

**CITY OF TONKAWA, OKLAHOMA  
TONKAWA, OKLAHOMA**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORTS**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

CITY OF TONKAWA, OKLAHOMA  
TABLE OF CONTENTS  
For the fiscal year ended JUNE 30, 2011

---

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Notes to Basic Financial Statements	21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33

# Derrel S. White, CPA

---

P.O. Box 842  
Woodward, OK 73802  
(580) 256-6830

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Tonkawa, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tonkawa, OK 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 Tonkawa, OK'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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tonkawa, 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 December 15, 2011, on our consideration of the City of Tonkawa, OK'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 information on pages 3 through 10 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.

  
Derrel S. White, CPA

Woodward, OK

December 15, 2011

Within this section, the City of Tonkawa's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2011. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL SUMMARY

- At June 30, 2011, the assets of the City exceeded its liabilities by \$5,785,286 (net assets). Of this amount \$1,055,968 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors. This compared to the previous year when assets exceeded liabilities by \$5,107,900.
- The City's total net assets are comprised of the following:
  - (1) Invested in capital assets, net of related debt of \$4,404,559 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
  - (2) Restricted net assets of \$324,759.
  - (3) Unrestricted net assets of \$1,055,968 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$432,246 during the fiscal year. The majority of this decrease is attributable to repayments of \$386,721 made on outstanding debt.
- After transfers of \$305,078 from business-type activities to governmental activities, net assets of governmental activities increased \$167,686 or 5%, and net assets of business-type activities decreased \$693,371 or 38%. Overall the health of the City improved when compared to prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$466,694 or 21.7% of total General Fund expenditures, excluding transfers.

### OVERVIEW OF THE FINANCIAL STATEMENTS

*Management's Discussion and Analysis* introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

#### **Government-wide Financial Statements**

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resources available and whether the City can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are

included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including electricity, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Tonkawa Municipal Hospital Authority is a separate legal entity which operates independently and provides services direly to the citizens though the City remains accountable for their actions. As such, the Tonkawa Municipal Hospital Authority is reported separately from the primary government through included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in footnotes.

#### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources 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.

The City has three kinds of funds:

*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, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

#### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

**Other information**

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Assets**

The City's combined net assets at June 30, 2011 are \$5,785,286. This is a \$861,057 increase over June 30, 2010 net assets of \$5,107,900 before prior-period adjustment. The City reported positive balances in total net assets for both governmental and business-type activities, reporting \$3,572,399 and \$2,212,887, respectively. The City's overall financial position improved during fiscal year 2011.

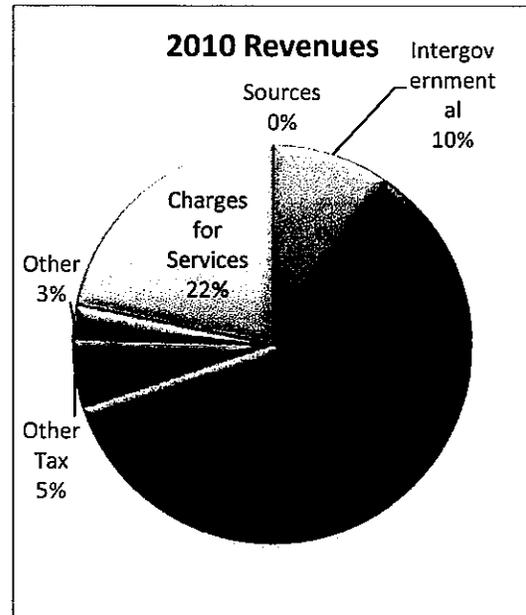
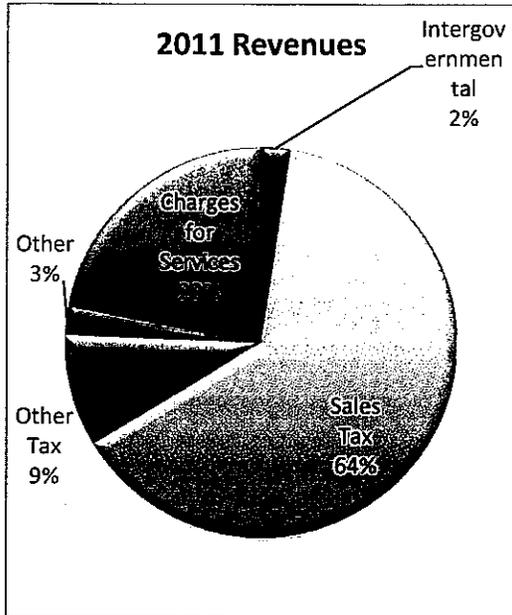
	Governmental Activities		Summary of Net Assets Business-Type Activities		Total		\$ Change	% Change
	2011	2010	2011	2010	2011	2010		
Current assets	\$ 803,812	\$ 407,645	\$ 838,817	\$ 934,236	\$ 1,642,629	\$ 1,341,881	\$ 300,748	22%
Non-current assets	-	-	155,576	165,682	155,576	165,682	(10,106)	-6%
Capital assets, net	2,829,808	2,914,601	5,141,569	5,102,278	7,971,377	8,016,879	(45,502)	-1%
<b>Total assets</b>	<b>3,633,620</b>	<b>3,322,246</b>	<b>6,135,962</b>	<b>6,202,196</b>	<b>9,769,582</b>	<b>9,524,442</b>	<b>245,140</b>	<b>3%</b>
Current liabilities	12,359	27,012	576,520	285,832	588,879	312,844	276,035	88%
Non-current liabilities	48,862	32,832	3,346,555	4,070,866	3,395,417	4,103,698	(708,281)	-17%
<b>Total liabilities</b>	<b>61,221</b>	<b>59,844</b>	<b>3,923,075</b>	<b>4,356,698</b>	<b>3,984,296</b>	<b>4,416,542</b>	<b>(432,246)</b>	<b>-10%</b>
Net assets								
Invested in capital assets, net of related debt	2,829,808	2,905,372	1,574,751	988,162	4,404,559	3,893,534	511,025	13%
Restricted	324,759	142,094	-	40,396	324,759	182,490	142,269	78%
Unrestricted	417,832	214,936	638,136	816,940	1,055,968	1,031,876	24,092	2%
<b>Total net assets</b>	<b>\$ 3,572,399</b>	<b>\$ 3,262,402</b>	<b>\$ 2,212,887</b>	<b>\$ 1,845,498</b>	<b>\$ 5,785,286</b>	<b>\$ 5,107,900</b>	<b>\$ 677,386</b>	<b>13%</b>

Summary of Changes in Net Assets

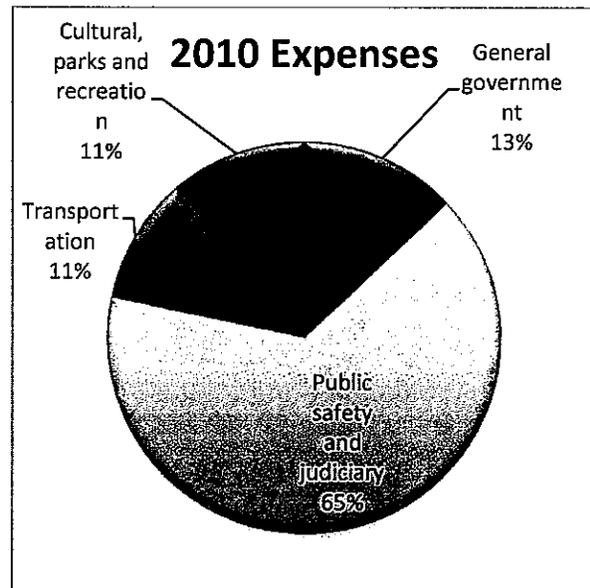
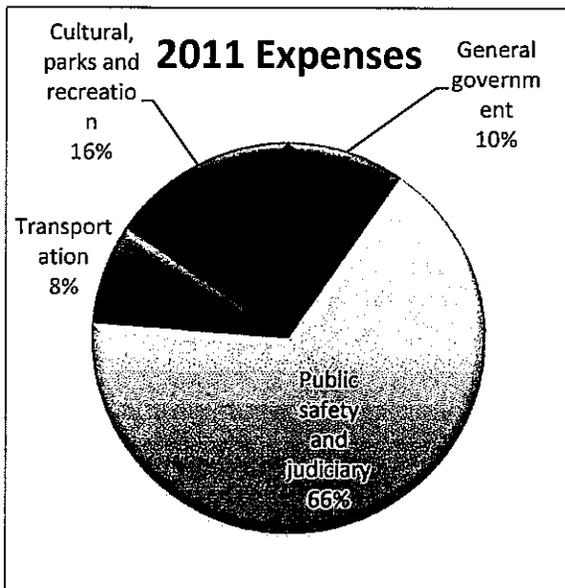
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2011	2010	2011	2010	2011	2010		
<b>Revenues</b>								
Program revenues	\$ 414,653	\$ 461,777	\$ 4,460,038	\$ 3,866,215	\$ 4,874,691	\$ 4,327,992	\$ 546,699	13%
Taxes and other general revenues	1,197,779	1,159,242	12,985	331,795	1,210,764	1,491,037	(280,273)	-19%
<b>Total revenues</b>	<b>1,612,432</b>	<b>1,621,019</b>	<b>4,473,023</b>	<b>4,198,010</b>	<b>6,085,455</b>	<b>5,819,029</b>	<b>266,426</b>	<b>-6%</b>
<b>Expenses</b>								
General government	170,048	265,263	-	-	170,048	265,263	(95,215)	-36%
Public safety and judiciary	1,162,945	1,337,205	-	-	1,162,945	1,337,205	(174,260)	-13%
Transportation	145,190	215,621	-	-	145,190	215,621	(70,431)	-33%
Cultural, parks, and recreation	271,641	228,820	-	-	271,641	228,820	42,821	19%
Economic development	-	-	41,651	32,622	41,651	32,622	9,029	28%
Electric	-	-	2,274,783	2,092,949	2,274,783	2,092,949	181,834	9%
Water	-	-	386,906	300,029	386,906	300,029	86,877	29%
Sewer	-	-	187,061	180,718	187,061	180,718	6,343	4%
Sanitation	-	-	190,221	191,453	190,221	191,453	(1,232)	-1%
Customer service	-	-	393,952	656,714	498,502	656,714	(158,212)	-24%
<b>Total expenses</b>	<b>1,749,824</b>	<b>2,046,909</b>	<b>3,474,574</b>	<b>3,454,485</b>	<b>5,328,948</b>	<b>5,501,394</b>	<b>(172,446)</b>	<b>-3%</b>
Excess (deficiency) before transfers	\$ (137,392)	\$ (425,890)	\$ 998,449	\$ 743,525	\$ 756,507	\$ 317,635	\$ 438,872	138%
Transfers	305,078	683,302	(305,078)	(683,302)	-	-	-	0%
<b>Increase (decrease) in net assets</b>	<b>\$ 167,686</b>	<b>\$ 257,412</b>	<b>\$ 693,371</b>	<b>\$ 60,223</b>	<b>\$ 756,507</b>	<b>\$ 317,635</b>	<b>\$ 438,872</b>	<b>138%</b>

Revenues for the City decreased 6% year over year. This decrease in revenues is attributable to falling tax revenues and ambulance billings. Operating expenses also noted an overall decrease over fiscal year 2010 of 3%.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.



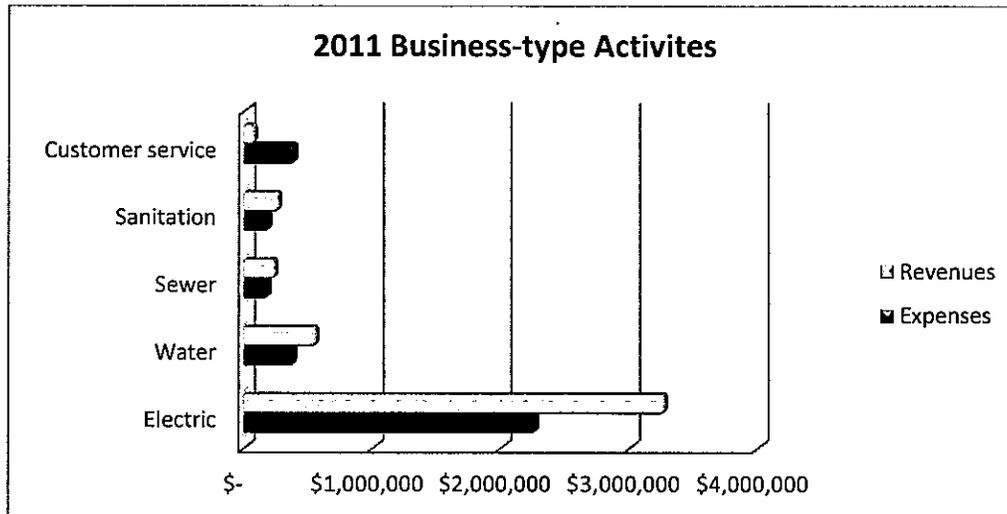
Taxes proved for 64% of the City's governmental revenues in fiscal year 2011 as compared to 60% in 2010. Other revenue sources remained consistent year over year.



For the year ended June 30, 2011, total expenses for governmental activities were \$1,749,824. Of this amount, public safety and judiciary with \$1,162,945, was the largest operating service department at 66% of the total cost of services for the City government, which is consistent with prior year. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Tonkawa Municipal Authority. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital

assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

**Business-type Activities**



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2011, revenues from electric, water, sewer, and sanitation services covered the cost of operating their respective departments.

**General Fund Budgetary Highlights**

The original adopted General Fund budget for fiscal year 2011 was \$1,770,284. Two budget amendments were approved during the fiscal year increasing the budget by \$105,356, for a final amended budget of \$1,875,640, prior to transfers. This was a decrease of \$152,667 over the previous year's budget attributable to capital projects. The General Fund budget complied with financial policies approved by the City.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2011, the City had \$4,404,559 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$ -	\$ -	\$ 18,289	\$ 5,000	\$ 18,289	\$ 5,000
Construction in process	19,572	-	-	-	19,572	-
Buildings	582,807	598,558	170,034	180,036	752,841	778,594
Machinery & equipment	133,060	166,877	79,811	90,270	212,871	257,147
Utility property & improvements	2,094,369	2,149,165	4,873,435	4,826,583	6,967,804	6,975,748
Totals	<u>\$ 2,829,808</u>	<u>\$ 2,914,600</u>	<u>\$ 5,141,569</u>	<u>\$ 5,101,889</u>	<u>\$ 7,971,377</u>	<u>\$ 8,016,489</u>

- In Governmental Activities, the most significant additions included a 2011 police car equipped, roof on the pool house, and a flood impact study.
- In Business-type activities, capital additions included electrical improvements, repairs to the light & water building, and lift station improvements.

**Long-Term Debt**

At year-end, the City had \$3,318,587 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Governmental		Business-type	
	Activities		Activities	
	2011	2010	2011	2010
Lease payable	-	9,204	-	38,250
Notes payable	-	-	2,090,566	2,305,866
Bonds payable	-	-	1,570,000	1,765,000
less current portion	-	(9,204)	(341,979)	(386,722)
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,318,587</u>	<u>\$ 3,722,394</u>

**ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES**

**Economic Environment**

The national economic recession resulted in economic concerns and issues for the City. Overall tax revenues increased but showed inconsistency throughout the year. Because the City has effective processes in place to deal with the economic declines, the impact on the City has not been as detrimental as it has in other cities and other part of the country. Improvement in the economic position is cautiously projected.

**Fees and Rates**

Sales tax was budgeted at 90% of prior year collections. As noted above, the City expects to see improvement in the economy; however, a conservative approach was applied based upon the inconsistent revenues noted during FY11.

The Tonkawa Municipal Authority increased utility rates 3% for electric, water, sewer, and sanitation effective July 1, 2012.

**Operating and Capital Expenses**

The City budget included a 3% raise for all full time employees. Fuel expenses noted an increase based upon consumption and increase in price.

Capital improvements include grant match for a sewer and water projects totaling \$107,500, \$16,000 pickup in the street department, and \$34,000 for street repairs.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Tonkawa City Hall, 113 South 7th, Tonkawa, Oklahoma, 74653.

**City of Tonkawa, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 553,504	\$ 111,243	\$ 664,747
Investments	20,000	112,494	132,494
Accounts receivable (net)	91,304	85,619	176,923
Receivable from other governments	82,553	-	82,553
<b>Total current assets</b>	<b>747,361</b>	<b>309,356</b>	<b>1,056,717</b>
<b>Restricted assets:</b>			
Cash	56,451	392,051	448,502
Investments	-	137,410	137,410
<b>Total restricted assets</b>	<b>56,451</b>	<b>529,461</b>	<b>585,912</b>
<b>Noncurrent Assets:</b>			
Bond issuance costs, net	-	155,576	155,576
Land and construction in progress	19,572	5,000	24,572
Other capital assets (net of accumulated depreciation)	2,810,236	5,136,569	7,946,805
<b>Total noncurrent assets</b>	<b>2,829,808</b>	<b>5,297,145</b>	<b>8,126,953</b>
<b>Total assets</b>	<b>\$ 3,633,620</b>	<b>\$ 6,135,962</b>	<b>\$ 9,769,582</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 11,312	\$ 13,211	\$ 24,523
Accrued interest payable	-	12,523	12,523
Notes payable, current	-	208,807	208,807
<b>Total current liabilities</b>	<b>11,312</b>	<b>234,541</b>	<b>245,853</b>
<b>Liabilities payable from restricted assets:</b>			
Court bonds payable	1,047	-	1,047
Customer deposits payable	-	146,979	146,979
Bonds payable, current	-	195,000	195,000
<b>Total liabilities payable from restricted assets</b>	<b>1,047</b>	<b>341,979</b>	<b>343,026</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	48,862	27,968	76,830
Notes payable, non-current	-	1,943,587	1,943,587
Bonds payable, non-current	-	1,375,000	1,375,000
<b>Total noncurrent liabilities</b>	<b>48,862</b>	<b>3,346,555</b>	<b>3,395,417</b>
<b>Total liabilities</b>	<b>61,221</b>	<b>3,923,075</b>	<b>3,984,296</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,829,808	1,574,751	4,404,559
Restricted	324,759	-	324,759
Unrestricted	417,832	638,136	1,055,968
<b>Total net assets</b>	<b>\$ 3,572,399</b>	<b>\$ 2,212,887</b>	<b>\$ 5,785,286</b>

**City of Tonkawa, Oklahoma**  
**Statement of Activities**  
**June 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants & Contributions
<b>Governmental activities:</b>					
<b>General government:</b>					
General government	\$ 151,813	\$ 92,940	\$ -	\$ -	\$ (58,873)
Administration	18,235	-	-	-	(18,235)
Total general government	170,048	92,940	-	-	(77,108)
<b>Public safety and judiciary:</b>					
Legal and courts	20,687	18,064	-	-	(2,623)
Code enforcement	5,883	-	-	-	(5,883)
Police	660,066	118,059	-	-	(542,007)
Fire	245,019	6,100	-	-	(238,919)
Ambulance	231,290	139,997	-	-	(91,293)
Total public safety and judiciary	1,162,945	282,220	-	-	(880,725)
<b>Transportation:</b>					
Streets	138,287	-	29,535	-	(108,752)
Airport	6,903	-	-	-	(6,903)
Total transportation	145,190	-	29,535	-	(115,655)
<b>Cultural, parks and recreation:</b>					
Parks	177,306	8,468	-	-	(168,838)
Library	94,335	-	1,490	-	(92,845)
Total cultural, parks and recreation	271,641	8,468	1,490	-	(261,683)
Total governmental activities	1,749,824	383,628	31,025	-	(1,335,171)
<b>Business-type activities:</b>					
Electric	2,274,783	3,274,177	-	-	999,394
Water	386,906	557,686	-	-	170,780
Sewer	187,061	238,035	-	-	50,974
Sanitation	190,221	266,430	-	-	76,209
Customer service	393,952	78,555	-	-	(315,397)
Economic development	41,651	-	30,655	14,500	3,504
Total business-type activities	3,474,574	4,414,883	30,655	14,500	985,464
Total primary government	\$ 5,224,398	\$ 4,798,511	\$ 61,680	\$ 14,500	\$ (349,707)

(Continued)

**City of Tonkawa, Oklahoma**  
**Statement of Activities**  
**June 30, 2011**

**Changes in Net Assets:**

(Continued)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Net (expense)/revenue	\$ (1,335,171)	\$ 985,464	\$ (349,707)
General revenues:			
Taxes:			
Sales taxes	1,017,383	-	1,017,383
Use taxes	38,990	-	38,990
Franchise taxes	40,716	-	40,716
Cigarette taxes	14,646	-	14,646
Alcoholic beverage tax	12,294	-	12,294
Investment income	2,176	8	2,184
Miscellaneous	71,574	12,977	84,551
Transfers-Internal activity	305,078	(305,078)	-
Total general revenues and transfers	<u>1,502,857</u>	<u>(292,093)</u>	<u>1,210,764</u>
Change in net assets	167,686	693,371	861,057
Net assets-beginning	3,262,402	1,845,498	5,107,900
Prior period adjustment	142,311	(325,982)	(183,671)
Net assets-ending	<u>\$ 3,572,399</u>	<u>\$ 2,212,887</u>	<u>\$ 5,785,286</u>

**City of Tonkawa, Oklahoma  
Balance Sheet  
June 30, 2011**

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Special Revenue Internal Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 305,196	\$ 301,739	\$ 3,020	\$ -	\$ 609,955
Investments	-	-	20,000	-	20,000
Accounts receivable	39,933	-	-	-	39,933
Fines receivable, net of allowance	51,371	-	-	-	51,371
Receivable from other governments	82,553	-	-	-	82,553
Total assets	<u>\$ 479,053</u>	<u>\$ 301,739</u>	<u>\$ 23,020</u>	<u>\$ -</u>	<u>\$ 803,812</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 11,312	\$ -	\$ -	\$ -	\$ 11,312
Court bonds payable	1,047	-	-	-	1,047
Total liabilities	<u>12,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,359</u>
<b>FUND BALANCES</b>					
Reserved for:					
Unreserved, reported in:					
General fund	466,694	-	-	-	466,694
Special revenue funds	-	301,739	23,020	-	324,759
Total fund balances	<u>466,694</u>	<u>301,739</u>	<u>23,020</u>	<u>-</u>	<u>791,453</u>
Total liabilities and fund balances	<u>\$ 479,053</u>	<u>\$ 301,739</u>	<u>\$ 23,020</u>	<u>\$ -</u>	<u>\$ 803,812</u>
Total fund balance - total governmental funds					791,453
Amounts reported for governmental activities in the Statement of Net assets are different because:					
Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds					
			19,572		
			3,549,438		
			<u>(739,202)</u>		2,829,808
Long-term liabilities are not due and payable in the current period and are not reported in the funds					
					<u>(48,862)</u>
Net assets of governmental activities					<u>\$ 3,572,399</u>

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**June 30, 2011**

	General Fund	Capital Projects Capital Improvement Fund	Special Revenue Blinn Park Memorial Fund	Special Revenue Internal Service Fund	Total Governmental Funds
<b>REVENUES</b>					
Sales taxes	\$ 1,017,383	\$ -	\$ -	\$ -	\$ 1,017,383
Use taxes	38,990	-	-	-	38,990
Franchise taxes	40,716	-	-	-	40,716
E911 fees	41,095	-	-	-	41,095
Cigarette tax	14,646	-	-	-	14,646
Alcoholic Beverage Tax	12,294	-	-	-	12,294
Licenses and permits	7,589	-	-	-	7,589
Fines and forfeitures	94,466	-	-	-	94,466
Investment income	2,145	-	31	-	2,176
Charges for services	215,189	-	-	-	215,189
Rental income	32,279	-	-	-	32,279
Intergovernmental	38,127	-	-	-	38,127
Donations	1,490	-	-	-	1,490
Miscellaneous	35,342	-	-	-	35,342
Total revenues	1,591,751	-	31	-	1,591,782
<b>EXPENDITURES</b>					
General government:					
General government	120,940	7,458	-	-	128,398
Administration	18,235	-	-	-	18,235
Total general government	139,175	7,458	-	-	146,633
Public safety and judiciary:					
Legal and courts	20,687	-	-	-	20,687
Code enforcement	5,267	-	-	-	5,267
Police	609,722	13,711	-	-	623,433
Fire	223,961	-	-	-	223,961
Ambulance	226,306	3,642	-	-	229,948
Total public safety and judiciary	1,085,943	17,353	-	-	1,103,296
Transportation:					
Street	107,457	18,125	-	-	125,582
Airport	6,903	-	-	-	6,903
Total transportation	114,360	18,125	-	-	132,485
Cultural, parks and recreation:					
Parks	107,504	12,497	-	-	120,001
Library	90,013	2,907	-	-	92,920
Total cultural, parks and recreation	197,517	15,404	-	-	212,921
Capital outlay	50,307	11,850	-	-	62,157
Total expenditures	1,587,302	70,190	-	-	1,657,492
Excess (deficiency) of revenues over expenditures	4,449	(70,190)	31	-	(65,710)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	635,285	812,405	-	-	1,447,690
Transfers out	(563,119)	(559,581)	-	(19,912)	(1,142,612)
Total other financing sources and uses	72,166	252,824	-	(19,912)	305,078
Net change in fund balances	76,615	182,634	31	(19,912)	239,368
Fund balances - beginning	247,768	119,105	22,989	19,912	409,774
Prior period adjustment	142,311	-	-	-	142,311
Fund balances - ending	\$ 466,694	\$ 301,739	\$ 23,020	\$ -	\$ 791,453

(Continued)

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**June 30, 2011**

(Continued)

Reconciliation of the change in fund balances - total governmental funds  
to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds \$ 239,368  
Amounts reported for governmental activities in the Statement of Activities are  
different because:

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 asset purchases capitalized	62,157
Depreciation expense	(146,949)

Some expenses reported in the statement of activities do not require the use of  
current financial resources and are not reported as expenditures in governmental funds.

	Current Year	Prior Year	
Compensated absences	\$ 48,862	\$ 32,832	(16,030)

Internal service funds are used by management to charge the costs of internal activities.

Internal service fund changes in net assets	19,912
---	--------

Repayment of debt principal is an expenditure in the governmental funds, but  
the repayment reduces long-term liabilities in the statement of net assets.

Debt principal	9,228
----------------	-------

	\$ 167,686
--	------------

City of Tonkawa, Oklahoma  
General Fund  
June 30, 2011  
Budget and Actual (Non-GAAP Budgetary Basis)

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>					
Tax revenue	\$ 946,765	\$ 140,000	\$ 1,086,765	\$ 1,072,162	\$ (14,603)
Franchise taxes	53,200	-	53,200	40,716	(12,484)
Licenses and permits	4,700	2,000	6,700	7,589	889
Fines and forfeitures	116,670	(27,000)	89,670	85,551	(4,119)
Charges for services	281,800	-	281,800	209,282	(72,518)
Rental income	-	34,000	34,000	32,279	(1,721)
Intergovernmental	53,400	-	53,400	91,066	37,666
Miscellaneous	101,755	(34,000)	67,755	78,908	11,153
Total revenues	<u>1,558,290</u>	<u>115,000</u>	<u>1,673,290</u>	<u>1,617,553</u>	<u>(55,737)</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
General government	117,531	33,336	150,867	120,940	29,927
Administration	30,766	(2,347)	28,419	18,235	10,184
Total general government	<u>148,297</u>	<u>30,989</u>	<u>179,286</u>	<u>139,175</u>	<u>40,111</u>
Public safety and judiciary:					
Legal and courts	17,508	12,605	30,113	20,687	9,426
Code enforcement	5,278	3,355	8,633	5,267	3,366
Police	769,649	(18,320)	751,329	640,457	110,872
Fire	248,530	10,542	259,072	223,961	35,111
Ambulance	256,573	7,695	264,268	226,306	37,962
Total public safety and judiciary	<u>1,297,538</u>	<u>15,877</u>	<u>1,313,415</u>	<u>1,116,678</u>	<u>196,737</u>
Transportation:					
Street	123,240	16,245	139,485	127,029	12,456
Airport	9,000	-	9,000	6,903	2,097
Total transportation	<u>132,240</u>	<u>16,245</u>	<u>148,485</u>	<u>133,932</u>	<u>14,553</u>
Cultural, parks and recreation:					
Parks	91,315	38,276	129,591	107,504	22,087
Library	100,894	3,969	104,863	90,013	14,850
Total cultural, parks and recreation	<u>192,209</u>	<u>42,245</u>	<u>234,454</u>	<u>197,517</u>	<u>36,937</u>
Total expenditures	<u>1,770,284</u>	<u>105,356</u>	<u>1,875,640</u>	<u>1,587,302</u>	<u>288,338</u>
Revenue over (under) expenditures	(211,994)	9,644	(202,350)	30,251	(344,075)
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	558,898	57,390	616,288	635,285	18,997
Operating transfers out	(770,892)	(47,746)	(818,638)	(563,119)	255,519
Net other financing sources (uses)	<u>(211,994)</u>	<u>9,644</u>	<u>(202,350)</u>	<u>72,166</u>	<u>274,516</u>
Revenues and other financing sources over (under) expenditures and other uses	(423,988)	19,288	(404,700)	102,417	(69,559)
Fund balance at beginning of year (Non-GAAP budgetary basis)	-	-	-	247,768	247,768
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ (423,988)</u>	<u>\$ 19,288</u>	<u>\$ (404,700)</u>	<u>\$ 350,185</u>	<u>\$ 178,209</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue accruals				110,244	
Expenditure accruals				6,265	
Fund balance at end of year (GAAP basis)				<u>\$ 466,694</u>	

(†) Budgets include fund balances carried over from prior years. It is not revenue of the current period, but is presented as revenue only for budgetary reporting purposes.

**City of Tonkawa, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 99,852	\$ 11,391	\$ 111,243
Investments	98,590	13,904	112,494
Due from other funds	-	-	-
Interest receivable	-	-	-
Accounts receivable (net)	85,619	-	85,619
Total current assets	<u>284,061</u>	<u>25,295</u>	<u>309,356</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	392,051	-	392,051
Investments	137,410	-	137,410
Total restricted assets	<u>529,461</u>	<u>-</u>	<u>529,461</u>
Noncurrent assets:			
Bond issuance cost (net)	155,576	-	155,576
Capital assets (net)	5,128,280	13,289	5,141,569
Total noncurrent assets	<u>5,283,856</u>	<u>13,289</u>	<u>5,297,145</u>
<b>Total assets</b>	<u>\$ 6,097,378</u>	<u>\$ 38,584</u>	<u>\$ 6,135,962</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 13,211	\$ -	\$ 13,211
Wages and benefits payable	-	-	-
Accrued interest payable	12,523	-	12,523
Other accrued liabilities	-	-	-
Compensated absences, current	27,968	-	27,968
Notes payable, current	208,807	-	208,807
Total current liabilities	<u>262,509</u>	<u>-</u>	<u>262,509</u>
Liabilities payable from restricted assets:			
Customer deposits payable	146,979	-	146,979
Bonds payable, current	195,000	-	195,000
Total liabilities payable from restricted assets	<u>341,979</u>	<u>-</u>	<u>341,979</u>
Noncurrent liabilities:			
Notes payable, non-current	1,943,587	-	1,943,587
Bonds payable, noncurrent	1,375,000	-	1,375,000
Total noncurrent liabilities	<u>3,318,587</u>	<u>-</u>	<u>3,318,587</u>
<b>Total liabilities</b>	<u>3,923,075</u>	<u>-</u>	<u>3,923,075</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,405,886	-	1,405,886
Unrestricted	768,417	38,584	807,001
<b>Total net assets</b>	<u>\$ 2,174,303</u>	<u>\$ 38,584</u>	<u>\$ 2,212,887</u>

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**June 30, 2011**

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b><u>Operating revenues:</u></b>			
Charges for services:			
Electric charges	\$ 3,274,177	\$ -	\$ 3,274,177
Water charges	557,686	-	557,686
Sewer charges	238,035	-	238,035
Sanitation charges	266,430	-	266,430
Penalties	74,935	-	74,935
Total charges for services	<u>4,411,263</u>	<u>-</u>	<u>4,411,263</u>
Lease and rental income	-	-	-
Donations	-	30,400	30,400
Miscellaneous	15,656	255	15,911
Total operating revenues	<u>4,426,919</u>	<u>30,655</u>	<u>4,457,574</u>
<b><u>Operating expenses:</u></b>			
Cost of goods sold	1,915,742	-	1,915,742
Personal services	582,252	-	582,252
Materials and supplies	204,162	14,422	218,584
Other services and charges	433,037	27,073	460,110
Bad debt expense	14,500	-	14,500
Depreciation and amortization	181,522	156	181,678
Total operating expenses	<u>3,331,215</u>	<u>41,651</u>	<u>3,372,866</u>
Net operating income	1,095,704	(10,996)	1,084,708
<b><u>Nonoperating revenue (expense):</u></b>			
Investment income	-	8	8
Interest expense	(101,707)	-	(101,707)
Grant income	-	14,500	14,500
Gain/(loss) on sale of assets	-	940	940
Total nonoperating revenue (expense)	<u>(101,707)</u>	<u>15,448</u>	<u>(86,259)</u>
<b>Net Income before contributions and transfers</b>	993,997	4,452	998,449
Transfers from other funds	559,581	-	559,581
Transfers to other funds	<u>(864,659)</u>	<u>-</u>	<u>(864,659)</u>
<b>Change in net assets</b>	688,919	4,452	693,371
Net assets-beginning of year	1,834,866	10,632	1,845,498
Prior period adjustment	(349,482)	23,500	(325,982)
Net assets-end of year	<u>\$ 2,174,303</u>	<u>\$ 38,584</u>	<u>\$ 2,212,887</u>

City of Tonkawa, Oklahoma  
Statement of Cash Flows  
June 30, 2011

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b><u>Cash flows from operating activities:</u></b>			
Receipts from customers/contracts	\$ 4,387,835	\$ -	\$ 4,387,835
Payments to suppliers	(2,728,276)	(41,495)	(2,769,771)
Payments to employees	(584,912)	-	(584,912)
Other operating revenues	15,656	30,655	46,311
<b>Net cash provided (used) by operating activities</b>	<b>1,090,303</b>	<b>(10,840)</b>	<b>1,079,463</b>
<b><u>Cash flows from non-capital financing activities:</u></b>			
Transfers from other funds	559,581	-	559,581
Transfers to other funds	(864,659)	-	(864,659)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>(305,078)</b>	<b>-</b>	<b>(305,078)</b>
<b><u>Cash flows from capital and related financing activities:</u></b>			
Purchase of capital assets	(197,807)	(2,901)	(200,708)
Principal paid on capital debt	(386,722)	-	(386,722)
Interest and fiscal charges paid on capital debt	(117,592)	-	(117,592)
Capital contributions/grants	-	14,500	14,500
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(702,121)</b>	<b>11,599</b>	<b>(690,522)</b>
<b><u>Cash flows from investing activities:</u></b>			
(Purchase)/liquidation of investments, unrestricted	(300,453)	-	(300,453)
<b>Net cash provided (used) by investing activities</b>	<b>(300,453)</b>	<b>-</b>	<b>(300,453)</b>
Net increase (decrease) in cash and cash equivalents	(217,349)	759	(216,590)
Cash and cash equivalents, July 1, 2010	709,252	10,632	719,884
Cash & cash equivalents, June 30, 2011	<b>\$ 491,903</b>	<b>\$ 11,391</b>	<b>\$ 503,294</b>
Cash, including time deposits	\$ 99,852	\$ 11,391	\$ 111,243
Restricted cash, including time deposits	392,051	-	392,051
Total cash and cash equivalents, end of year	<b>\$ 491,903</b>	<b>\$ 11,391</b>	<b>\$ 503,294</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ 1,095,704	\$ (10,996)	\$ 1,084,708
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	181,522	156	181,678
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(8,928)	-	(8,928)
Increase (decrease) in accounts payable	(175,335)	-	(175,335)
Increase (decrease) in wages & benefits payable	-	-	-
Increase (decrease) in other accrued liabilities	-	-	-
Increase (decrease) in compensated absences	(2,660)	-	(2,660)
Total adjustments	(5,401)	156	(5,245)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 1,090,303</b>	<b>\$ (10,840)</b>	<b>\$ 1,079,463</b>

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tonkawa, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2011.

**A. Reporting Entity**

***Fund Types and Major Funds***

**Major Governmental Funds**

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Capital Improvement Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax. Two-thirds of the tax is restricted for use for water, sewer, sanitation, and drainage. One-third of the tax is restricted for debt payments on the pool bond issue.

Blinn Park Fund

Established as a special revenue fund to account for operations at the City's Blinn Park.

Internal Service Fund

Accounts for the maintenance activities provided by one department to other departments within the City. This fund was closed during the fiscal year.

**Major Proprietary Funds**

Tonkawa Municipal Authority

Accounts for the operating activities of the electric, water, sewer, and sanitation utilities of the City.

Tonkawa Development Authority

Accounts for the operating activities of the economic development of the City.

**B. Basic Financial Statements**

***Government-wide Financial Statements***

The government-wide financial statements include the statement of net assets and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

***Measurement Focus and Basis of Accounting***

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. 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 statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means

knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**C. Budget Policy and Practice**

***Budget Approval***

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Clerk and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

***Basis of Budgeting***

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

**D. Policies Related to Assets, Liabilities, and Fund Equity**

***Cash and Investments***

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

***Accounts Receivable***

Significant receivables include sales and use tax receivables and amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

***Restricted Assets***

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service revenues, and customer meter deposits. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

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

***Interfund Balances***

Generally, outstanding balances between funds reported and due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

***Capital Assets, Depreciation, and Amortization***

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund

financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$5,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

• Buildings	10-25 years
• Other improvements	10-25 years
• Machinery, furniture & equipment	3-25 years
• Infrastructure	10-20 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

***Deferred Debt Expense and Bond Discounts/Premiums***

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are capitalized and amortized over the terms of the respective bond using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sourced of the current period. Issuance costs are reported as expenditures.

***Compensated Absences***

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

***Fund Equity***

**Fund Balance**

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

**Net Assets**

Both proprietary fund financial statements and government-wide financial statements report net assets. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net assets.

**Invested in capital assets, net of related debt**

The amount restricted consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted net assets**

Amounts reported as restricted consist of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

**E. Policies Related to Revenues and Expenses**

***Program Revenues***

**Charges for Services**

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Grants and Contributions**

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

**General Revenues**

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

**Sales Tax**

The City levied a 4.5% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to the use. The unrestricted portion (3%) is recorded as sales tax revenue within the General Fund; the remaining 1.5% is restricted and recorded as sales tax revenue in the Capital Improvement fund, allocated 1% for water, sewer, sanitation, and drainage improvements and 0.5% for debt service on the 2008 bond issue.

**(2) ASSETS AND LIABILITIES**

**A. Assets**

**Deposits and Investments**

**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

**Investments**

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

<u>Types of Investments</u>	<b>Primary Government</b>			
	<u>Fair Value</u> <u>Carrying</u> <u>Amount</u>	<u>Cost</u>	<u>Average</u> <u>Credit Quality</u> <u>Ratings (1)</u>	<u>Weighted</u> <u>Average Days to</u> <u>Maturity (2)</u>
Primary government				
<b>INVESTMENTS:</b>				
Certificates of deposit	\$ 256,000	\$ 256,000	N/A	104
Total investments	<u>256,000</u>	<u>256,000</u>		
 Total primary government investments	 <u>\$ 256,000</u>	 <u>\$ 256,000</u>		

**RECONCILIATION TO STATEMENT OF NET ASSETS**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Investments, unrestricted	\$ -	\$ 98,590	\$ 98,590
Investments, restricted	20,000	137,410	157,410
Total investments	<u>\$ 20,000</u>	<u>\$ 236,000</u>	<u>\$ 256,000</u>

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest rate risk is estimated using either duration or weighted average days to maturity depending on the respective policy.

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

	<b>Restricted Assets</b>		
	<b>Cash</b>	<b>Investments</b>	<b>Total</b>
<i>Governmental Activities</i>			
Blinn Park	\$ -	\$ 20,000	\$ 20,000
Police bonds and CLEET	5,027	-	5,027
Lifeline	20,180	-	20,180
Code Red	2,981	-	2,981
Fire department	28,263	-	28,263
<b>Total Governmental Activities</b>	<b>56,451</b>	<b>20,000</b>	<b>76,451</b>
<i>Business-type Activities</i>			
Meter Deposits	9,569	137,410	146,979
Pride & Beautification	40,446	-	40,446
Capital expense	254,262	-	254,262
Debt Service	87,774	-	87,774
<b>Total Business-type Activities</b>	<b>392,051</b>	<b>137,410</b>	<b>529,461</b>
<b>Total Primary Government</b>	<b>□ □□,□02</b>	<b>□ 1□□,□10</b>	<b>□ □0□,□12</b>

**Receivables and Uncollectable Amounts**

**Receivable from other governments**

Governmental activities report sales and use taxes receivable of \$82,553 comprised of amount received after year-end for current year taxes on sales. Sales and Use Tax are considered fully collectible.

**Accounts Receivable**

Governmental activities report fines and forfeitures and ambulance patient receivables totaling \$59,395 and \$39,933, respectively. An allowance of \$8,024 is recorded based upon management experience.

Proprietary activities report accounts receivable of \$268,065 comprised of amounts due from citizens for utility services provided. The City has recorded an allowance of \$182,446 based upon historical management knowledge and experience.

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Capital Assets**

**Changes in Capital Assets**

	Primary Government			
	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
<i>Governmental Activities</i>				
Construction in process	\$ -	\$ 19,572	\$ -	\$ 19,572
Buildings & structures	630,062	11,850	-	641,912
Machinery, furniture, & equipment	558,741	30,734	-	589,475
Infrastructure & improvements	2,318,051	-	-	2,318,051
	3,506,854	62,156	-	3,569,010
Less accumulated depreciation	592,253	146,949	-	739,202
	3,506,854	62,156	-	3,569,010
Governmental fixed assets, net	\$ 2,914,601	\$ (84,793)	\$ -	\$ 2,829,808
<i>Business-type Activities</i>				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Buildings & structures	250,050	13,860	-	263,910
Machinery, furniture, & equipment	77,956	6,993	389	84,560
Infrastructure & improvements	6,033,529	176,954	-	6,210,483
	6,366,535	197,807	389	6,563,953
Less accumulated depreciation	1,264,257	171,416	-	1,435,673
	5,102,278	26,391	(389)	5,128,280
Business-type fixed assets, net	\$ 5,102,278	\$ 26,391	\$ (389)	\$ 5,128,280
<b>Total primary government</b>	<b>\$ 8,016,879</b>	<b>\$ (58,402)</b>	<b>\$ (389)</b>	<b>\$ 7,958,088</b>

**Depreciation Expense**

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 23,414	Electric	\$ 13,707
Public safety & judiciary	47,305	Water	134,780
Transportation	12,025	Sewer	2,404
Cultural, parks & recreation	57,250	Customer service	20,525
Ambulance	6,955		
		Total depreciation expense	\$ 171,416
Total depreciation expense	\$ 146,949		

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**B. Liabilities**

***Notes and Bonds Payable***

**Business Type Activities**

***Notes Payable:***

On October 10, 2002, TMA entered into an agreement with Farmers Exchange Bank for a loan in the amount of \$125,050 at a fixed interest rate of 6%, maturing October 2012. The loan was used to fund the purchase of a substation.	\$ 21,219
On December 13, 2006, TMA entered into an agreement with Farmers Exchange Bank for a loan in the amount of \$69,984 at a fixed interest rate of 5.5%, maturing October 2013. The loan was used to fund the purchase of a bucket truck.	28,005
On October 10, 2002, TMA entered into an agreement with First National Bank of Oklahoma for a loan in the amount of \$125,000 at a fixed interest rate of 5%, maturing October 2012. The loan was used to fund the purchase of a substation.	21,938
\$530,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002 Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-02-0008, dated June 7, 2002, due in semi-annual installments over 20 years plus interest of 2.5%, on March 15 and September 15. Note was used to fund sewer system improvements and secured by pledged sales tax and utility system revenues.	338,284
\$350,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 1995 Small Community SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-94-007, dated September 1, 1995, due in semi-annual installments over 20 years plus interest of 3%, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues and an additional \$1.70 sewage fee.	119,585
\$1,070,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002A Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-007CW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues and utility system revenues.	694,455
\$1,440,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002B Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-003DW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the clean water system. Loan is secured by pledged sales tax and utility system revenues and utility system revenues.	928,908
	<b>\$ 2,152,394</b>

***Bonds Payable:***

On April 12, 2006, TMA issued \$1,205,000 in refunding bonds, Tonkawa Municipal Authority Sales Tax Revenue Note, Series 2006 for the purpose of water system improvements. The notes mature April 1, 2019 and carry an interest rates of 4.425% per annum. The notes require monthly payments into a debt service account from which annual debt service payments are made.	\$ 820,000
On October 7, 2008, TMA issued \$1,075,000 in revenue bonds, series 2008 for the purpose of improving the City swimming facilities. The notes mature June 1, 2017 and carry an interest rates of 4.95% per annum. The notes require monthly payments into a debt service account from which semi-annual debt service payments are made. The Note is secured by electric, water, sewer, and sanitation system ("system") revenues and 1% restricted sales tax revenues.	750,000
	<b>\$ 1,570,000</b>

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Changes in Long-Term Debt**

<u>Type of Debt</u>	<u>Balance at July 1, 2010</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2011</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>					
<i>Notes Payable</i>					
Farmers Exchange (substation)	\$ 35,921	\$ -	\$ 14,702	\$ 21,219	\$ 15,941
Farmers Exchange (bucket truck)	38,249	-	10,244	28,005	10,779
First National Bank	36,908	-	14,970	21,938	15,238
OWRB - 2002	362,510	-	24,226	338,284	25,554
OWRB - 1995	98,353	40,947	19,716	119,584	21,252
OWRB - 2002A	740,597	-	46,142	694,455	51,512
OWRB - 2002B	1,031,578	-	102,669	928,909	68,531
Total notes payable	<u>\$ 2,344,116</u>	<u>\$ 40,947</u>	<u>\$ 232,669</u>	<u>\$ 2,152,394</u>	<u>\$ 208,807</u>
<i>Bonds Payable</i>					
Series 2006	905,000	-	85,000	820,000	85,000
Series 2008	860,000	-	110,000	750,000	110,000
Total business-type activities	<u>\$ 1,765,000</u>	<u>\$ -</u>	<u>\$ 195,000</u>	<u>\$ 1,570,000</u>	<u>\$ 195,000</u>
<b>Total primary government</b>	<u>\$ 4,109,116</u>	<u>\$ 40,947</u>	<u>\$ 427,669</u>	<u>\$ 3,722,394</u>	<u>\$ 403,807</u>

**Annual Debt Service Requirements**

<u>Year Ending June 30</u>	<u>Notes Payable</u>		<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 208,807	\$ 48,257	\$ 195,000	\$ 65,893
2013	190,262	42,220	210,000	56,212
2014	180,797	37,466	215,000	46,299
2015	169,788	30,802	230,000	35,690
2016	164,776	24,167	235,000	24,849
2017-2021	868,892	75,824	485,000	21,279
2022-2024	369,072	8,237	-	-
<b>Totals</b>	<u>\$ 2,152,394</u>	<u>\$ 266,973</u>	<u>\$ 1,570,000</u>	<u>\$ 250,222</u>

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**C. Interfund Balances**

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>GENERAL FUND</b>		
Capital Improvement Fund	\$ -	\$ 563,119
Tonkawa Municipal Authority	615,374	-
Internal Service Fund	19,911	-
Total General Fund	635,285	563,119
<b>CAPITAL IMPROVEMENT FUND</b>		
General Fund	563,119	-
Utility Authority	249,285	333,524
Total Capital Improvement Fund	812,404	333,524
<b>INTERNAL SERVICE FUND</b>		
General Fund	-	19,911
Total Internal Service Fund	-	19,911
<b>TONKAWA MUNICIPAL AUTHORITY</b>		
General Fund	333,524	249,285
Capital Improvement Fund	-	615,374
Total Tonkawa Municipal Authority	333,524	864,659
<b>GRAND TOTAL</b>	<b>\$ 1,781,213</b>	<b>\$ 1,781,213</b>

**(3) FUND NET ASSETS AND FUND BALANCE**

***Prior Period Adjustment***

**Accrued Receivable**

In 2010, the City reported \$194,926 in tax and other receivables. A prior period adjustment was recorded to adjust the accrued tax receivable.

***Fund Balance Reserved for Restricted Purposes***

The General Fund reported \$324,759 reserved for restricted purposes for capital projects in the City and maintenance of Blinn Park which were created by City ordinance.

**(4) REVENUES AND EXPENSES**

***Interfund Transfers***

Refer to Note (2)C. Interfund Balances

**(5) PENSION AND POST-EMPLOYMENT PLANS**

The City participates in three employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Contribution Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

**A. Oklahoma Municipal Retirement Fund**

**Plan Description**

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by

**CITY OF TONKAWA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

each municipality. Participants are required to participate 3.5% of their covered compensation. The City contributes 10.48% of covered compensation. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRP. All gains and/or losses are credited directly to each participant. Benefits vest after 10 years of service with normal retirement at age 65 and early retirement at age 55 with 10 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

The following is a summary of eligibility, contribution methods and benefits provisions:

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighter, and other employees who are covered under another approved system.
b. Contributions Requirement	Yes
- Actuarially Determined	10.48% of covered payroll
- Employer Rate	3.5% of covered payroll
- Employee Rate	
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	<ul style="list-style-type: none"> <li>- Normal retirement at age 65 with 10 years of service.</li> <li>- Early Retirement after age 55 with 10 years or more of service.</li> <li>- Disability retirement upon disability with 10 years of service.</li> <li>- Termination before retirement age return of employee contributions with interest</li> <li>- Termination after vesting accrued benefit at normal retirement age</li> </ul>
e. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 3% of final average compensation multiplied by the number of year of credited service
f. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage, non-married participants 50% of the accrued benefit is payable for 5 years
- Prior to 10 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

**Funding Status and Progress**

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/c)	Covered Payroll (c)	UAAL as a % of Covered Payroll (c/a)
01/01/11	2,062,838	2,356,171	293,333	87.6%	790,524	37.1%

- a. Date of last Actuarial Valuation March 2011
- b. Significant Actuarial Assumptions Used:
1. Rate of Return on Investments 7.5%
  2. Projected Salary Increase 4.0% - 7.42%
  3. Retirement Age Normal and Early Rates

**CITY OF TONKAWA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial cost method
c. Actuarial cost method	Entry age normal cost method
d. Amortization method	Level % of payroll
e. Fiscal Year 2011 Contributions Made	
Total Contributions	\$112,983
Employee Contributions	\$28,807
Employer Contributions	\$84,176

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

**B. Oklahoma Police and Firefighters Pension and Retirement Systems**

**Plan Description**

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	8% of covered payroll	8% of covered payroll
City's contribution rate	13% per year, per firefighter	13% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contribution are required by Oklahoma State Statute. Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports

may be obtained from the respective state retirement systems: Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 7316-7335.

(C) **COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

**B. Grant Program Involvement**

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

# Derrel S. White, CPA

---

P.O. Box 842  
Woodward, OK 73802  
(580) 256-6830

## 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 Tonkawa, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tonkawa, Oklahoma, as of and for the year ended June 30, 20X1, which collectively comprise the City of Tonkawa, Oklahoma's basic financial statements and have issued our report thereon dated December 15, 2011. Our opinion on the financial statements as a whole and the each major fund and the aggregate remaining funds was unqualified. 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 Tonkawa, OK'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 Tonkawa, OK's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tonkawa, OK'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 Tonkawa, OK'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.



Derrel S. White, CPA

Woodward, OK

December 15, 2011