-	942,738
Water service	168,054	434,456	-	-	266,402
Sewer & refuse service	216,745	591,143	-	895,884	1,270,282
Industrial authority expense	30,986	38,382	-	-	7,396
Financing costs	275,823	-	-	-	(275,823)
Unallocated depreciation*	227,931	-	-	-	(227,931)
<b>Total business-type activities</b>	<b>2,840,802</b>	<b>3,332,416</b>	<b>-</b>	<b>895,884</b>	<b>1,387,498</b>
<b>Total primary government</b>	<b>\$ 4,347,648</b>	<b>\$ 3,829,750</b>	<b>\$ 38,420</b>	<b>\$ 992,573</b>	<b>\$ 513,095</b>
<b>Component units:</b>					
Golf course expense	\$ 28,009	\$ 25,552	\$ -	\$ -	\$ (2,457)
<b>Total component units</b>	<b>\$ 28,009</b>	<b>\$ 25,552</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,457)</b>

\* - This amount does not include the depreciation that is included in the direct expenses of various programs.

See Independent Auditor's Report.  
The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2011**

	Net (Expense) Revenue and Changes in Net Assets			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Net (expense)/revenue</b>	(874,403)	1,387,498	513,095	(2,457)
<b>General revenues:</b>				
Taxes:				
Sales and use taxes	638,731	-	638,731	-
Cigarette taxes	8,864	-	8,864	-
Franchise taxes	21,435	-	21,435	-
Intergovernmental	43,199	-	43,199	-
Investment earnings	8,772	5,198	13,970	1
Miscellaneous	16,659	88,326	104,985	-
Property sales	-	-	-	-
Insect spray	-	1,576	1,576	-
Late charges	-	39,246	39,246	-
Transfers	345,874	(344,835)	1,039	-
<b>Total general revenues and transfers</b>	<u>1,083,534</u>	<u>(210,489)</u>	<u>873,045</u>	<u>1</u>
<b>Change in net assets</b>	209,131	1,177,009	1,386,140	(2,456)
<b>Net assets - beginning of year</b>	<u>2,577,163</u>	<u>1,697,948</u>	<u>4,275,111</u>	<u>96,043</u>
<b>Net assets - end of year</b>	<u>\$ 2,786,294</u>	<u>\$ 2,874,957</u>	<u>\$ 5,661,251</u>	<u>\$ 93,587</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee  
Balance Sheet  
Government Funds  
June 30, 2011**

	<b>General Fund</b>	<b>Debt Service Municipal Hospital Authority</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>				
Cash and investments:				
Cash & cash equivalents	\$ 9,530	\$ 31,741	\$ 117,952	\$ 159,223
Investments, at cost	-	-	8,663	8,663
Receivables (net):				
Accounts receivable	17,238	-	65,329	82,567
Grants	4,539	-	-	4,539
Taxes	116,546	-	-	116,546
Interest	-	-	-	-
<b>Total assets</b>	<b>\$ 147,853</b>	<b>\$ 31,741</b>	<b>\$ 191,944</b>	<b>\$ 371,538</b>
<b>Liabilities:</b>				
Accounts payable	\$ 42,369	\$ -	\$ 2,850	\$ 45,219
<b>Total liabilities</b>	<b>42,369</b>	<b>-</b>	<b>2,850</b>	<b>45,219</b>
<b>Fund balance:</b>				
<b>Restricted for:</b>				
Cemetery	-	-	64,053	64,053
Debt service	-	31,741	5,511	37,252
Other purposes	-	-	119,724	119,724
<b>Unassigned</b>	<b>105,484</b>	<b>-</b>	<b>-</b>	<b>105,484</b>
<b>Total fund balance</b>	<b>105,484</b>	<b>31,741</b>	<b>189,288</b>	<b>326,513</b>
<b>Total liabilities and fund equity</b>	<b>\$ 147,853</b>	<b>\$ 31,741</b>	<b>\$ 192,138</b>	

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

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Capital leases payable	(76,947)
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Accrued compensated absences payable	(78,032)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	131,500
Buildings & Improvements	2,322,378
Major movable equipment	1,531,751
Infrastructure	667,581
Accumulated Depreciation	(2,057,876)
Total	2,595,334

<b>Net assets of governmental activities</b>	<b>2,766,868</b>
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See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Debt Service Municipal Hospital Authority</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Charges for services	\$ 349,637	\$ -	\$ -	\$ 349,637
Licenses and permits	1,066	-	-	1,066
Lot sales	13,500	-	-	13,500
Miscellaneous revenue	16,659	-	-	16,659
Franchise fees	21,435	-	-	21,435
Fines and forfeitures	30,708	-	-	30,708
Sales and use taxes	638,731	-	-	638,731
Cigarette taxes	8,864	-	-	8,864
Intergovernmental programs	23,385	-	19,814	43,199
Donations	1,000	-	-	1,000
Interest	1,828	1,500	5,444	8,772
Rental	-	8,950	1,277	10,227
Property sales	-	-	-	-
Special assessments	-	-	93,297	93,297
Grants	114,622	-	-	114,622
<b>Total revenues</b>	<u>1,221,435</u>	<u>10,450</u>	<u>119,832</u>	<u>1,351,717</u>
<b>Expenditures:</b>				
Current:				
General government	267,019	-	-	267,019
Public safety	687,012	-	95,614	782,626
Highways & roads	148,703	-	24,000	172,703
Cultural, parks & recreation	171,795	-	154	171,949
Health & welfare	-	542,444	-	542,444
Economic development	-	-	-	-
Lease payments	34,564	-	-	34,564
Capital outlay	170,850	-	14,189	185,039
<b>Total expenditures</b>	<u>1,479,943</u>	<u>542,444</u>	<u>133,957</u>	<u>2,156,344</u>
<b>Excess of revenues over (under) expenditures</b>	(258,508)	(531,994)	(14,125)	(804,627)
<b>Other financing uses:</b>				
Operating transfers in (out)	237,620	107,215	1,039	345,874
Loan proceeds	41,289	-	-	41,289
<b>Excess of revenues over (under) expenditures &amp; transfers</b>	20,401	(424,779)	(13,086)	(417,464)
<b>Fund balance - beginning of year</b>	<u>85,083</u>	<u>456,520</u>	<u>125,023</u>	<u>666,626</u>
<b>Fund balance - end of year</b>	<u>\$ 105,484</u>	<u>\$ 31,741</u>	<u>\$ 111,937</u>	<u>\$ 249,162</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Reconcillation of the Governmental Funds Statements of Revenues, Expenditures and**  
**Changes in Fund Balance to the Government-Wide State of Activities and Changes in Net**  
**Assets**  
**Year Ended June 30, 2011**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (417,464)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report note payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period.	530,560
Governmental Funds report loan proceeds as revenue. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the proceeds received are recorded as a liability. This is the amount received in the current period	(41,289)
Governmental Funds report lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period.	31,362
Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.	385
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	185,039
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	<u>(97,849)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ 190,744</u>

See Independent Auditor's Report.  
The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water &amp; Electric</u>	<u>Sewage &amp; Solid Waste</u>	<u>Pawnee Industrial Authority (Non-major)</u>	
<b>Assets:</b>				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ -	\$ 273,747	\$ 75,793	\$ 349,540
Investments, at cost	163,926	57,177	-	221,103
Receivables (net of allowance for uncollectibles):				
Accounts receivable	486,228	60,994	-	547,222
Interest	219	29	-	248
Restricted assets:				
Cash & cash equivalents (Note 3)	722,506	287,309	-	1,009,815
<b>Capital assets:</b>				
Land	10,000	-	72,611	82,611
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	2,617,028	2,230,169	503,382	5,350,579
<b>Deferred charges:</b>				
Bond issue cost (net of accumulated amortization)(Note 1)	534,887	206,588	-	741,475
<b>Total assets</b>	<u>\$ 4,534,794</u>	<u>\$ 3,116,013</u>	<u>\$ 651,786</u>	<u>\$ 8,302,593</u>
<b>Liabilities:</b>				
Accounts payable	\$ 171,811	\$ 4,043	\$ -	\$ 175,854
Accrued compensation	15,120	1,178	-	16,298
Bank overdraft	128,955	-	-	128,955
Sales tax payable	3,797	-	-	3,797
Interest payable	-	7,678	-	7,678
Payable from restricted assets:				
Interest payable	80,872	-	-	80,872
Capital lease payable	9,383	-	-	9,383
Notes payable (Note 3)	96,538	821,113	92,148	1,009,799
Revenue bonds payable (Note 3)	3,995,000	-	-	3,995,000
<b>Total liabilities</b>	<u>4,501,476</u>	<u>834,012</u>	<u>92,148</u>	<u>5,427,636</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	(1,473,893)	1,409,056	483,845	419,008
Restricted	722,506	287,309	-	1,009,815
Unrestricted	784,705	585,636	75,793	1,446,134
<b>Total net assets</b>	<u>\$ 33,318</u>	<u>\$ 2,282,001</u>	<u>\$ 559,638</u>	<u>\$ 2,874,957</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Year Ended June 30, 2011**

	Business-type Activities - Enterprise Funds			Totals
	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	
<b>Revenues:</b>				
Electric	\$ 2,268,435	\$ -	\$ -	\$ 2,268,435
Water	434,456	-	-	434,456
Sewer	-	207,543	-	207,543
Refuse	-	226,682	-	226,682
Insect spray	1,576	-	-	1,576
Late charges	39,246	-	-	39,246
Rental	-	-	38,382	38,382
Sales and fees	-	2,924	-	2,924
Utility improvement	-	153,994	-	153,994
Miscellaneous	88,326	-	-	88,326
<b>Total revenues</b>	<u>2,832,039</u>	<u>591,143</u>	<u>38,382</u>	<u>3,461,564</u>
<b>Operating expenses:</b>				
General & administrative	278,949	-	632	279,581
Personal services	228,364	87,621	-	315,985
Electric service	1,325,697	-	-	1,325,697
Water service	168,054	-	-	168,054
Sewer & refuse service	-	216,745	-	216,745
Depreciation	153,404	74,527	22,881	250,812
<b>Total operating expenses</b>	<u>2,154,468</u>	<u>378,893</u>	<u>23,513</u>	<u>2,556,874</u>
<b>Income before non-operating revenues, expenses &amp; transfers</b>	<u>677,571</u>	<u>212,250</u>	<u>14,869</u>	<u>904,690</u>
<b>Non-operating revenues (expenses):</b>				
Interest & dividends	4,464	734	-	5,198
Interest expense	(206,214)	(19,999)	(8,105)	(234,318)
Grant revenue	-	895,884	-	895,884
Amortization of bond issue cost	(29,579)	(14,756)	-	(44,335)
Trustee fees	(4,150)	(1,125)	-	(5,275)
<b>Total non-operating</b>	<u>(235,479)</u>	<u>860,738</u>	<u>(8,105)</u>	<u>617,154</u>
<b>Income (loss) before operating transfers</b>	<u>442,092</u>	<u>1,072,988</u>	<u>6,764</u>	<u>1,521,844</u>
<b>Transfers in (out)</b>	<u>(344,835)</u>	<u>-</u>	<u>-</u>	<u>(344,835)</u>
<b>Change in net assets</b>	97,257	1,072,988	6,764	1,177,009
<b>Net assets at beginning of year</b>	<u>(63,939)</u>	<u>1,209,013</u>	<u>552,874</u>	<u>1,697,948</u>
<b>Net assets at end of year</b>	<u>\$ 33,318</u>	<u>\$ 2,282,001</u>	<u>\$ 559,638</u>	<u>\$ 2,874,957</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water &amp; Electric</b>	<b>Sewage &amp; Solid Waste</b>	<b>Pawnee Industrial Authority (Non-major)</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers & service users	\$ 2,677,023	\$ 589,663	\$ 38,382	\$ 3,305,068
Cash payments for goods & services & employees	(1,980,790)	(318,401)	(632)	(2,299,823)
Other operating revenues	88,326	-	-	88,326
<b>Net cash provided by operating activities</b>	<u>784,559</u>	<u>271,262</u>	<u>37,750</u>	<u>1,093,571</u>
<b>Cash flows from noncapital financing activities:</b>				
Operating transfers in/(out) to other funds	(344,835)	-	-	(344,835)
<b>Net cash provided (used) for noncapital financing activities</b>	<u>(344,835)</u>	<u>-</u>	<u>-</u>	<u>(344,835)</u>
<b>Cash flows from capital and related financing activities:</b>				
Principal paid on debt	(150,780)	(57,250)	(5,830)	(213,860)
Interest paid on debt	(208,154)	(19,653)	(8,105)	(235,912)
Bond issue costs	-	(221,344)	-	(221,344)
Grant monies received	-	895,884	-	895,884
Acquisition & construction of capital assets	(80,850)	(372,500)	-	(453,350)
Trustee fees	(4,150)	(1,125)	-	(5,275)
<b>Net cash provided (used) for capital and related financing activities</b>	<u>(443,934)</u>	<u>224,012</u>	<u>(13,935)</u>	<u>(233,857)</u>
<b>Cash flows from investing activities:</b>				
(Purchase) liquidation of investments - unrestricted	23,131	(740)	-	22,391
Interest on investments	4,582	741	-	5,323
<b>Net cash provided by investing activities</b>	<u>27,713</u>	<u>1</u>	<u>-</u>	<u>27,714</u>
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	23,503	495,275	23,815	542,593
<b>Cash and cash equivalents - beginning of year</b>	<u>570,048</u>	<u>65,781</u>	<u>51,978</u>	<u>687,807</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 593,551</u>	<u>\$ 561,056</u>	<u>\$ 75,793</u>	<u>\$ 1,230,400</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 677,571	\$ 212,250	\$ 14,869	\$ 904,690
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>				
Depreciation	153,404	74,527	22,881	250,812
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(66,690)	(1,480)	-	(68,170)
Increase (decrease) in accounts payable	18,246	(13,910)	-	4,336
Increase (decrease) in accrued expenses	1,915	(125)	-	1,790
Increase (decrease) in sales tax payable	113	-	-	113
<b>Total adjustments</b>	<u>106,988</u>	<u>59,012</u>	<u>22,881</u>	<u>188,881</u>
<b>Net cash provided by operating activities</b>	<u>\$ 784,559</u>	<u>\$ 271,262</u>	<u>\$ 37,750</u>	<u>\$ 1,093,571</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and equivalents	\$ 57,335
Investments at cost	<u>57,301</u>
<b>Total assets</b>	<b>\$ <u>114,636</u></b>
<b>Liabilities:</b>	
Deposits	\$ <u>114,636</u>
<b>Total liabilities</b>	<b>\$ <u>114,636</u></b>

See Independent Auditor's Report.  
The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies**

The City of Pawnee, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Reporting Entity**

The City of Pawnee, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a statutory aldermanic form of government in which the citizens elect a mayor at large and seven council members by wards. The City provides the following services as authorized by state statutes: general government, public safety (fire, police and ambulance), streets, public works (electric, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Pawnee, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units:

The Pawnee Public Works Authority (PPWA) was created pursuant to a Trust Indenture dated July 2, 1979, to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the City of Pawnee, Oklahoma. The public works systems owned by the City have been leased to the PPWA. The PPWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PPWA is exempt from State and Federal Income taxes. The PPWA is reported as an enterprise fund and includes the Water and Electric Fund and the Sewage and Solid Waste Fund.

The Pawnee Industrial Authority (PIA) was created pursuant to a Trust Indenture dated June 22, 1966, to promote the development of industry for the benefit of the City of Pawnee, Oklahoma. The PIA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PIA is exempt from State and Federal Income taxes. The PIA is reported as an enterprise fund.

The Pawnee Municipal Hospital Authority (PMHA) was created pursuant to a Trust Indenture dated March 3, 1975, to finance, operate, construct, regulate, administer or lease any hospital and related facilities for the benefit of the City of Pawnee, Oklahoma. The hospital facilities owned by the City have been leased to the PMHA, which in turn has sub-leased the facilities to an independent operating company. The PMHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PMHA is exempt from State and Federal Income taxes. The PMHA is reported as a debt service fund.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**A. Reporting Entity (Continued)**

Discretely Presented Component Unit:

The Pawnee Municipal Authority (PMA) was created pursuant to a Trust Indenture dated July 8, 1983, to finance, operate, and administer the Pawnee Municipal Golf Course for the benefit of the City of Pawnee, Oklahoma. The golf course owned by the City has been leased by the PMA to outside interests. The PMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees appointed by the City Council. The PMA is exempt from State and Federal Income taxes. The PMA is presented as a component unit of the City of Pawnee.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**Government-wide Financial Statements** – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

The discretely presented component unit is presented in a single column on the face of the government-wide financial statements.

**Fund Financial Statements** – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)**

**Fund Accounting** – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Pawnee Municipal Hospital Authority – is a debt service fund that accounts for and report financial resources that are restricted, committed, or assigned to principal and interest payments. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue funds - account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Cemetery Fund, 911 Fund, American Flag Fund, Bath House Fund and Street & Alley Fund.

Capital Project Funds – accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Special Capital Improvement Fund.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)**

Debt Service Funds – accounts for and report financial resources that are restricted, committed, or assigned to principal and interest payments. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding. The City's other Debt Service Fund is the Sinking Fund.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Perpetual Care Fund.

**Proprietary funds** – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Enterprise funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following are the City's major enterprise funds:

Water & Electric Fund – accounts for the operations of providing public works (electric and water) to the City.

Sewage and Solid Waste Fund – accounts for the operations of providing public works (sewer and refuse) to the City.

Pawnee Industrial Authority – accounts for the operations of providing building rentals to industrial businesses.

**Fiduciary funds** – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is composed of customer deposit funds.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

**2. Restricted Cash and Investments**

The restricted cash and investments are the result of financial requirements of Utility System Revenue Bonds issued by the Pawnee Public Works Authority and consist of funds held in a Debt Service Fund and a Bond Reserve Fund. Under the terms and provisions of the promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bonds are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds.

**3. Fair Value of Financial Instruments**

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**5. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

**6. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**7. Deferred Charges**

Bond discounts and bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method.

**8. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life or not are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings & Improvements	40 - 100 years	40 - 100 years
Plants & Facilities	40 - 100 years	40 - 100 years
Furniture & Major Movable Equipment	10 - 40 years	10 - 40 years
Distribution systems	10 - 40 years	10 - 40 years
Infrastructure	40 - 100 years	40 - 100 years

The City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**9. Compensated Absences**

City employees are entitled to vacation and sick leave benefits in varying amounts based on their length of employment. It is the City's policy to permit employees to accumulate earned but unused absences to specified maximums. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Generally employees are entitled to all accrued vacation leave upon termination. Employees are not compensated for unused sick leave upon termination. At the option of the employee, compensatory time off may be taken in lieu of cash payment for overtime worked. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

**10. Post-Employment Healthcare Benefits**

The City does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs.

**11. Long-term Obligations**

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**12. Net Assets/Fund Balance**

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

***Restricted*** fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

***Committed*** fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

***Assigned*** fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

***Unassigned*** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**13. Resource Use Policy**

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

**2. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

*Custodial Credit Risk*

At June 30, 2011, the City held deposits of approximately \$1,926,256 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

*Investment Interest Rate Risk*

The City 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.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**A. Deposits and Investments (Continued)**

*Investment Credit Risk*

The City 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.).

The investments held at June 30, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,587,145	\$ 1,587,145
Certificate of deposit	4.50	N/A	339,111	339,111
Total investments			<u>\$ 1,926,256</u>	<u>\$ 1,926,256</u>

Reconciliation to Statement of Net Assets

Governmental activities	\$ 228,593
Business-type activities	1,580,458
Fiduciary funds	114,636
Component units	2,569
	<u>\$ 1,926,256</u>

*Concentration of Investment Credit Risk*

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 17% in Certificates of deposit (\$339,111) and 83% in Money Market funds (\$1,587,145).

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**B. Restricted Cash and Investments**

Under terms and provisions of the Bond Indenture, special accounts and reserve funds of the Pawnee Public Works Authority (PPWA) are maintained with the Trustee Bank for the benefit of the holders of the Bonds and are not subject to lien or attachment by any creditors of the PPWA. These accounts and reserve funds are to be maintained so long as any Bonds are outstanding.

Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

The Pawnee Public Works Authority has acquired 7,500 shares of the capital stock of Techtrol, Inc. at a cost of \$150,000. The investment represents 15% of the outstanding stock of the company. Under the terms of the subscription agreement, Techtrol, Inc. has a right of first refusal in the event Pawnee Public Works Authority proposes to dispose of all or any portion of its shares in the company. In addition, Techtrol, Inc. has been granted a right to redeem shares of stock held by Pawnee Public Works Authority based on levels of employment. The investment in Techtrol, Inc. is unsecured. The investment value has been decreased to -0- to reflect the estimated fair value of the investment as of year-end. The fair value was estimated based upon an evaluation of the company's assets and liabilities.

**C. Uncollectible Accounts**

The allowance for uncollectible accounts receivable at year-end is \$186,872. The allowance is management's estimate of accounts not collectible in the normal course of business during a reasonable amount of time. Amounts not collected are netted against revenue.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**D. Capital Assets**

Primary Government capital asset activity for the year ended is as follows:

<b>Governmental Activities:</b>	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Non-depreciable assets:				
Land	\$ 131,500	\$ -	\$ -	\$ 131,500
Total non-depreciable assets	<u>131,500</u>	<u>-</u>	<u>-</u>	<u>131,500</u>
Depreciable assets:				
Buildings & improvements	2,322,378	-	-	2,322,378
Furniture & major movable equipment	1,264,081	170,850	-	1,434,931
Distribution systems	96,819	-	-	96,819
Infrastructure	667,581	-	-	667,581
Total depreciable assets	<u>4,350,859</u>	<u>170,850</u>	<u>-</u>	<u>4,521,709</u>
Less accumulated depreciation:				
Buildings & improvements	(800,483)	(23,224)	-	(823,707)
Furniture & major movable equipment	(1,024,213)	(55,516)	-	(1,079,729)
Distribution systems	(62,932)	(2,420)	-	(65,352)
Infrastructure	(72,398)	(16,689)	-	(89,087)
Total accumulated depreciation	<u>(1,960,026)</u>	<u>(97,849)</u>	<u>-</u>	<u>(2,057,875)</u>
Net depreciable assets	<u>2,390,833</u>	<u>73,001</u>	<u>-</u>	<u>2,463,834</u>
Net governmental activities capital assets	<u>\$ 2,522,333</u>	<u>\$ 73,001</u>	<u>\$ -</u>	<u>\$ 2,595,334</u>

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**D. Capital Assets (Continued)**

<b>Business-Type Activities:</b>	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
<b>Non-depreciable assets:</b>				
Land	\$ 82,611	\$ -	\$ -	\$ 82,611
Construction in process	-	-	-	-
Total non-depreciable assets	<u>82,611</u>	<u>-</u>	<u>-</u>	<u>82,611</u>
<b>Depreciable assets:</b>				
Buildings & improvements	1,130,870	-	-	1,130,870
Sewer treatment facility	2,592,208	372,500	-	2,964,708
Water treatment facility	1,022,205	-	-	1,022,205
Electric system improvements	1,168,275	-	-	1,168,275
Furniture & major movable equipment	693,644	13,500	-	707,144
Distribution systems	2,143,148	67,350	-	2,210,498
Total depreciable assets	<u>8,750,350</u>	<u>453,350</u>	<u>-</u>	<u>9,203,700</u>
<b>Less accumulated depreciation:</b>				
Buildings & improvements	(497,859)	(33,841)	-	(531,700)
Sewer treatment facility	(830,205)	(65,581)	-	(895,786)
Water treatment facility	(332,218)	(25,555)	-	(357,773)
Electric system improvements	(377,440)	(29,207)	-	(406,647)
Furniture & major movable equipment	(551,760)	(22,853)	-	(574,613)
Distribution systems	(1,012,827)	(73,775)	-	(1,086,602)
Total accumulated depreciation	<u>(3,602,309)</u>	<u>(250,812)</u>	<u>-</u>	<u>(3,853,121)</u>
Net depreciable assets	<u>5,148,041</u>	<u>202,538</u>	<u>-</u>	<u>5,350,579</u>
Net business-type activities capital assets	<u>\$ 5,230,652</u>	<u>\$ 202,538</u>	<u>\$ -</u>	<u>\$ 5,433,190</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs. Only depreciation on the Industrial Authority was allocated as a direct program expense.

**E. Leased Facilities**

City of Pawnee

On February 2, 1998, the City agreed to lease certain real property to Techtrol, Inc. Under the terms of the lease, the 9,500 square foot facility located at 1310 Newell Drive in Pawnee, Oklahoma was leased to Techtrol, Inc. for a period of 84 months beginning 10 days after completion of the facility. The terms of the lease agreement call for basic rental payments of \$1,134 per month. The City collected \$13,608 on the lease during the year. The rental revenue was reported in the Pawnee Industrial Authority.

Pawnee Industrial Authority

The Pawnee Industrial Authority has entered into a year-to-year lease with a manufacturing company for the lease of certain land and facilities located in the Pawnee Industrial Park. The terms of the lease agreement call for basic rental payments of \$1,000 per month. The Authority collected \$12,000 on the lease during the year.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**E. Leased Facilities (Continued)**

Pawnee Industrial Authority

On August 19, 2002, the Pawnee Industrial Authority has entered into a lease agreement with the Pawnee Development Foundation, Inc. for the lease of certain land and facilities. The lease is for a period of 16 years. The terms of the lease agreement call for basic rental payments of \$1,161 per month. The Authority collected \$12,773 on the lease during the year.

Under the terms of the contract dated June 1, 1967, between the City of Pawnee, Oklahoma, and the Trustees of the Pawnee Industrial Authority, all lease payments were to be made to the City after all secured debt had been retired. During the year ended June 30, 1997, the governing board of the City transferred its rights to the rental income to the Pawnee Industrial Authority.

Pawnee Municipal Authority

The Pawnee Municipal Authority has entered into a lease agreement in which the Pawnee Municipal Golf Course will be operated as a public golf course. Under the current lease, which provides for renewal options, the facility is leased for minimal payments. The Pawnee Municipal Authority is a component unit of the City of Pawnee in accordance with the provisions of *Governmental Accounting Standards* Statement No. 14.

**F. Long-term Debt**

The Pawnee Public Works Authority issued its \$3,075,000 Utility System Revenue Bonds, Series 1993, dated December 1, 1993. The proceeds of the issue were to be used: (i) to construct improvements to the City's water treatment facility, water distribution system, sanitary sewer collection system, electrical distribution system and closure of its landfill; (ii) to currently refund the Authority's existing indebtedness with the Farmers Home Administration; (iii) to establish a Bond Reserve Account; (iv) to provide capitalized interest; and (v) to pay certain costs of issuance.

On July 19, 1999, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$3,995,000 Utility System Refunding Revenue Bonds. The bonds were used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue were to be used to provide funds for capital improvements.

In July, 2004, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$4,675,000 Utility System Refunding Revenue Bonds, Series 2004, dated August 1, 2004. The bonds will be used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue will be used to provide funds for capital improvements.

The Bonds are secured pursuant to the terms of the Indenture, which includes a pledge of the gross revenues of the water, sanitary sewer, and electrical systems of the City, which are leased to and operated by the Pawnee Public Works Authority. The Bonds are further secured by all funds and accounts established by the Indenture, except as specifically provided therein. The bond issue cost and the cost of refunding the '99 bonds in the total amount of \$739,475 is being amortized over the 25 year life of the new bonds.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**F. Long-term Debt (Continued)**

The following is a summary of bonds payable transactions of the City for the year:

Revenue Bonds	Date Issued	Date of Last Maturity	Balance Outstanding 6/30/10	Issued During Year	Retired During Year	Balance Outstanding 6/30/11
PPWA	8/1/04	8/1/29	\$ 4,110,000	\$ -	\$ 115,000	\$ 3,995,000
Total			<u>4,110,000</u>	<u>-</u>	<u>115,000</u>	<u>3,995,000</u>

The annual requirements to amortize bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 120,000	\$ 196,480	\$ 316,480
2013	125,000	191,560	316,560
2014	135,000	183,060	318,060
2015	140,000	180,900	320,900
2016	145,000	175,160	320,160
2017-2021	845,000	763,720	1,608,720
2022-2026	1,070,000	538,420	1,608,420
2027-2030	1,415,000	213,200	1,628,200
Total	<u>\$ 3,995,000</u>	<u>\$ 2,442,500</u>	<u>\$ 6,437,500</u>

The following is a summary of long-term debt transactions in the Proprietary Funds of the City for the year:

	Balance July 1, 2010	Additions	Payments and Cancellations	Balance June 30, 2011
Notes payable	\$ 1,102,628	\$ -	\$ 92,829	\$ 1,009,799
Capital lease obligations	15,414	-	6,031	9,383
Total	<u>\$ 1,118,042</u>	<u>\$ -</u>	<u>\$ 98,860</u>	<u>\$ 1,019,182</u>

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**F. Long-term Debt (Continued)**

The Proprietary Fund long-term debt is as follows:

(1) Pawnee Public Works Authority: Note payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by the current city hall building. Note is dated January 8, 2001 with monthly payments of \$1,000 through January 2020 with interest at 7.75% until maturity.	\$ 67,639
(2) Pawnee Public Works Authority: Capitalized leases and notes payable variously dated, payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by equipment. Monthly payments for all leases until paid off with various interest rates.	9,383
(3) Pawnee Public Works Authority: Note payable to Oklahoma Department of Commerce, collateralized by sewer plant and sewer service revenues. The note is to be paid in 240 monthly installments of \$521 beginning November 1, 1998 with final maturity on October 1, 2018. The note is non-interest bearing.	45,836
(4) Pawnee Public Works Authority: A note payable to Central Oklahoma Economic Development District, Inc. secured by rental income, utility revenues and accounts, contract rights and other assets owned by the Pawnee Public Works Authority. The note dated August 21, 1997 is payable over a 180-month period with maturity during September, 2011. Monthly payments are currently \$1,479 including interest at 8%.	28,899
(5) Pawnee Public Works Authority: A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning February 1, 2010 in semi-annual installments of \$25,500 including interest at 2.39%.	775,277
(6) Pawnee Industrial Authority: Note payable to Central Oklahoma Economic Development District, Inc., Shawnee, Oklahoma, collateralized by a building. Monthly payments of \$1,161 through September, 2020 with interest at 8.5% are required by the contract.	<u>92,148</u>
Total Proprietary Fund long-term debt	<u>\$ 1,019,182</u>

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**F. Long-term Debt (Continued)**

The annual requirements to retire the Proprietary Funds long-term debt are as follows:

Year Ending June 30,	Proprietary Funds		
	Principal	Interest	Totals
2012	\$ 92,450	\$ 37,005	\$ 129,455
2013	87,708	32,766	120,474
2014	72,691	29,582	102,273
2015	73,991	26,808	100,799
2016	75,403	23,922	99,325
2017-2021	351,663	74,044	425,707
2022-2026	255,000	21,750	276,750
2027	10,276	148	10,424
Total	\$ 1,019,182	\$ 246,025	\$ 1,265,207

Total interest incurred on long-term debt in the Proprietary Funds was \$234,318, which was charged to expense.

The following is a summary of governmental activities long-term debt transactions for the year:

	Balance July 1, 2010	Additions	Payments and Cancellations	Balance June 30, 2011
Hospital mortgage notes	\$ 530,560	\$ -	\$ 530,560	\$ -

The governmental activities long-term debt is as follows:

- (1) Hospital mortgage notes dated May 20, 1977 due in monthly installments of \$8,007 including interest at 5.0%. Sales tax revenues and hospital buildings and equipment have been pledged to secure this debt. The note was paid off in the current year.

**G. Operating Lease**

On May 5, 1988, the City of Pawnee entered into an amended 38-year lease of a sanitary landfill with Herbert Berg, which began April 3, 1984. The terms of the lease agreement call for basic rent payments of \$250 per month adjusted annually for any percentage Consumer Price Index increase as determined by the U.S. Department of Labor. During the year ended June 30, 2011, \$1,921 was paid for the lease of the property. The rental expense was reported in the Pawnee Public Works Authority. The lease was terminated during the year and no future rent payments are expected at this time.

**H. Capitalized Leases**

The City entered into capitalized leases for the acquisition of ambulances. The lease agreements met the criteria of a capital lease as defined by *FASB Accounting Standards Codification (ASC) 840-10 (Formerly FAS No. 13), Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**2. Detailed Notes Concerning the Funds (Continued)**

**H. Capitalized Leases (Continued)**

The capital lease is described below.

(1) Lease payable to Empire Financial for the lease purchase of an ambulance. 60 monthly payments of \$2,297 plus interest.	\$ 42,010
(2) Lease payable to First National Bank for the lease purchase of an ambulance. 45 monthly payments of \$1,000 plus interest.	<u>34,937</u>
Total	<u><u>\$ 76,947</u></u>

The following is a summary of capitalized lease transactions for the year:

	Balance July 1, 2010	Additions	Payments and Cancellations	Balance June 30, 2011
Capital lease obligations	\$ 67,020	\$ 41,289	\$ 31,362	\$ 76,947

The annual debt service requirements to maturity, including principal and interest, for capital leases are as follows:

Year Ending June 30,	Principal	Interest	Totals
2012	\$ 37,115	\$ 2,449	\$ 39,564
2013	26,854	1,000	27,854
2014	11,682	318	12,000
2015	1,296	6	1,302
Total	<u><u>\$ 76,947</u></u>	<u><u>\$ 3,773</u></u>	<u><u>\$ 80,720</u></u>

**3. Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**3. Other Information (Continued)**

**A. Risk Management (Continued)**

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the City. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

On June 16, 1997, the City participated with other area cities in the creation of The Oklahoma Municipal Employee Benefit Trust (OMEBT) as provided by the Interlocal Cooperation Act of the Oklahoma Statutes (Section 1001 through 1008 of Title 74 of the Oklahoma Statutes). OMEBT is a public entity risk management and insurance program for several member cities.

The City withdrew participation in OMEBT effective July 1, 2000. While a member, the City paid monthly premiums to an administrator designated by OMEBT for employee health and life insurance coverage. The agreement establishing the OMEBT provided that each participating agency would pay for all costs, premiums, or other fees attributable to its respective participation in any plan, policy or service established under the agreement. Additionally, each participant was responsible for its obligations under any contract entered into with the group. Reinsurance with commercial companies was provided for life insurance and for individual medical claims in excess of \$50,000 and aggregate monthly claims in excess of \$121,987. As discussed in note 3C, OMEBT officials could not determine the amount of charges, if any, that would be assessed in the future against the City as a result of accumulated losses while a participant in the plan.

**B. Commitments**

**Water Purchase Commitment:**

The City of Pawnee, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The association has entered into various loan agreements with the United States of America (USDA Rural Development) and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The City is contingently liable for 16.1% of the obligations of the Association, which total approximately \$2,062,063 to Rural Development and \$549,552 to ORWB at year-end. The City's contingent share of the Association's long-term debt is \$420,470.

The City of Pawnee is obligated to purchase a minimum of 31.2 million gallons of water annually, currently at a cost of \$93,000. Net revenues must equal at least 125% of required debt service, which could affect the future cost of water to each of the participating entities. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**3. Other Information (Continued)**

**B. Commitments (Continued)**

**Water Purchase Commitment:**

Future purchase commitments at current rates are as follows:

Year Ending June 30,	Totals
2012	\$ 93,000
2013	93,000
2014	93,000
2015	93,000
2016	93,000
2017-2021	465,000
2022-2026	465,000
2027-2031	465,000
2032	93,000
Total	\$ 1,953,000

**C. Contingent Liabilities**

**Pending Litigation:**

The City is a defendant in legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City. The City is the defendant in litigation that as of the audit release date was ongoing. The Governmental Tort Claims Act limits the City's potential liability in the litigation.

**Public Entity Risk Pool, Health Insurance:**

As further explained in Note 3A, the City was a participant through June 30, 2000 in a Public Entity Risk Pool (PERP) for employee health and life insurance. The Oklahoma Municipal Employee Benefit Trust (OMEBT) had incurred an operating deficit estimated to be \$550,000 at June 30, 1999. Trust management could not provide an estimate of operating deficits, if any, at June 30, 2009. As a previously participating member of the PERP, the city could be assessed its share of accumulated operating losses. OMEBT has not provided operating statements to the City but does continue to operate. During FY 2009, Trust management adjusted the rates charged participating municipal governments in an attempt to recover the estimated deficit. No provision for loss has been reflected in the City's financial statements.

**Grant Awards:**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**3. Other Information (Continued)**

**C. Contingent Liabilities (Continued)**

**Landfill:**

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Closure and post-closure care costs, are not presently determinable, and it is not known if these matters will have a material adverse effect on the financial condition of the City.

**D. Employee Retirement Plans**

Description of Plan

The City provides pension benefits for substantially all of its full time employees (excluding firemen who are covered under a separate state retirement system) through a defined benefit cost-sharing plan with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple employer defined benefit plan. An employee includes any person who, if last hired after July 1, 1971, had not reached his 60th birthday at the time of hiring. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. An employee becomes fully vested after ten years. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Oklahoma City, OK 73105, or by calling 1-888-394-6673.

Funding Policy

The required contribution rate for the 2010-2011 plan year was 15.64% of each participant's payroll. This consisted of 6.0% contributed by the employee and 10.45% contributed by the City. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the City's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

Annual Pension Cost

The City's annual pension cost of \$69,909 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at June 30, 2011 was 13 years.

The contribution from the City for this plan was \$34,056, \$60,119 and \$69,909 for 2009, 2010 and 2011, respectively.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes to the Basic Financial Statement  
June 30, 2011**

**3. Other Information (Continued)**

**D. Employee Retirement Plans (Continued)**

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/2002	\$ 1,099,303	Actuarial	\$ 1,030,113	\$ (69,190)	106.7%
1/1/2003	1,012,204	Actuarial	1,015,955	3,751	99.6%
1/1/2004	1,060,051	Actuarial	958,998	(101,053)	110.5%
1/1/2005	1,127,531	Actuarial	1,049,097	(78,434)	107.5%
1/1/2006	1,177,669	Actuarial	1,205,433	27,764	97.7%
1/1/2007	1,252,039	Actuarial	1,265,900	13,861	98.9%
1/1/2008	1,358,100	Actuarial	1,276,999	(81,101)	106.4%
1/1/2009	1,318,647	Actuarial	1,530,244	211,597	86.2%
1/1/2010	1,371,779	Actuarial	1,655,547	283,768	82.9%
1/1/2011	1,487,542	Actuarial	1,819,483	331,941	81.8%

\* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

**E. Employee Retirement Plans (Continued)**

Firemen's Pensions Plan

All full-time or volunteer firefighters hired before age 45 are covered by a statewide cost-sharing multi-employer defined benefit adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8% of base salary and the City contributes an additional 13% (\$60 for volunteer firemen). The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contribution from the City for this plan was \$13,297, \$13,676 and \$14,308 for 2009, 2010 and 2011, respectively. The required contribution was fully contributed. At June 30, 2011 the system held no related-party investments of the City or of its related entities.

**4. Subsequent Events**

Management has evaluated subsequent events through the respective audit report date, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

CITY OF PAWNEE  
Pawnee, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2011

**City of Pawnee**  
**Required Supplemental Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Budgetary Basis) and Actual**  
**Governmental Funds**  
**Year Ended June 30, 2011**  
**(Unaudited)**

	General Fund			Variance with Final Budget Over (Under)
	Budgeted Amounts		Actual	
	Original Budget	Final Budget		
<b>Revenues:</b>				
Charges for services	\$ 328,000	\$ 331,000	\$ 349,637	\$ 18,637
Licenses & permits	31,800	31,500	14,566	(16,934)
Interest	2,100	1,800	1,828	28
Franchise fees	40,300	31,300	21,435	(9,865)
Fines & forfeits	14,000	19,500	30,708	11,208
Taxes	635,000	662,600	670,980	8,380
Intergovernment programs	50,000	132,600	114,622	(17,978)
Donations	20,000	-	1,000	1,000
Sales of property	-	-	-	-
Miscellaneous	51,400	16,000	16,659	659
<b>Total revenues</b>	<u>1,172,600</u>	<u>1,226,300</u>	<u>1,221,435</u>	<u>(4,865)</u>
<b>Expenditures:</b>				
Current:				
General government	292,800	269,700	267,019	2,681
Public safety	689,150	834,536	687,012	147,524
Highways, roads, & airport	143,000	157,000	148,703	8,297
Cultural & recreational	188,267	186,700	171,795	14,905
Leases payable	27,564	34,600	34,564	36
Capital outlay	62,833	180,729	170,850	9,879
<b>Total expenditures</b>	<u>1,403,614</u>	<u>1,663,265</u>	<u>1,479,943</u>	<u>183,322</u>
<b>Excess of revenue over (under) expenditures</b>	(231,014)	(436,965)	(258,508)	178,457
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	<u>245,000</u>	<u>215,000</u>	<u>237,620</u>	<u>22,620</u>
<b>Net changes in fund balance</b>	13,986	(221,965)	(20,888)	201,077
<b>Fund balance at beginning of year</b>	<u>6,666</u>	<u>6,666</u>	<u>6,666</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 20,652</u>	<u>\$ (215,299)</u>	<u>\$ (14,222)</u>	<u>\$ 201,077</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Required Supplemental Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Budgetary Basis) and Actual**  
**Governmental Funds**  
**Year Ended June 30, 2011**  
**(Unaudited)**

Special Revenue Funds				
	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
<b>Revenues:</b>				
Intergovernmental programs	\$ 24,000	\$ 20,000	\$ 19,814	\$ (186)
Donations	-	-	-	-
Interest	200	200	144	(56)
Rental	300	300	175	(125)
Miscellaneous	30,000	30,000	-	(30,000)
Special assessments	30,000	107,000	93,297	(13,703)
<b>Total revenues</b>	<u>84,500</u>	<u>157,500</u>	<u>113,430</u>	<u>(44,070)</u>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	55,000	105,000	95,614	9,386
Highways, roads & airport	24,000	24,000	24,000	-
Cultural, parks & recreation	30,500	30,500	154	30,346
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<u>109,500</u>	<u>159,500</u>	<u>119,768</u>	<u>39,732</u>
<b>Excess of revenue over (under) expenditures</b>	(25,000)	(2,000)	(6,338)	(4,338)
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	-	-	-	-
<b>Net changes in fund balance</b>	(25,000)	(2,000)	(6,338)	(4,338)
<b>Fund balance at beginning of year</b>	<u>125,023</u>	<u>125,023</u>	<u>125,023</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 100,023</u>	<u>\$ 123,023</u>	<u>\$ 118,685</u>	<u>\$ (4,338)</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Required Supplemental Information**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Budgetary Basis) and Actual**  
**Governmental Funds**  
**Year Ended June 30, 2011**  
**(Unaudited)**

	Capital Projects Fund			Variance with Final Budget Over (Under)
	Budgeted Amounts		Actual	
	Original Budget	Final Budget		
<b>Revenues:</b>				
Intergovernment programs	\$ 300,000	\$ 329,000	\$ 14,189	\$ (314,811)
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<u>300,000</u>	<u>329,000</u>	<u>14,189</u>	<u>(314,811)</u>
<b>Expenditures:</b>				
Economic development	-	29,000	14,189	14,811
Capital outlay	300,000	300,000	-	300,000
<b>Total expenditures</b>	<u>300,000</u>	<u>329,000</u>	<u>14,189</u>	<u>314,811</u>
<b>Excess of revenue over (under) expenditures</b>	-	-	-	-
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	-	-	-	-
<b>Net changes in fund balance</b>	-	-	-	-
<b>Fund balance at beginning of year</b>	-	-	-	-
<b>Fund balance at end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.  
The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee  
Pawnee, Oklahoma**

**Notes Required Supplemental Information  
For the Fiscal Year Ended June 30, 2011  
(Unaudited)**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the fiduciary funds. Budgetary data for enterprise funds are not presented in these financial statements.

Prior to July 1, the City Mayor (an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council.

Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City does not utilize encumbrance accounting. Encumbrances (accounts payable) are shown as expenditures and liabilities in the current year and are paid in the subsequent year.

CITY OF PAWNEE  
Pawnee, Oklahoma

SUPPLEMENTAL INFORMATION  
June 30, 2011

**City of Pawnee**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2011**

	Special Revenue				
	911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
<b>Assets:</b>					
Cash and equivalents	\$ 70,934	\$ 30,258	\$ 1,025	\$ 15,535	\$ 200
Investments at cost	-	-	-	-	-
Accounts receivable, net	1,186	-	-	3,436	-
Interest receivable	-	-	-	-	-
<b>Total assets</b>	<u>\$ 72,120</u>	<u>\$ 30,258</u>	<u>\$ 1,025</u>	<u>\$ 18,971</u>	<u>\$ 200</u>
<b>Liabilities:</b>					
Accounts payable	\$ 2,850	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities</b>	<u>2,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>					
Restricted	69,270	30,258	1,025	18,971	200
<b>Total fund balances</b>	<u>69,270</u>	<u>30,258</u>	<u>1,025</u>	<u>18,971</u>	<u>200</u>
<b>Total liabilities and fund balances</b>	<u>\$ 72,120</u>	<u>\$ 30,258</u>	<u>\$ 1,025</u>	<u>\$ 18,971</u>	<u>\$ 200</u>

**City of Pawnee**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2011**

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanent Funds</u>	<u>Total Non-Major Governmental Funds</u>
<b>(Continued)</b>	<b>Capital Projects</b>	<b>Sinking Fund</b>	<b>Cemetery Perpetual Care</b>	<b>Total Non-Major Governmental Funds</b>
<b>Assets:</b>				
Cash and equivalents	\$ -	\$ -	\$ 8,663	\$ 117,952
Investments at cost	-	5,492	55,215	8,663
Accounts receivable, net	-	-	-	65,329
Interest receivable	-	19	175	-
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 5,511</u>	<u>\$ 64,053</u>	<u>\$ 191,944</u>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 2,850
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,850</u>
<b>Fund balances:</b>				
Unreserved	-	5,511	64,053	119,724
<b>Total fund balances</b>	<u>-</u>	<u>5,511</u>	<u>64,053</u>	<u>119,724</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ 5,511</u>	<u>\$ 64,053</u>	<u>\$ 122,574</u>

**City of Pawnee**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	Special Revenue				
	911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
<b>Revenues:</b>					
Intergovernmental programs	\$ -	\$ -	\$ -	\$ 19,814	\$ -
Donations	-	-	-	-	-
Interest	-	144	-	-	-
Rental	-	175	-	-	-
Special assessments	93,297	-	-	-	-
Grants	-	-	-	-	-
<b>Total revenues</b>	<b>\$ 93,297</b>	<b>\$ 319</b>	<b>\$ -</b>	<b>\$ 19,814</b>	<b>\$ -</b>
<b>Expenditures:</b>					
Public safety	\$ 95,614	\$ -	\$ -	\$ -	\$ -
Highways & roads	-	-	-	24,000	-
Cultural, parks & recreation	-	154	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<b>95,614</b>	<b>154</b>	<b>-</b>	<b>24,000</b>	<b>-</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(2,317)</b>	<b>165</b>	<b>-</b>	<b>(4,186)</b>	<b>-</b>
<b>Transfers in (out)</b>	<b>-</b>	<b>1,039</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance - beginning of year</b>	<b>71,587</b>	<b>29,054</b>	<b>1,025</b>	<b>23,157</b>	<b>200</b>
<b>Fund balance - end of year</b>	<b>\$ 69,270</b>	<b>\$ 30,258</b>	<b>\$ 1,025</b>	<b>\$ 18,971</b>	<b>\$ 200</b>

**City of Pawnee**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanent Funds</u>	<u>Total Non-Major Governmental Funds</u>
(Continued)	<u>Capital Projects</u>	<u>Sinking Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Total Non-Major Governmental Funds</u>
<b>Revenues:</b>				
Intergovernmental programs	\$ -	\$ -	\$ -	\$ 19,814
Donations	-	-	5,300	-
Interest	-	63	1,039	5,444
Rental	-	-	-	1,277
Special assessments	-	-	-	93,297
Grants	14,189	-	-	-
	<u>14,189</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<b>\$ 14,189</b>	<b>\$ 63</b>	<b>\$ 6,339</b>	<b>\$ 119,832</b>
<b>Expenditures:</b>				
Public safety	\$ -	\$ -	\$ -	\$ 95,614
Highways & roads	-	-	-	24,000
Cultural, parks & recreation	-	-	-	154
Economic development	14,189	-	-	-
Capital outlay	-	-	-	14,189
	<u>14,189</u>	<u>-</u>	<u>-</u>	<u>133,957</u>
<b>Total expenditures</b>	<b>14,189</b>	<b>-</b>	<b>-</b>	<b>133,957</b>
<b>Excess of revenues over (under) expenditures</b>	<b>-</b>	<b>63</b>	<b>6,339</b>	<b>(14,125)</b>
<b>Transfers in (out)</b>	<b>-</b>	<b>-</b>	<b>(1,039)</b>	<b>1,039</b>
<b>Fund balance - beginning of year</b>	<b>-</b>	<b>5,448</b>	<b>58,753</b>	<b>125,023</b>
	<u>-</u>	<u>5,448</u>	<u>58,753</u>	<u>125,023</u>
<b>Fund balance - end of year</b>	<b>\$ -</b>	<b>\$ 5,511</b>	<b>\$ 64,053</b>	<b>\$ 111,937</b>
	<u>\$ -</u>	<u>\$ 5,511</u>	<u>\$ 64,053</u>	<u>\$ 111,937</u>

**City of Pawnee  
Pawnee, Oklahoma**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expend- itures</u>
<b><u>U.S. Department of Housing and Urban Development:</u></b>				
<b><u>Passed through the Oklahoma Department of Commerce:</u></b>				
11875 CDBG 03	14.228	94,000	14,189	14,189
14557 CDBG 10	14.228	<u>337,310</u>	<u>12,690</u>	<u>12,690</u>
<b><u>U.S. Department of Homeland Security:</u></b>				
<b><u>Passed through the Oklahoma Department of Emergency Management:</u></b>				
Emergency Management Assistance	97.042	<u>16,683</u>	<u>16,683</u>	<u>16,683</u>
<b><u>Environmental Protection Agency:</u></b>				
<b><u>Passed through the Oklahoma Water Resources Board:</u></b>				
Capitalization Grants for Clean Water Revolving Funds	66.458	<u>583,194</u>	<u>583,194</u>	<u>583,194</u>
<b><u>U.S. Department of Justice:</u></b>				
<b><u>Passed through the Oklahoma District Attorneys Council:</u></b>				
JAG Grant - Bullet Proof Vests - ARRA	16.803	<u>7,500</u>	<u>7,500</u>	<u>7,500</u>
<b><u>U.S. Department of Education:</u></b>				
<b><u>Passed through the Oklahoma Department of Libraries:</u></b>				
Library State Aid Grant	84.034	<u>4,898</u>	<u>4,898</u>	<u>4,898</u>
<b>Total Expenditures of Federal Awards</b>		<b>\$ <u>1,043,585</u></b>	<b>\$ <u>639,154</u></b>	<b>\$ <u>639,154</u></b>

See Independent Auditor's Report.  
The accompanying notes are an integral part of the basic financial statements.

**City of Pawnee**  
**Notes to Schedule of Expenditures of Federal Awards**  
**for the Year Ended June 30, 2011**

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Pawnee under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Pawnee, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Pawnee.

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

CITY OF PAWNEE  
Pawnee, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*  
June 30, 2011

The Board of City Commissioners  
City of Pawnee  
Pawnee, Oklahoma

**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***

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pawnee, State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Pawnee, State of Oklahoma's basic financial statements and have issued my report thereon dated January 23, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Pawnee, State of Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pawnee, State of Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Pawnee, State of Oklahoma's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency 11-01 Internal Control described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pawnee, State of Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit; and accordingly, I do not express such an opinion. The result of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

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

  
Linda S. Woodruff CPA, PC

January 23, 2012  
Yukon, Oklahoma

**City of Pawnee  
Pawnee, Oklahoma**

**Schedule of Findings**

11-01 Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the City.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the City strive to implement more segregation of duties where possible and utilize compensation procedures where applicable.

The Board of City Commissioners  
City of Pawnee  
Pawnee, Oklahoma

**Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

Compliance

I have audited the City of Pawnee, State of Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Pawnee, State of Oklahoma's major federal programs for the year ended June 30, 2011. The City of Pawnee, State of Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Pawnee, State of Oklahoma's management. My responsibility is to express an opinion on the City of Pawnee, State of Oklahoma's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pawnee, State of Oklahoma's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the City of Pawnee, State of Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

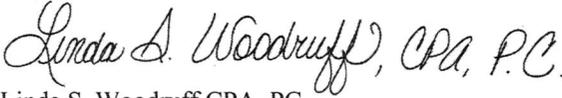
Management of the City of Pawnee, State of Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Pawnee, State of Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Pawnee, State of Oklahoma's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable

possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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

  
Linda S. Woodruff CPA, PC

January 23, 2012  
Yukon, Oklahoma

**City of Pawnee**  
**Schedule of Findings and Questioned Costs**  
**for the Year Ended June 30, 2011**

Major Fund:  
Environmental Protection Agency  
Pass Through from Oklahoma Water Resources Board  
Capitalization Grant for Clean Water Revolving Funds

No findings or questioned costs.