



City of Broken Bow, Oklahoma

Annual Financial Report

Year-End June 30, 2011

City of Broken Bow, Oklahoma
Table of Contents
June 30, 2011

Financial Section

Independent Auditor's Report	1
Management's Discussion and Analysis	3

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Assets	11
Statement of Activities	13

Fund Financial Statements

Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20

Notes to the Financial Statements	22
-----------------------------------	----

Required Supplementary Information

Unaudited Oklahoma Municipal Retirement Fund Summary Schedule of Funding Progress	54
--	----

Budgetary Information	55
-----------------------	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – General Fund (Unaudited)	56
---	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – Grant Fund (Unaudited)	57
---	----

City of Broken Bow, Oklahoma
Table of Contents
June 30, 2011

Supplementary Information

Combining and Individual Fund Statements and Schedules

Combining Balance Sheet – General Fund	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund	59
Combining Balance Sheet – Nonmajor Governmental Funds	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	61

Internal Control and Compliance

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	62
Schedule of Findings and Responses	64
Summary Schedule of Prior Findings and Responses	65



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Broken Bow, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, 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 Broken Bow, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our 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, each major fund, and the aggregate remaining fund information of the City of Broken Bow, 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*, we have also issued our report dated June 13, 2012, on our consideration of the City of Broken Bow, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, summary of funding progress, and budgetary comparison information on pages 3 through 10, 54, and 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic

financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

HBC CPAs & Advisors

Yukon, Oklahoma

June 13, 2012

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Within the management's discussion and analysis of the City of Broken Bow, Oklahoma's annual financial report, management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

FINANCIAL HIGHLIGHTS

With respect to the government-wide financial statements:

- § The assets of the City of Broken Bow exceeded its liabilities at the close of the most recent fiscal year by \$24,781,721 (net assets). Of this amount, \$6,179,879 (unrestricted net assets) may be used to meet the governments' ongoing obligations to citizens and creditors.

With respect to the fund financial statements:

- § As of the close of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$1,089,320, a decrease of \$455,612 from the prior year.
- § At the end of the current fiscal year, unreserved fund balance for the General Fund was \$665,468, or 22 percent of the total general fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction of the City of Broken Bow, Oklahoma's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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* represents government-wide information on all of the City's assets and liabilities, with the difference between assets and liabilities 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.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

The *statement of activities* presents government-wide 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 when cash is received or paid. Thus, some revenues and expenses reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave which is available for redemption upon retirement).

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, streets, culture and recreation, cemetery and parks and health and welfare. Business-type activities include water, wastewater utilities, electricity and solid waste management.

The government-wide financial statements can be found on pages 11-13 in this report.

Fund Financial Statements.

A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

Governmental funds are reported in the fund financial statements and encompass 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 short-term inflows and outflows of spendable resources, as well as on balances of spending resources available at the end of the fiscal year. Such information may be useful in evaluating the City's short-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 impact of the government's short-term financing decisions.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City internally maintains nine 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 fund and grant fund, which are considered to be major funds.

The City of Broken Bow adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and all major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-16 of this report.

Proprietary Funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two types of proprietary funds. *Enterprise funds* essentially encompass the same functions reported as business-type activities in the government-wide statements. Services provided to customers external to the City. The City of Broken Bow uses enterprise funds to account for its water, wastewater, electric and solid waste management. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail. *Internal service funds* report services provided within the city organization. Currently the City of Broken Bow uses an internal service fund to allocate self insured health costs.

The basic proprietary fund financial statements can be found on pages 17-21 of this report.

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 22-53 of this report.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information can be found on pages 54-57 of this report.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 58-61 of this report.

GOVERNMENT-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 Broken Bow, assets exceeded liabilities by \$24,781,721 at the close of the most recent fiscal year.

By far the largest portion of the City of Broken Bow's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Broken Bow uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Broken Bow'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 themselves cannot be used to liquidate these liabilities.

Summary of Net Assets at June 30, 2011

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Current and other assets	\$ 1,708,633	\$ 2,085,021	\$ 6,729,185	\$ 7,206,441	\$ 8,437,818	\$ 9,291,462
Capital assets	<u>9,026,702</u>	<u>8,372,252</u>	<u>27,663,239</u>	<u>28,084,821</u>	<u>36,689,941</u>	<u>36,457,073</u>
Total assets	10,735,335	10,457,273	34,392,424	35,291,262	45,127,759	45,748,535
Long-term liabilities	274,170	388,877	17,507,164	19,984,115	17,781,334	20,372,992
Other liabilities	<u>492,110</u>	<u>383,156</u>	<u>2,072,594</u>	<u>1,137,754</u>	<u>2,564,704</u>	<u>1,520,910</u>
Total liabilities	766,280	772,033	19,579,758	21,121,869	20,346,038	21,893,902
Net Assets						
Invested in capital assets, net						
of related debt	8,550,395	7,812,820	9,501,991	8,244,532	18,052,386	16,057,352
Restricted	549,456	489,224	-	-	549,456	489,224
Unrestricted	<u>869,204</u>	<u>1,383,196</u>	<u>5,310,675</u>	<u>5,924,861</u>	<u>6,179,879</u>	<u>7,308,057</u>
Total net assets	<u>\$ 9,969,055</u>	<u>\$ 9,685,240</u>	<u>\$ 14,812,666</u>	<u>\$ 14,169,393</u>	<u>\$ 24,781,721</u>	<u>\$ 23,854,633</u>

At the end of the current fiscal year, the City of Broken Bow is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Change in Net Assets for the Year Ended June 30, 2011

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Revenues						
Charges for Services	\$ 1,210,603	\$ 873,786	\$ 5,258,805	4,302,581	\$ 6,469,408	\$ 5,176,367
Operating Grants and Contributions	-	65,161	-	-	-	65,161
Capital Grants and Contributions	305,391	-	-	-	305,391	-
Taxes	2,117,764	2,014,184	-	-	2,117,764	2,014,184
Interest	14,539	19,984	71,880	77,053	86,419	97,037
Miscellaneous	-	257,595	7,193	23,529	7,193	281,124
Total Revenues	3,648,297	3,230,710	5,337,878	4,403,163	8,986,175	7,633,873
Expenses						
General Government	664,071	588,354	-	-	664,071	588,354
Public Safety	1,506,525	1,434,792	-	-	1,506,525	1,434,792
Streets	569,864	-	-	-	569,864	-
Culture and Recreation	156,419	310,962	-	-	156,419	310,962
Cemetery and Parks	169,094	-	-	-	169,094	-
Health and Welfare	763,306	858,684	-	-	763,306	858,684
Water	-	-	2,630,422	2,230,622	2,630,422	2,230,622
Sewer	-	-	686,284	499,352	686,284	499,352
Electric	-	-	407,408	396,302	407,408	396,302
Landfill	-	-	505,694	349,291	505,694	349,291
Total Expenses	3,829,279	3,192,792	4,229,808	3,475,567	8,059,087	6,668,359
Change in net assets before transfers	(180,982)	37,918	1,108,070	927,596	927,088	965,514
Transfers	464,797	214,382	(464,797)	(214,382)	-	-
Increase in Net Assets	283,815	252,300	643,273	713,214	927,088	965,514
Net assets, beginning	9,685,240	9,432,940	14,169,393	13,456,179	23,854,633	22,889,119
Net assets, ending	\$ 9,969,055	\$ 9,685,240	\$ 14,812,666	\$ 14,169,393	\$ 24,781,721	\$ 23,854,633

Governmental activities. Governmental activities increased the City of Broken Bow's net assets by \$283,815.

Business-type activities. Business-type activities increased the City of Broken Bow's net assets by \$643,273.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Broken Bow uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City of Broken Bow'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 of Broken Bow'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.

As of the end of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$1,089,320, a decrease of \$455,612 in comparison with the prior year.

The general fund is the chief operating fund of the City of Broken Bow. At the end of the current fiscal year, unreserved and total fund balance of the general fund was \$665,468.

Proprietary funds. The City of Broken Bow's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Broken Bow's proprietary funds reported combined ending fund balances of \$14,812,666, an increase of \$643,273 in comparison with the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues exceeded budgeted amounts in the General Fund by \$308,241, and expenditures were \$125,819 less than budgeted amounts for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City of Broken Bow's investment in capital assets for its governmental and business type activities as of June 30, 2011, amounts to \$36,689,941 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads highways, and bridges. The total change in the City of Broken Bow's investment in capital assets for the current fiscal year was a \$654,450 increase for governmental activities and a \$287,229 decrease for business-type activities.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Capital Assets (net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Land and Improvements	\$ 1,254,954	\$ 1,223,955	\$ 1,149,973	\$ 129,652	\$ 2,404,927	\$ 1,353,607
Construction in Progress	-	30,999	-	-	-	30,999
Buildings and Improvements	2,535,807	2,161,067	621,554	385,658	3,157,361	2,546,725
Property and Equipment	2,749,982	2,643,586	2,034,299	2,788,916	4,784,281	5,432,502
Infrastructure	5,533,226	4,966,621	-	-	5,533,226	4,966,621
Electric System	-	-	1,329,466	1,329,466	1,329,466	1,329,466
Gravity Flow Water System	-	-	23,661,492	23,661,493	23,661,492	23,661,493
Sewer System	-	-	7,858,121	7,858,120	7,858,121	7,858,120
	12,073,969	11,026,228	36,654,905	36,153,305	48,728,874	47,179,533
Accumulated Depreciation	(3,047,267)	(2,653,976)	(8,991,666)	(8,068,485)	(12,038,933)	(10,722,461)
Capital Assets, Net	<u>\$ 9,026,702</u>	<u>\$ 8,372,252</u>	<u>\$27,663,239</u>	<u>\$28,084,820</u>	<u>\$36,689,941</u>	<u>\$36,457,072</u>

Additional information on the City of Broken Bow's capital assets can be found in note **IV.C** on page 36 of this report.

Long-term debt. At the end of the current fiscal year, the City of Broken Bow has total bonded debt outstanding of \$6,665,000. The remainder of the City of Broken Bow's debt represents capital leases and notes payable.

Long-Term Debt

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Capital Leases	\$ 181,387	\$ 119,673	\$ -	\$ -	\$ 181,387	\$ 119,673
Notes Payable	294,920	439,759	11,496,248	11,753,000	11,791,168	12,192,759
Revenue Bonds Payable	-	-	6,665,000	7,980,000	6,665,000	7,980,000
	<u>\$ 476,307</u>	<u>\$ 559,432</u>	<u>\$18,161,248</u>	<u>\$19,733,000</u>	<u>\$18,637,555</u>	<u>\$20,292,432</u>

The City of Broken Bow's total debt for governmental activities decreased by \$83,125 during the current fiscal year and the debt for business-type activities decreased by \$1,571,752.

Additional information on the City of Ardmore's long-term debt can be found in note **IV.E** on pages 38-48 of this report.

City of Broken Bow, Oklahoma
Management's Discussion and Analysis (Unaudited)
June 30, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Broken Bow's finances for all those with an interest in the governments' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Broken Bow, Oklahoma.

City of Broken Bow, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business Type Activites	Total
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalent	\$ 1,235,524	\$ 2,136,849	\$ 3,372,373
Restricted Cash and Cash Equivalent	67,366	2,596,173	2,663,539
Restricted Investments	-	77,421	77,421
Accounts Receivable, net	344,800	637,273	982,073
Prepaid Expenses	16,580	-	16,580
Inventory	-	55,000	55,000
Interfund Balances	44,363	(44,363)	-
Total Current Assets	<u>1,708,633</u>	<u>5,458,353</u>	<u>7,166,986</u>
<i>Noncurrent Assets</i>			
Land and Improvements	1,254,954	1,149,973	2,404,927
Buildings and Improvements	2,535,807	621,554	3,157,361
Property and Equipment	2,749,982	2,034,299	4,784,281
Infrastructure	5,533,226	-	5,533,226
Electric System	-	1,329,466	1,329,466
Gravity Flow Water System	-	23,661,492	23,661,492
Sewer System	-	7,858,121	7,858,121
Accumulated Depreciation	(3,047,267)	(8,991,666)	(12,038,933)
Total Noncurrent Assets	<u>9,026,702</u>	<u>27,663,239</u>	<u>36,689,941</u>
<i>Other Assets</i>			
Debt Issuance Costs	-	100,700	100,700
Unamortized Debt Issuance Costs	-	979,682	979,682
Water Storage Rights	-	170,189	170,189
Hydro-power Investment	-	20,261	20,261
	<u>-</u>	<u>1,270,832</u>	<u>1,270,832</u>
Total Assets	<u>\$ 10,735,335</u>	<u>\$ 34,392,424</u>	<u>\$ 45,127,759</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activites	Business Type Activites	Total
<i>LIABILITIES</i>			
<i>Current Liabilities</i>			
Accounts Payable	\$ 261,506	\$ 249,678	\$ 511,184
Customer Deposits, Current	-	16,850	16,850
Notes Payable, Current	143,475	410,115	553,590
Capital Leases, Current	58,662	-	58,662
Interest Payable	-	104,068	104,068
Bonds Payable, Current	-	300,000	300,000
Accrued Landfill Closure and Post-Closure Costs	-	974,689	974,689
Compensated Absences	28,467	17,194	45,661
Total Current Liabilities	<u>492,110</u>	<u>2,072,594</u>	<u>2,564,704</u>
<i>Noncurrent Liabilities</i>			
Notes Payable, non-current	151,445	11,086,133	11,237,578
Leases payable, non-current	122,725	-	122,725
Customer Deposits, Non-current	-	56,031	56,031
Bonds payable, non-current	-	6,365,000	6,365,000
Total Noncurrent Liabilities	<u>274,170</u>	<u>17,507,164</u>	<u>17,781,334</u>
Total Liabilities	<u>766,280</u>	<u>19,579,758</u>	<u>20,346,038</u>
<i>NET ASSETS</i>			
Invested in Capital Assets	8,550,395	9,501,991	18,052,386
Restricted	549,456	-	549,456
Unrestricted	869,204	5,310,675	6,179,879
Total Net Assets	<u>\$ 9,969,055</u>	<u>\$ 14,812,666</u>	<u>\$ 24,781,721</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Activities
For the Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities							
General Government	\$ 664,071	\$ 274,013	\$ -	\$ -	\$ (390,058)	\$ -	\$ (390,058)
Public Safety	1,506,525	169,949	-	38,476	(1,298,100)	-	(1,298,100)
Streets	569,864	-	-	266,915	(302,949)	-	(302,949)
Culture and Recreation	156,419	14,397	-	-	(142,022)	-	(142,022)
Cemetery and Parks	169,094	615	-	-	(168,479)	-	(168,479)
Health and Welfare	763,306	751,629	-	-	(11,677)	-	(11,677)
Total Governmental Activities	<u>3,829,279</u>	<u>1,210,603</u>	<u>-</u>	<u>305,391</u>	<u>(2,313,285)</u>	<u>-</u>	<u>(2,313,285)</u>
Business-Type Activities							
Water	2,630,422	2,585,870	-	-	-	(44,552)	(44,552)
Sewer	686,284	535,570	-	-	-	(150,714)	(150,714)
Electric	407,408	1,457,912	-	-	-	1,050,504	1,050,504
Lanfill	505,694	679,453	-	-	-	173,759	173,759
Total Business Type Activities	<u>4,229,808</u>	<u>5,258,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,028,997</u>	<u>1,028,997</u>
Total Primary Government	<u>\$ 8,059,087</u>	<u>\$ 6,469,408</u>	<u>\$ -</u>	<u>\$ 305,391</u>	<u>(2,313,285)</u>	<u>1,028,997</u>	<u>(1,284,288)</u>
General Revenues							
Taxes					2,117,764	-	2,117,764
Interest					14,539	71,880	86,419
Miscellaneous					-	7,193	7,193
Transfers					464,797	(464,797)	-
Total General Revenues and Transfers					<u>2,597,100</u>	<u>(385,724)</u>	<u>2,211,376</u>
Change in Net Assets					283,815	643,273	927,088
Net Assets - Beginning					<u>9,685,240</u>	<u>14,169,393</u>	<u>23,854,633</u>
Net Assets - Ending					<u>\$ 9,969,055</u>	<u>\$ 14,812,666</u>	<u>\$ 24,781,721</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2011

	General	Grant	Other Governmental	Total
<i>Assets</i>				
Cash and Cash Equivalent	\$ 528,853	\$ (51,895)	\$ 463,512	\$ 940,470
Due From Other Funds	47,278	53	36,681	84,012
Revenue Receivable	253,277	-	49,212	302,489
Total Assets	\$ 829,408	\$ (51,842)	\$ 549,405	\$ 1,326,971
<i>Liabilities</i>				
Accounts Payable	\$ 163,940	67,241	\$ 6,470	\$ 237,651
Due To Other Funds	-	-	-	-
Total Liabilities	163,940	67,241	6,470	237,651
<i>Fund Balances</i>				
Restricted	-	-	549,456	549,456
Committed	-	-	-	-
Assigned	320	-	-	320
Unassigned	665,148	(119,083)	(6,521)	539,544
Total Fund Balances	665,468	(119,083)	542,935	1,089,320
Total Liabilities and Fund Balances	\$ 829,408	\$ (51,842)	\$ 549,405	

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

Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the fund.

9,026,702

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The assets and liabilities of the internal service fund are included in the governmental statement of net assets.

357,807

Long-term liabilities, including bonds payable and applicable interest, are not due and payable in the current period and, therefore, are not reported in the fund.

(504,774)

\$ 9,969,055

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

	General	Grant	Other Governmental	Total
REVENUE				
Taxes	\$ 1,550,850	\$ -	\$ 363,660	\$ 1,914,510
Intergovernmental	203,254	-	-	203,254
Grants	38,476	266,915	55,048	360,439
License and Permits	96,917	-	-	96,917
Charges for Service	41,366	-	-	41,366
Fines and Forfeitures	169,949	-	-	169,949
Rent	3,500	-	775	4,275
Miscellaneous	131,501	14,398	1,101	147,000
Interest	8,556	-	5,983	14,539
Total Revenue	2,244,369	281,313	426,567	2,952,249
EXPENDITURES				
<i>Current</i>				
General Government	342,789	-	108,687	451,476
Public Safety	1,405,205	-	-	1,405,205
Streets	540,501	-	-	540,501
Culture and Recreation	9,447	-	95,256	104,703
Cemetery and Parks	139,544	13,791	-	153,335
<i>Capital Outlay</i>				
Public Safety	84,347	-	-	84,347
Streets	88,291	-	-	88,291
Culture and Recreation	-	495,298	-	495,298
Cemetery and Parks	387,800	-	-	387,800
Health and Welfare	-	-	63,832	63,832
Debt Service	84,043	-	153,827	237,870
Total Expenditures	3,081,967	509,089	421,602	4,012,658
Excess (Deficiency) of Revenues Over (Under) Expenditures	(837,598)	(227,776)	4,965	(1,060,409)
Other Financing Sources				
Capital Lease Financing	140,000	-	-	140,000
Transfers In	475,201	108,625	15,052	598,878
Transfers Out	(117,822)	(16,259)	-	(134,081)
Total Other Financing Sources	497,379	92,366	15,052	604,797
Net Change in Fund Balances	(340,219)	(135,410)	20,017	(455,612)
Fund Balances - Beginning	1,005,687	16,327	522,918	1,544,932
Fund Balances - Ending	\$ 665,468	\$(119,083)	\$ 542,935	\$ 1,089,320

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2011

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

Net change in assets - total governmental funds \$ (455,612)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 654,983

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items. 83,125

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,286)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, disposals) is to decrease net assets. (533)

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The net gain or loss of certain activities of internal service funds is reported with governmental activities. 4,138

\$ 283,815

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalent	\$ 1,808,210	\$ 328,639	\$ 2,136,849	\$ 362,420
Restricted Cash and Cash Equivalent	1,426,588	1,169,585	2,596,173	-
Restricted Investments	77,421	-	77,421	-
Accounts Receivable, net	584,360	52,913	637,273	42,311
Note Receivable, current	-	26,738	26,738	-
Prepaid Expenses	-	-	-	16,580
Inventory	55,000	-	55,000	-
Due from Other Funds	118,435	77,200	195,635	-
Total Current Assets	<u>4,070,014</u>	<u>1,655,075</u>	<u>5,725,089</u>	<u>421,311</u>
<i>Noncurrent Assets</i>				
Land	134,352	78,000	212,352	-
Buildings and Improvements	587,803	33,751	621,554	-
Property and Equipment	611,749	1,422,550	2,034,299	-
Land Improvements	-	937,621	937,621	-
Electric System	1,329,466	-	1,329,466	-
Gravity Flow Water System	23,661,492	-	23,661,492	-
Sewer System	7,858,121	-	7,858,121	-
Accumulated Depreciation	<u>(7,776,831)</u>	<u>(1,214,835)</u>	<u>(8,991,666)</u>	<u>-</u>
Total Noncurrent Assets	<u>26,406,152</u>	<u>1,257,087</u>	<u>27,663,239</u>	<u>-</u>
<i>Other Assets</i>				
Debt Issuance Costs	100,700	-	100,700	-
Unamortized Debt Issuance Costs	979,682	-	979,682	-
Note Receivable	-	199,185	199,185	-
Water Storage Rights	170,189	-	170,189	-
Hydro-power Investment	20,261	-	20,261	-
	<u>1,270,832</u>	<u>199,185</u>	<u>1,470,017</u>	<u>-</u>
Total Assets	<u><u>\$ 31,746,998</u></u>	<u><u>\$ 3,111,347</u></u>	<u><u>\$ 34,858,345</u></u>	<u><u>421,311</u></u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Public Works	Kulli Chito Environmental	Total Proprietary	Internal Service
	<u>Authority</u>	<u>Authority</u>	<u>Funds</u>	<u>Fund</u>
<i>LIABILITIES</i>				
<i>Current Liabilities</i>				
Accounts Payable	\$ 94,597	\$ 155,081	\$ 249,678	\$ 63,504
Customer Deposits, Current	16,850	-	16,850	-
Notes Payable, Current	348,438	61,677	410,115	-
Interest Payable	104,068	-	104,068	-
Bonds Payable, Current	300,000	-	300,000	-
Interfund note payable, Current	26,738	-	26,738	-
Due to Other Funds	229,327	10,671	239,998	-
Accrued Landfill Closure and Post-Closure Costs	-	974,689	974,689	-
Compensated Absences	15,245	1,949	17,194	-
Total Current Liabilities	<u>1,135,263</u>	<u>1,204,067</u>	<u>2,339,330</u>	<u>63,504</u>
<i>Noncurrent Liabilities</i>				
Notes Payable, non-current	10,779,126	307,007	11,086,133	-
Customer Deposits, Non-current	56,031	-	56,031	-
Interfund note payable, non-current	199,185	-	199,185	-
Bonds payable, non-current	<u>6,365,000</u>	<u>-</u>	<u>6,365,000</u>	<u>-</u>
Total Noncurrent Liabilities	<u>17,399,342</u>	<u>307,007</u>	<u>17,706,349</u>	<u>-</u>
Total Liabilities	<u>18,534,605</u>	<u>1,511,074</u>	<u>20,045,679</u>	<u>63,504</u>
<i>NET ASSETS</i>				
Invested in Capital Assets	8,358,372	888,403	9,246,775	-
Restricted for Debt Service	-	-	-	-
Unrestricted	<u>4,854,021</u>	<u>711,870</u>	<u>5,565,891</u>	<u>357,807</u>
Total Net Assets	<u>\$ 13,212,393</u>	<u>\$ 1,600,273</u>	<u>\$ 14,812,666</u>	<u>\$ 357,807</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>Operating Revenues:</i>				
Water	\$ 2,541,326	\$ -	\$ 2,541,326	\$ -
Sewer	535,570	-	535,570	-
Electric	1,457,912	-	1,457,912	-
Landfill	-	679,453	679,453	-
Penalties/Reconnect Fees	44,544	-	44,544	-
Other Operating Revenue	<u>7,195</u>	<u>(2)</u>	<u>7,193</u>	<u>696,581</u>
Total Operating Revenue	4,586,547	679,451	5,265,998	696,581
<i>Operating Expenses:</i>				
Water	1,228,890	-	1,228,890	-
Sewer	467,237	-	467,237	-
Electric	304,564	-	304,564	-
Landfill	-	430,117	430,117	-
Insurance Premiums and Claims	-	-	-	692,443
Depreciation	860,976	62,205	923,181	-
Amortization	51,782	-	51,782	-
Bad Debt Expense	<u>30,100</u>	<u>-</u>	<u>30,100</u>	<u>-</u>
Total Operating Expenses	<u>2,943,549</u>	<u>492,322</u>	<u>3,435,871</u>	<u>692,443</u>
Operating Income (Loss)	1,642,998	187,129	1,830,127	4,138
<i>Nonoperating Revenues (Expenses):</i>				
Interest Revenue	39,337	32,543	71,880	-
Interest Expense	(764,759)	(13,372)	(778,131)	-
Other Nonoperating Revenue (Expense)	<u>(15,806)</u>	<u>-</u>	<u>(15,806)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(741,228)</u>	<u>19,171</u>	<u>(722,057)</u>	<u>-</u>
Income (Loss) before Transfers	901,770	206,300	1,108,070	4,138
<i>Other Financing Sources (Uses):</i>				
Transfers In	731,114	(25,497)	705,617	-
Transfers Out	<u>(1,135,414)</u>	<u>(35,000)</u>	<u>(1,170,414)</u>	<u>-</u>
Total Other Financing Sources	<u>(404,300)</u>	<u>(60,497)</u>	<u>(464,797)</u>	<u>-</u>
Net Change in Net Assets	497,470	145,803	643,273	4,138
Total Net Assets - Beginning	<u>12,714,923</u>	<u>1,454,470</u>	<u>14,169,393</u>	<u>353,669</u>
Total Net Assets - Ending	<u>\$ 13,212,393</u>	<u>\$ 1,600,273</u>	<u>\$ 14,812,666</u>	<u>\$ 357,807</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority	Kulli Chito Environmental Authority
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash Received from Customers	\$ 4,590,179	\$ 462,534
Cash Payments to suppliers and employees	<u>(2,074,701)</u>	<u>(348,732)</u>
Net Cash Provided by Operating Activities	<u>2,515,478</u>	<u>113,802</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>		
Transfers from Other Funds	731,114	(25,497)
Transfers to Other Funds	(1,135,414)	(35,000)
Nonoperating Receipts (Disbursements)	<u>(15,806)</u>	<u>-</u>
Net Cash Used by Noncapital Financing Activities	<u>(420,106)</u>	<u>(60,497)</u>
<i>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</i>		
Payment of Debt	(1,714,513)	341,945
Purchase of Property, Plant and Equipment	<u>(318,735)</u>	<u>(182,865)</u>
Net Cash Provided (Used) by Capital Financing Activities	<u>(2,033,248)</u>	<u>159,080</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Change in Investments	198,674	-
Interest Expense	(764,759)	(13,372)
Interest Income	<u>39,337</u>	<u>32,543</u>
Net Cash Provided (Used) by Investing Activities	<u>(526,748)</u>	<u>19,171</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(464,624)	231,556
Cash and Cash Equivalents, July 1, 2010	<u>3,699,422</u>	<u>1,266,668</u>
Cash and Cash Equivalents, June 30, 2011	<u>\$ 3,234,798</u>	<u>\$ 1,498,224</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority	Kulli Chito Environmental Authority
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 1,642,998	\$ 187,129
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	912,758	62,205
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	9,308	(216,917)
Decrease (Increase) in Prepaid Expenses	2,106	-
Decrease (Increase) in Interfund Balances	(50)	52
Increase (Decrease) in Accounts Payable	(57,991)	69,795
Increase (Decrease) in Customer Deposits	(5,676)	-
Increase (Decrease) in Interest Payable	(3,220)	-
Increase (Decrease) in Landfill Closure and Post-closure costs	-	11,035
Increase (Decrease) in Compensated Absences	15,245	503
	872,480	(73,327)
Net Cash Provided by Operating Activities	\$ 2,515,478	\$ 113,802

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Broken Bow is a charter city created under Title 11, Chapter 17 of the Oklahoma Statutes, operating under the Council-Manager form of government. The governing body of the City is the City Council. The appointed City Manager is the executive officer of the City.

For financial reporting purposes the financial statements included all funds and account groups over which the City Council exercises oversight responsibility. The criteria used to determine whether or not to include other entities in the financial statements were (1) the selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, and (4) accountability for fiscal matters. Based on these criteria, the Broken Bow Public Works Authority and Kulli Chito Environmental Authority are included.

Broken Bow Public Works Authority

The Broken Bow Public Works Authority is a Title 60.O.S. public trust created April 21, 1959, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Broken Bow Public Work Authority is reported as a blended component unit.

Kulli Chito Environmental Authority

The Kulli Chito Environmental Authority is a Title 60.O.S. public trust created April 14, 1993, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Kulli Chito Environmental Authority is reported as a blended component unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Government-Wide and Fund Financial Statements – continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year for which they are assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources.

Grant Fund – is a special revenue fund used to account for grant revenues received, and the expenditure of those funds.

The government reports the following major proprietary funds:

The *Broken Bow Public Works Authority*, which accounts for all the operating revenues and expenses related to providing water, sewer and electric services, and the *Kulli Chito Environmental Authority* which accounts for all the operating revenues and expenses related to sanitation and asphalt services.

Additionally, the government reports the following fund types:

Special revenue funds: Senior Citizens, Airport, Cemetery Care, Library, Police Donation and Nutrition.

Internal service funds account for self insured health costs provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds are reported with governmental activities in the government-wide statements.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Deposits and investments - continued

The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trust bonds whose beneficiary is a county, municipality or school district, except industrial development bonds; direct obligations of the United States; and certificates of deposit. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Investments for the government, as well as for its component units, are reported at cost, which approximates fair value.

Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. All trade receivables are shown net of an allowance for uncollectibles.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Fund 49 debt service fund accounts for resources accumulated for debt service payment of general obligation bonds and judgments. The Ardmore Community Facilities fund accounts for resources accumulated for debt service payment of the Ardmore Community Facilities Revenue Bonds.

The permanently restricted assets are the cash and investments of the Hester K. Horn permanent fund.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements including interest are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Building Improvements	10 - 20
Public Domain Infrastructure	50
System Infrastructure	10 - 30
Machinery and Equipment	3 - 10

Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

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

Fund equity

Government-wide Statements

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

1. *Invested in capital assets* – consists of capital assets net of accumulated depreciation.
2. *Restricted net assets* – consists of net assets with constraints on the use either by: (1) external groups or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets”.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.
- The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation of the \$8,879,735 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

The first element of that reconciliation explains that capital assets used in governmental activities that are not financial resources and therefore, are not reported in the funds.

Land and Improvements	\$	1,254,954
Buildings and Improvements		2,535,807
Property and Equipment		2,749,982
Infrastructure		<u>5,533,226</u>
		12,073,969
Accumulated Depreciation		<u>(3,047,267)</u>
Capital Assets, Net	\$	<u><u>9,026,702</u></u>

Another element of that reconciliation is the assets and liabilities of the internal service funds included in governmental activities in the statement of net assets. Following are the details of the net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*:

Assets		
Cash and equivalents	\$	362,420
Accounts Receivable		42,311
Prepaid Expenses		<u>16,580</u>
Total Assets		421,311
 Liabilities		
Accounts Payable		<u>63,504</u>
 Net Assets	 \$	 <u><u>357,807</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets - continued

The last element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

Capital Leases	\$	181,387
Notes Payable		294,920
Compensated Absences		<u>28,467</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>		
	\$	<u>(504,774)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$739,427 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$	1,055,736
Depreciation Expense		<u>(400,753)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets - governmental activities</i>		
	\$	<u>654,983</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - continued

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Capital Lease Principal Payments	\$	78,286
Notes Payable Principal Payments	\$	144,839
Capital Lease Proceeds		<u>(140,000)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>		
	\$	<u>83,125</u>

One element of that reconciliation explains that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Increase in Compensated Absences	\$	<u>2,286</u>
Net adjustment to decrease net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>		
	\$	<u>(2,286)</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - continued

Another element of that reconciliation explains that “the net effect of various miscellaneous transactions involving capital assets is to decrease net assets.”

Loss on Disposal of Assets	\$ <u>533</u>
Net adjustment to decrease net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>	\$ <u>(533)</u>

The last element of the reconciliation states “the net gain of certain activities of internal service funds is reported with governmental activities.

Change in Net Assets - Internal Service Funds	\$ <u>4,138</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>	\$ <u>4,138</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Commission adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2011, the City's bank balances of \$5,235,164 were not exposed to custodial credit risk.

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.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust. The City's investments at June 30, 2011 consisted of \$50,813 in Goldman Sachs Financial Square Treasury Obligation money market mutual funds with a Moody's credit rating of Aaa; and \$26,608 of funds held in escrow by the Oklahoma Municipal Assurance Group.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments

Restricted cash and investments in the enterprise funds at June 30, 2011 consist of the Debt Service Fund in the amount of \$50,813, refundable meter deposits of \$89,498, OMAG Reserve \$30,987; landfill post-closure \$1,169,585; and capital projects \$1,332,711.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

B. Receivables

Receivables as of June 30, 2011 for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Public Works Authority</u>	<u>Kulli Chito Environmental</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
<i>Receivables:</i>					
Taxes	\$ 253,277	\$ -	\$ -	\$ 91,523	\$ 344,800
Accounts	-	591,612	52,913	-	644,525
Less: Allowance for Uncollectible	-	<u>(7,252)</u>	-	-	<u>(7,252)</u>
Net Total Receivable	<u>\$ 253,277</u>	<u>\$ 584,360</u>	<u>\$ 52,913</u>	<u>\$ 91,523</u>	<u>\$ 982,073</u>

Notes Receivable

The proceeds from two loans from Oklahoma Department of Commerce were transferred from the Kulli Chito Environmental Authority to the Broken Bow Public Works Authority, where the funds were used for capital improvements. A note receivable was set up on the Kulli Chito Environmental Authority to reflect the amounts due from Broken Bow Public Works Authority. The interfund note receivable / payable has been eliminated in the government-wide financial statements.

The balance of the note receivable at June 30, 2011 was:

Notes Receivable	\$ 225,923
Less: Current Portion	<u>(26,738)</u>
	<u>\$ 199,185</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 1,153,595	\$ -	\$ -	\$ 1,153,595
Construction in Progress	30,999	-	30,999	-
Total Capital Assets, not being depreciated	<u>1,184,594</u>	<u>-</u>	<u>30,999</u>	<u>1,153,595</u>
Capital Assets, being depreciated:				
Land Improvements	70,360	30,999	-	101,359
Building and Improvements	2,161,067	374,740	-	2,535,807
Property and Equipment	2,643,586	114,391	7,995	2,749,982
Infrastructure	4,966,621	566,605	-	5,533,226
Total Capital Assets, being depreciated	9,841,634	1,086,735	7,995	10,920,374
Less Accumulated Depreciation	<u>2,653,976</u>	<u>400,753</u>	<u>7,462</u>	<u>3,047,267</u>
Total Capital Assets, being depreciated, net	<u>7,187,658</u>	<u>685,982</u>	<u>533</u>	<u>7,873,107</u>
Governmental Activities Capital Assets, net	<u>\$ 8,372,252</u>	<u>\$ 685,982</u>	<u>\$ 31,532</u>	<u>\$ 9,026,702</u>
Business Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 204,352	\$ -	\$ -	\$ 204,352
Construction in Progress	-	-	-	-
Total Capital Assets, not being depreciated	<u>204,352</u>	<u>-</u>	<u>-</u>	<u>204,352</u>
Capital Assets, being depreciated:				
Land Improvements	940,921	4,700	-	945,621
Building and Improvements	385,656	235,898	-	621,554
Property and Equipment	1,773,296	261,003	-	2,034,299
Electric System	1,329,466	-	-	1,329,466
Gravity Flow Water System	23,661,492	-	-	23,661,492
Sewer System	7,858,121	-	-	7,858,121
Total Capital Assets, being depreciated	35,948,952	501,601	-	36,450,553
Less Accumulated Depreciation	<u>8,068,485</u>	<u>923,181</u>	<u>-</u>	<u>8,991,666</u>
Total Capital Assets, being depreciated, net	<u>27,880,467</u>	<u>(421,580)</u>	<u>-</u>	<u>27,458,887</u>
Business Type Activities Capital Assets, net	<u>\$ 28,084,819</u>	<u>\$ (421,580)</u>	<u>\$ -</u>	<u>\$ 27,663,239</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets - continued

Depreciation expense was charged to functions/programs of the primary government as follows:

<i>Governmental Activities:</i>	
General Government	\$ 205,797
Public Safety	99,884
Streets	29,640
Culture and Recreation	35,968
Cemetery and Parks	<u>29,464</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 400,753</u></u>
 <i>Business Type Activities:</i>	
Water	\$ 595,295
Sewer	215,354
Electric	50,327
Landfill	<u>62,205</u>
Total Depreciation Expense - Business Type Activities	<u><u>\$ 923,181</u></u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2011 is as follows:

<u><i>Receivable Fund</i></u>	<u><i>Payable Fund</i></u>	<u><i>Amount</i></u>	<u><i>Purpose</i></u>
General Fund	Kulli Chito	\$ 9,527	Operating Transfer
General Fund	Public Works Authority	<u>34,836</u>	Operating Transfer
		<u><u>\$ 44,363</u></u>	

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

D. Interfund Receivables, Payables and Transfers - continued

Interfund Transfers

	<i>Transfers Out:</i>			
<i>Transfers In:</i>	<i>General</i>	<i>Enterprise</i>	<i>Other Governmental</i>	<i>Total</i>
General Fund	\$ -	\$ 475,201	\$ -	\$ 475,201
Other Governmental	107,418	-	16,259	123,677
Enterprise	<u>10,404</u>	<u>695,213</u>	<u>-</u>	<u>705,617</u>
	<u>\$ 117,822</u>	<u>\$ 1,170,414</u>	<u>\$ 16,259</u>	<u>\$ 1,304,495</u>

All transfers are operating transfers.

E. Long Term Debt

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Interest rates range from 3.85% to 4.00%.

The assets acquired through capital leases are as follows:

<i>Assets:</i>	<i>Governmental Activities</i>
Buildings and Improvements	\$ 140,000
Equipment	<u>121,980</u>
	261,980
Less Accumulated Depreciation	<u>(36,437)</u>
	<u>\$ 225,543</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>
2012	\$ 74,793
2013	74,793
2014	44,649
2015	<u>18,967</u>
Total minimum lease payments	213,202
Less amount representing interest	<u>(31,815)</u>
Present value of minimum lease payments	<u>\$ 181,387</u>

Governmental Activities – Long Term Debt

Other long-term debt obligations of the City of Broken Bow are as follows:

<p>McCurtain County National Bank - 5.50% interest, monthly payments of \$7,023, due June 2013. Proceeds used for the Public Library Project. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of citizens.</p>	\$ 150,983
<p>First Bank and Trust - 3.50% interest, monthly payments of \$5,795, due August 2013. Proceeds used for the Senior Citizens Nutrition Center. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by</p>	<u>143,937</u>
<p>Total Other Notes Payable</p>	<u>\$ 294,920</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 143,475	\$ 10,352
2013	140,944	5,860
2014	10,501	1,091
Total	\$ 294,920	\$ 17,303

Broken Bow Public Works Authority – Long Term Debt
Electric System Revenue Bonds, Taxable Series 2003

In August 2003, Broken Bow Public Works Authority issued \$1,520,000 in Electric System Revenue Bonds, Taxable Series 2003. Proceeds were used to finance the capital improvements to the electric system. The bonds have interest rates varying from 4.6% to 7.3%. Interest is paid semi annually in February and August.

The bonds were paid in full at June 30, 2011.

Utility System and Sales Tax Revenue Note, Series 2006

In May 2006, the Broken Bow Public Works Authority issued \$7,890,000 Utility System and Sales Tax Revenue Note, Series 2006. Proceeds of the note were used to defease \$7,950,000 of outstanding 2002 Refunding Bonds. The note bears interest of 4.52%. Proceeds of the 2006 note were placed in an escrow account for the purpose of generating resources for all future debt service payments to pay off the 2002 Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City’s statement of net assets. This advance refunding will reduce the debt service payments by \$1,591,118 over the term of the bonds and resulted in an economic gain of \$589,214.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 300,000	\$ 301,258
2013	300,000	287,698
2014	300,000	274,138
2015	300,000	260,578
2016	360,000	247,018
2017-2021	1,940,000	986,490
2022-2026	2,430,000	506,466
2027-2028	<u>735,000</u>	<u>42,036</u>
Total	<u>\$ 6,665,000</u>	<u>\$ 2,905,682</u>

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the annual principal and interest requirements on the bonds for that year.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Water Resources Board SRF Promissory Note

In May 2006, the Broken Bow Public Works Authority issued a \$1,640,000 OWRB SRF Promissory Note, Series 2006A. The note, when combined with amounts still on deposit in the 2003 Revenue Bonds construction account, refunded \$4,145,000 of outstanding 2003 Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The remaining balance on the short-term note will be used to construct improvements to the City's drinking water system. At June 30, 2011, the note had a balance of \$1,360,003 and carries an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 64,375	\$ 56,966
2013	66,839	43,648
2014	69,266	42,247
2015	71,782	38,760
2016	74,290	36,183
2017-2021	414,396	139,344
2022-2026	495,348	60,179
2027	103,707	965
	\$ 1,360,003	\$ 418,292

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Water Resources Board SRF Promissory Note

In December 2006, the Broken Bow Public Works Authority issued a \$5,585,000 Oklahoma Water Resources Board Drinking Water SRF Promissory Note, Series 2006B. Proceeds from the note will be used to construct improvements to the City’s drinking water system. At June 30, 2011, the note had a balance of \$4,784,491, at an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 207,993	\$ 170,839
2013	216,008	162,823
2014	223,853	154,979
2015	231,982	146,849
2016	240,034	138,798
2017-2021	1,339,162	554,996
2022-2026	1,600,765	293,393
2027-2031	724,694	32,969
	\$ 4,784,491	\$ 1,655,646

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

Army Corp of Engineers – Water Rights

Water rights, for 4,241 acre feet in Broken Bow Lake, are financed at a rate of 2.742% by a note with the United States Army Corp of Engineers. The contract requires the purchase price of \$170,189 to be retired over a 27 year period with yearly payments of \$8,764. The principal balance outstanding at June 30, 2011, was \$47,879.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 7,451	\$ 1,313
2013	7,655	1,109
2014	7,865	899
2015	8,081	683
2016	8,303	461
2017	8,524	240
	\$ 47,879	\$ 4,705

The Authority is obligated for the future use of additional water rights amounting to 4,054 acre feet in Broken Bow Lake. These rights are to be financed at an interest rate of 2.742% through a note with the United States Corp of Engineers. The contract purchase price is \$154,165 and the amounts outstanding at June 30, 2011, is \$141,174. This amount is to be retired over a 27 year period with annual interest only payments of \$4,227 until the Authority's acre feet usage exceeds the first 4,241 acre feet, which has not yet been exceeded, therefore no amortization schedule is available at this time.

Oklahoma Department of Commerce

The Authority has an obligation on an economic development loan from the Oklahoma Department of Commerce related to construction of a wood products manufacturing plant which requires monthly payments of \$1,439. The note has a 0% stated interest rate. The effective interest rates used to amortize the note is 6%. The balance of the note, which includes principal and imputed interest and the related unamortized discounts at June 30, 2011, are \$186,490 and \$49,435, respectively.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal payments and imputed interest due on the Oklahoma Department of Commerce note are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 9,256	\$ 8,015	\$ 17,271
2013	9,827	7,444	17,271
2014	10,433	6,838	17,271
2015	11,076	6,195	17,271
2016	11,759	5,512	17,271
2017-2021	70,924	15,431	86,355
2022-2025	13,780	-	13,780
	<u>\$ 137,055</u>	<u>\$ 49,435</u>	<u>\$ 186,490</u>

United States Department of Agriculture Rural Development Promissory Note

In November 2007, Broken Bow Public Works Authority issued a \$4,938,000 United States Department of Agriculture Rural Development Promissory Note. Proceeds of the note were used to construct improvements to the City's wastewater system. At June 30, 2011, the note had a balance of \$4,656,964 and an interest rate of 4.375%. Repayment terms will be for forty years at \$21,826 per month beginning December 2007.

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 59,364	\$ 202,548
2013	62,014	199,898
2014	64,782	197,130
2015	67,674	194,238
2016	70,595	191,317
2017-2021	403,721	905,839
2022-2026	502,239	807,321
2027-2031	624,798	684,762
2032-2036	777,265	532,295
2037-2041	966,937	342,623
2042-2046	1,057,575	251,985
	<u>\$4,656,964</u>	<u>\$4,509,956</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Kulli Chito Environmental Authority – Long Term Debt
Oklahoma Department of Commerce

The Authority has obligations on two economic development loans from the Oklahoma Department of Commerce: one for Dominance Industries, Inc., which requires monthly payments of \$1,667 and one for Tyson Foods, Inc., which requires monthly payments of \$1,550. Both notes have a 0% stated interest rate. The effective interest rates used are 5% - 6%. The balance on the notes and the related unamortized discounts at June 30, 2011, are \$274,003 and \$48,080, respectively.

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 26,738	\$ 11,862	\$ 38,600
2013	28,244	10,356	38,600
2014	29,837	8,763	38,600
2015	31,520	7,080	38,600
2016	33,298	5,302	38,600
2017-2021	<u>76,286</u>	<u>4,717</u>	<u>81,003</u>
	<u>\$ 225,923</u>	<u>\$ 48,080</u>	<u>\$ 274,003</u>

Other long-term debt obligations of the Kulli Chito Environmental Authority are as follows:

McCurtain County National Bank - 2.925% interest, monthly payments of \$3,221, due May 2015. Proceeds used for the purchase of a side loader.	\$ <u>142,760</u>
---	-------------------

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 34,939	\$ 3,713
2013	35,975	2,677
2014	37,043	1,609
2015	<u>34,803</u>	<u>628</u>
	<u>\$ 142,760</u>	<u>\$ 8,627</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Changes in long-term liabilities

Long term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Capital Leases	\$ 119,673	\$ 140,000	\$ 78,286	\$ 181,387	\$ 58,662
Notes Payable	439,759	-	144,839	294,920	143,475
Compensated Absences	26,181	2,286	-	28,467	28,467
Total Long Term Liabilities	<u>\$ 585,613</u>	<u>\$ 142,286</u>	<u>\$ 223,125</u>	<u>\$ 504,774</u>	<u>\$ 230,604</u>
<i>Business Type Activities:</i>					
Notes Payable	\$ 11,753,000	\$ 145,741	\$ 402,493	\$ 11,496,248	\$ 410,115
Revenue Bonds Payable	7,980,000	-	1,315,000	6,665,000	300,000
Compensated Absences	1,446	15,748	-	17,194	17,194
Total Long Term Liabilities	<u>\$ 19,734,446</u>	<u>\$ 161,489</u>	<u>\$ 1,717,493</u>	<u>\$ 18,178,442</u>	<u>\$ 727,309</u>

Interest expense was charged to the functions/programs of the primary government as follows:

<i>Business Type Activities</i>		<i>Governmental Activities</i>	
Water	\$ 764,759	General Government	\$ 5,757
Landfill	13,372	Culture and Recreation	1,957
	<u>\$ 778,131</u>	Health and Welfare	7,031
			<u>\$ 14,745</u>

Debt Service Coverage Requirement

The Revenue Bonds and OWRB Promissory Notes require that Net Revenue Available for Debt Service must equal 125% of the maximum annual debt service. Actual coverage was as follows:

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Debt Service Coverage Requirement - continued

Net Revenue Available for Debt Service

Operating Revenue	\$	4,586,547
Operating Expenses		2,943,549
Less: Depreciation Expense		(860,976)
Less: Amortization Expense		(51,782)
Total Operating Expense		2,030,791
Interest Revenue		39,337
Net Revenue Available for Debt Service	\$	2,595,093

Maximum Annual Debt Service Requirements:

Utility System Sales Tax Revenue Note	\$	751,573
OWRB SRF Promissory Note, 2006A		151,676
OWRB SRF Promissory Note, 2006B		473,540
Total Debt Service Requirement	\$	1,376,789

Coverage		188%
Coverage Requirement		125%

F. Fund Equity

Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports \$549,456 of restricted net assets, of which \$511,634 is restricted by enabling legislation.

Enabling Legislation:

Cemetery Fund	\$	1,060
Senior Citizens Fund		52,326
Library Fund		458,248
	\$	511,634

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

F. Fund Equity - continued

Deficit Fund Balances

Deficit fund balances of \$119,083 and \$6,521 were reported in the Grant Fund, a major governmental fund, and Nutrition Fund, respectively, as of June 30, 2011.

Governmental Fund Balance Classifications

As of June 30, 2011, fund balances of the Governmental Funds were classified as follows:

	General	Grant	Other Governmental	Total
Restricted				
Debt Service	\$ -	\$ -	\$ 52,326	\$ 52,326
Grant Fund Expenditures	-	-	21,569	21,569
Cemetery Care Capital Expenditures	-	-	1,060	1,060
Debt Service	-	-	458,248	458,248
Police Expenditures	-	-	16,253	16,253
Assigned				
Special Assessment	320	-	-	320
Unassigned	665,148	(119,083)	(6,521)	539,544
	<u>\$ 665,468</u>	<u>\$ (119,083)</u>	<u>\$ 542,935</u>	<u>\$ 1,089,320</u>

G. Pension Plans

The City contributes to pension plans on behalf of all full time employees including the police and fire departments. Following is a discussion of each plan, and the summary financial data:

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Firefighters' Retirement Plan - continued

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2011. Participating members are required to contribute 8%.

Three Year Trend Information:

Year Ending June 30,	Covered Payroll	Total Pension Cost	City Share	Employee Share	On Behalf Payments
2011	\$ 244,520	\$ 51,349	\$ 31,787	\$ 19,562	\$ 60,000
2010	251,858	52,290	31,841	20,449	55,000
2009	203,306	48,364	29,940	18,424	47,000

As of July 1, 2011, the latest available actuarial valuation, the actuarial present value of credited projected benefits was \$2,760,356,000, and net assets available for benefits were \$1,757,838,000. Unfunded liabilities, which are an obligation of the state of Oklahoma, totaled \$1,002,518,000.

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Municipal Retirement Plan

The Oklahoma Municipal Retirement Fund (OMRF) issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements of City of Broken Bow and employees are established and may be amended by the OMRF board. Employees are required to contribute 5.25 percent of their annual covered salary. City of Broken Bow is required to contribute at an actuarially determined rate; the rate at June 30, 2011 is 10.75% of covered payroll.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Municipal Retirement Plan - continued

Annual Pension Cost: For 2010-11, City of Broken Bow's annual pension cost of \$179,210 was equal to the required and actual contributions. The required contribution was determined as part of the March 10, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

Trend Information:

Year Ending June 30,	Contribution Rate	Total Cost (APC)	Contributed	Net Pension Obligation
2011	10.75%	\$ 179,210	100%	\$ -
2010	10.75%	158,082	100%	-
2009	10.75%	147,082	100%	-

Funding Status and Funding Progress: As of March 2011, the most recent actuarial valuation date, the plan was 75.1 percent funded. The actuarial accrued liability for benefits was \$3,251,926, and the actuarial value of assets was \$2,443,255, resulting in an unfunded actuarial accrued liability (UAAL) of \$808,670. The covered payroll (total annualized rate of pay as of the valuation date based on actual pay for the preceding year) was \$1,657,111, and the ratio of the UAAL to the covered payroll was 48.8 percent. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis.

The schedule of funding progress, presented as OSI following the notes to the financial statements, present trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

H. Landfill Closure and Post-Closure Care Costs

State laws and regulations require the Kulli Chito Environmental Authority, a blended enterprise fund, to perform certain closure activities for its Broken Bow landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, the Authority reports a portion of the closure and post-closure costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The total closure and post-closure costs are \$1,212,646, as stated by the engineering firm and approved by the Oklahoma Department of Environmental Quality. Of this amount, \$974,689 has been accrued through June 30, 2011. This amount represents the cumulative amount to date based on the use of 80% of the current estimated capacity of the landfill. There are approximately 2.55 landfill life years remaining. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$237,957, as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2011. However, the Authority expects to operate the landfill until at least year 2013. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The Authority sets aside a portion of its net proceeds for financial assurance. As of June 30, 2011, \$1,169,585 has been restricted for payment of future closure and post closure care costs.

I. Risk Management

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2011

IV. DETAILED NOTES ON ALL FUNDS - continued

J. Commitments and Contingencies

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2011, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

K. Economic Dependence

The enterprise fund (Broken Bow Public Works Authority) is economically dependent upon major water and electric utility users to produce revenue sufficient to make its debt service payments and fund its operations.

L. Accounting Change

The City implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Beginning fund balances for the governmental funds have been restated to reflect the new classifications. As part of this implementation, certain funds have been reclassified to conform with GASB Statement 54.

City of Konawa, Oklahoma
Unaudited – Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
For the Year Ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Liability (AAL) - Entry Age b	Unfunded AAL (UAAL) b-a	Funded Ratio a/b	Covered Payroll c	UAAL as
						Percentage of Covered Payroll (b-a)/c
1/1/2005	\$ 1,164,886	\$ 1,650,037	\$ 485,151	70.6%	\$ 1,479,690	32.8%
1/1/2006	1,363,571	1,686,147	322,576	80.9%	1,263,699	25.5%
1/1/2007	1,579,674	1,812,069	232,395	87.2%	1,315,886	17.7%
1/1/2008	1,853,705	2,254,630	400,925	82.2%	1,252,939	32.0%
1/1/2009	1,918,393	2,643,857	725,464	72.6%	1,358,560	53.4%
1/1/2010	2,141,125	2,858,553	717,428	74.9%	1,458,669	49.2%
1/1/2011	2,443,255	3,251,926	808,671	75.1%	1,658,433	48.8%

The schedule of funding progress presented above presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Konawa, Oklahoma
Budgetary Information
June 30, 2011

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year end; therefore, encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

City of Konawa, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2011

	Budget Amounts		Actual Amounts	Variance
	Original	Final		With Final Budget
REVENUE				
Taxes	\$ 1,537,837	\$ 1,332,518	\$ 1,550,850	\$ 218,332
Intergovernmental	-	131,406	203,254	71,848
Grants	-	-	38,476	38,476
License	8,859	83,849	96,917	13,068
Charges for Service	41,479	45,016	41,366	(3,650)
Fines	158,958	159,736	169,949	10,213
Rent	-	-	3,500	3,500
Miscellaneous	60,194	175,372	131,501	(43,871)
Interest	-	8,231	8,556	325
Total Revenue	1,807,327	1,936,128	2,244,369	308,241
EXPENDITURES				
Current				
General Government	446,940	379,481	342,789	36,692
Public Safety	1,486,600	1,541,325	1,489,552	51,773
Streets	669,250	648,990	628,792	20,198
Culture and Recreation	456,560	13,350	9,447	3,903
Cemetery and Parks	16,000	399,670	387,344	12,326
Debt Service	56,970	84,970	84,043	927
Total Expenditures	3,132,320	3,067,786	2,941,967	125,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,324,993)	(1,131,658)	(697,598)	434,060
Other Financing Sources				
Transfers In	728,801	635,000	475,201	(159,799)
Transfers Out	(18,355)	(117,889)	(117,822)	67
Total Other Financing Sources	710,446	517,111	357,379	(159,732)
Net Change in Fund Balances	(614,547)	(614,547)	(340,219)	274,328
Fund Balances - Beginning	770,073	770,073	1,005,687	235,614
Fund Balances - Ending	\$ 155,526	\$ 155,526	\$ 665,468	\$ 509,942

City of Konawa, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Grant Fund
For the Year Ended June 30, 2011

	Budget Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Grants	\$ 703,116	\$ 274,415	\$ 266,915	\$ (7,500)
Miscellaneous	-	584,691	14,398	(570,293)
Total Revenue	703,116	859,106	281,313	(577,793)
EXPENDITURES				
Current				
Public Safety	88,931	-	-	-
Streets	414,000	-	-	-
Culture and Recreation	39,870	111,801	13,791	98,010
Cemetery and Parks	-	869,890	495,298	374,592
Utility Service	455,890	-	-	-
Total Expenditures	998,691	981,691	509,089	472,602
Excess (Deficiency) of Revenues Over (Under) Expenditures	(295,575)	(122,585)	(227,776)	(105,191)
Other Financing Sources				
Transfers In	295,575	139,585	108,625	(30,960)
Transfers Out	-	(17,000)	(16,259)	741
Total Other Financing Sources	295,575	122,585	92,366	(30,219)
Net Change in Fund Balances	-	-	(135,410)	(135,410)
Fund Balances - Beginning	-	-	16,327	16,327
Fund Balances - Ending	\$ -	\$ -	\$ (119,083)	\$ (119,083)

City of Konawa, Oklahoma
Combining Balance Sheet
General Fund
June 30, 2011

	General	Travel	Craig Industrial	Total
<i>Assets</i>				
Cash and Cash Equivalent	\$ 526,364	\$ 1,389	\$ 1,100	\$ 528,853
Due From Other Funds	47,278	-	-	47,278
Revenue Receivable	<u>253,277</u>	<u>-</u>	<u>-</u>	<u>253,277</u>
Total Assets	<u><u>\$ 826,919</u></u>	<u><u>\$ 1,389</u></u>	<u><u>\$ 1,100</u></u>	<u><u>\$ 829,408</u></u>
 <i>Liabilities</i>				
Accounts Payable	\$ 161,772	\$ 1,388	\$ 780	\$ 163,940
Due To Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>161,772</u>	<u>1,388</u>	<u>780</u>	<u>163,940</u>
 <i>Fund Balances</i>				
Restricted	-	-	-	-
Assigned	-	-	320	320
Unassigned	<u>665,147</u>	<u>1</u>	<u>-</u>	<u>665,148</u>
Total Fund Balances	<u>665,147</u>	<u>1</u>	<u>320</u>	<u>665,468</u>
Total Liabilities and Fund Balances	<u><u>\$ 826,919</u></u>	<u><u>\$ 1,389</u></u>	<u><u>\$ 1,100</u></u>	<u><u>\$ 829,408</u></u>

City of Konawa, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Year End June 30, 2011

	General	Travel	Craig Industrial	Total
REVENUE				
Taxes	\$ 1,550,850	\$ -	\$ -	\$ 1,550,850
Intergovernmental	203,254	-	-	203,254
Grants	38,476	-	-	38,476
License and Permits	96,917	-	-	96,917
Charges for Service	41,366	-	-	41,366
Fines and Forfeitures	169,949	-	-	169,949
Rent	-	-	3,500	3,500
Miscellaneous	131,500	1	-	131,501
Interest	<u>8,556</u>	<u>-</u>	<u>-</u>	<u>8,556</u>
Total Revenue	2,240,868	1	3,500	2,244,369
EXPENDITURES				
<i>Current</i>				
General Government	335,309	-	7,480	342,789
Public Safety	1,405,205	-	-	1,405,205
Streets	540,501	-	-	540,501
Culture and Recreation	9,447	-	-	9,447
Cemetery and Parks	139,544	-	-	139,544
<i>Capital Outlay</i>				
Public Safety	84,347	-	-	84,347
Streets	88,291	-	-	88,291
Cemetery and Parks	387,800	-	-	387,800
Debt Service	<u>84,043</u>	<u>-</u>	<u>-</u>	<u>84,043</u>
Total Expenditures	3,074,487	-	7,480	3,081,967
Excess (Deficiency) of Revenues Over (Under) Expenditures	(833,619)	1	(3,980)	(837,598)
<i>Other Financing Sources</i>				
Capital Lease Financing	140,000	-	-	140,000
Transfers In	470,901	-	4,300	475,201
Transfers Out	<u>(117,822)</u>	<u>-</u>	<u>-</u>	<u>(117,822)</u>
Total Other Financing Sources	493,079	-	4,300	497,379
Net Change in Fund Balances	(340,540)	1	320	(340,219)
Fund Balances - Beginning	<u>1,005,687</u>	<u>-</u>	<u>-</u>	<u>1,005,687</u>
Fund Balances - Ending	<u>\$ 665,147</u>	<u>\$ 1</u>	<u>\$ 320</u>	<u>\$ 665,468</u>

**City of Konawa, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	<u>Senior Citizens</u>	<u>Airport</u>	<u>Cemetery Care</u>	<u>Library</u>	<u>Police Donation</u>	<u>Nutrition</u>	<u>Total</u>
Assets							
Cash and Cash Equivalent	\$ 22,138	\$ 110	\$ 1,060	\$ 436,486	\$ 9,602	\$ (5,884)	\$ 463,512
Due From Other Funds	7,249	21,459	-	-	7,973	-	36,681
Revenue Receivable	<u>24,606</u>	<u>-</u>	<u>-</u>	<u>24,606</u>	<u>-</u>	<u>-</u>	<u>49,212</u>
Total Assets	<u>\$ 53,993</u>	<u>\$ 21,569</u>	<u>\$ 1,060</u>	<u>\$ 461,092</u>	<u>\$ 17,575</u>	<u>\$ (5,884)</u>	<u>\$ 549,405</u>
Liabilities							
Accounts Payable	<u>\$ 1,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,844</u>	<u>\$ 1,322</u>	<u>\$ 637</u>	<u>\$ 6,470</u>
Total Liabilities	<u>1,667</u>	<u>-</u>	<u>-</u>	<u>2,844</u>	<u>1,322</u>	<u>637</u>	<u>6,470</u>
Fund Balances							
Restricted	52,326	21,569	1,060	458,248	16,253	-	549,456
Committed	-	-	-	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,521)</u>	<u>(6,521)</u>
Total Fund Balances	<u>52,326</u>	<u>21,569</u>	<u>1,060</u>	<u>458,248</u>	<u>16,253</u>	<u>(6,521)</u>	<u>542,935</u>
Total Liabilities and Fund Balances	<u>\$ 53,993</u>	<u>\$ 21,569</u>	<u>\$ 1,060</u>	<u>\$ 461,092</u>	<u>\$ 17,575</u>	<u>\$ (5,884)</u>	<u>\$ 549,405</u>

City of Konawa, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Senior Citizens	Airport	Cemetery Care	Library	Police Donation	Nutrition	Total
REVENUE							
Taxes	\$ 181,830	\$ -	\$ -	\$ 181,830	\$ -	\$ -	\$ 363,660
Rent	775	-	-	-	-	-	775
Grant	-	-	-	-	-	55,048	55,048
Miscellaneous	487	(1)	615	-	-	-	1,101
Interest	-	-	-	5,983	-	-	5,983
Total Revenue	<u>183,092</u>	<u>(1)</u>	<u>615</u>	<u>187,813</u>	<u>-</u>	<u>55,048</u>	<u>426,567</u>
EXPENDITURES							
<i>Current</i>							
Culture and Recreation	-	-	-	95,256	-	-	95,256
General Government	108,687	-	-	-	-	-	108,687
<i>Capital Outlay</i>							
Health and Welfare	-	-	-	-	-	63,832	63,832
Debt Service	<u>69,545</u>	<u>-</u>	<u>-</u>	<u>84,282</u>	<u>-</u>	<u>-</u>	<u>153,827</u>
Total Expenditures	<u>178,232</u>	<u>-</u>	<u>-</u>	<u>179,538</u>	<u>-</u>	<u>63,832</u>	<u>421,602</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,860	(1)	615	8,275	-	(8,784)	4,965
<i>Other Financing Sources</i>							
Transfers In	8,216	-	-	-	-	6,836	15,052
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	8,216	-	-	-	-	6,836	15,052
Net Change in Fund Balances	13,076	(1)	615	8,275	-	(1,948)	20,017
Fund Balances - Beginning	<u>39,250</u>	<u>21,570</u>	<u>445</u>	<u>449,973</u>	<u>16,253</u>	<u>(4,573)</u>	<u>522,918</u>
Fund Balances - Ending	<u>\$ 52,326</u>	<u>\$ 21,569</u>	<u>\$ 1,060</u>	<u>\$ 458,248</u>	<u>\$ 16,253</u>	<u>\$ (6,521)</u>	<u>\$ 542,935</u>



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

To the City Council
City of Broken Bow, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Broken Bow, Oklahoma's basic financial statements and have issued our report thereon dated June 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Broken Bow, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other

matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

We noted certain items that we reported to management of City of Broken Bow, Oklahoma, in a separate letter dated June 13, 2012.

City of Broken Bow, Oklahoma's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Broken Bow, Oklahoma's responses and, accordingly, we express no opinion on them.

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.

Handwritten signature in black ink that reads "HBC CPAs & Advisors".

Yukon, Oklahoma

June 13, 2012

**CITY OF BROKEN BOW, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Matters Communicated in Prior Years

2011-1 Deficit Fund Balance

Condition – There was a deficit fund balance of \$6,521 in Fund 306 – Nutrition Fund – at June 30, 2011.

Criteria – Title 11, Section 17-211: It shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund.

Effect – There is a deficit balance in the Nutrition Fund at June 30, 2011.

Cause – Inadequate monitoring of financial statements.

Recommendation – We recommend that management monitor budget to prevent and detect fund deficits.

View of responsible officials – Management agrees and will review monitoring procedures in this area.

2011-2 Expenditures

Condition – 5 of 25 expenditures we tested for compliance had invoices dated on or prior to the date of their corresponding purchase order.

Criteria – Title 62, Section 310.1 – 310.9 requires purchase orders be issued prior to expenditures.

Effect – Noncompliance with Oklahoma statutes.

Cause – Lack of controls surrounding purchasing procedures.

Recommendation – We recommend the City strengthen controls surrounding purchases to comply with applicable state regulations.

View of responsible officials – Management concurs and will implement procedures to comply with purchasing requirements.

City of Konawa, Oklahoma
Summary Schedule of Prior Year Findings and Responses
June 30, 2011

2010-1 Federal revenues were not segregated in a separate fund.

Not a current year finding.

2010-2 Deficit fund balance in the Nutrition Fund.

See Current Year Finding 2011-1

2010-3 Kulli Chito Environmental Authority Landfill was not in compliance with financial assurance requirements per Oklahoma Statutes.

Not a current year finding.

2010-4 Expenditures had invoice dates prior to purchase order dates, and there were lack of receipt of goods signatures for expenditures.

See Current Year Finding 2011-2