

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORT**

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

CITY OF WATONGA, OKLAHOMA
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For the fiscal year ended JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Watonga
Watonga, Oklahoma

Board of Trustees
Public Works Authority
Watonga, Oklahoma

Board of Trustees
Watonga Economic Development Authority
City of Watonga
Watonga, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watonga, Oklahoma, and its related Authorities, 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 Watonga, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 9 and budgetary comparison information on pages 16 & 17 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

City of Watonga
March 15, 2011
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Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Will R. [unclear]", with a long horizontal flourish extending to the right.

Watonga, Oklahoma
March 15, 2012

Within this section, the City of Watonga'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 \$25,273,541 (net assets). Of this amount \$2,754,504 (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 \$26,237,796 after prior period adjustment.
- The City's total net assets are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$22,390,565 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 \$128,472.
 - (3) Unrestricted net assets of \$2,754,504 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$129,238 during the fiscal year. The majority of this decrease is attributable to repayments of \$115,000 made on outstanding general obligation debt.
- After transfers of \$1,142,239 from business-type activities to governmental activities, net assets of governmental activities decreased \$218,518 or 2%, and net assets of business-type activities decreased \$745,737 or 6%. Overall the health of the City declined when compared to prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,375,532 or 61% 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 resourced available and whether the City can continue to meet it 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 include 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 Watonga Municipal Hospital Authority is a separate legal entity which operates independently and provides services directly to the citizens though the City remains accountable for their actions. As such, the Watonga Municipal Hospital Authority is reported separately from the primary government. More information on the Watonga Municipal Hospital Authority can be found in their audit report obtained directly from the Hospital Authority.

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.

Fiduciary funds such as the meter deposit funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

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.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets at June 30, 2011 are \$25,273,541. This is a \$964,255 decrease over June 30, 2010 net assets of \$26,237,796. The City reported positive balances in total net assets for both governmental and business-type activities, reporting \$13,355,907 and \$11,917,634, respectively. The City's overall financial position declined during fiscal year 2011.

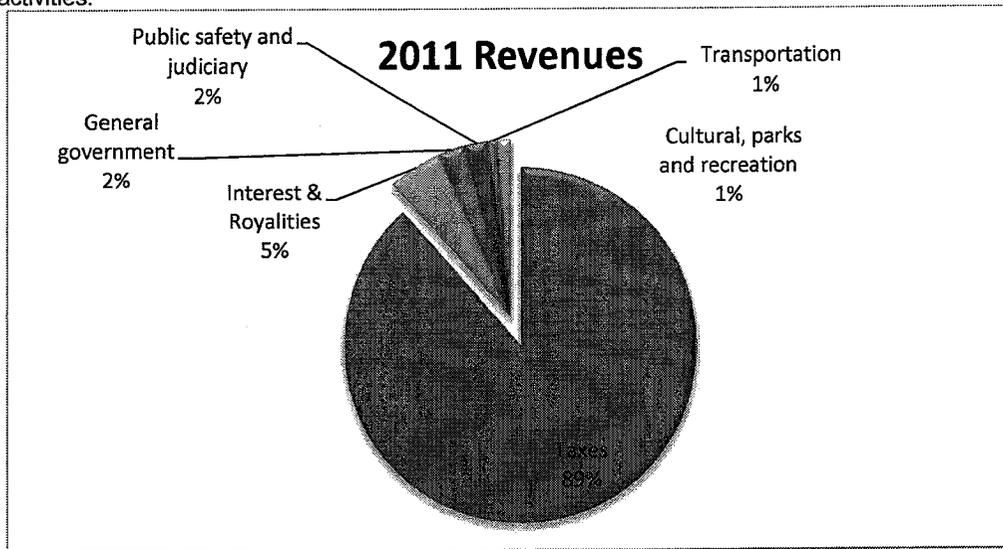
	Governmental Activities		Business-Type Activities		Total		\$ Change	% Change
	2011	2010	2011	2010	2011	2010		
	Summary of Net Assets							
Current assets	\$ 2,070,410	\$ 1,519,975	\$ 874,739	\$ 885,656	\$ 2,945,149	\$ 2,405,631	\$ 539,518	22%
Non-current assets	-	-	206,722	-	206,722	-	206,722	100%
Capital assets, net	11,482,896	12,294,450	11,262,835	11,936,996	22,745,731	24,231,446	(1,485,715)	-6%
Total assets	13,553,306	13,814,425	12,344,296	12,822,652	25,897,602	26,637,077	(739,475)	-3%
Current liabilities	197,399	115,000	333,019	159,281	530,418	274,281	256,137	93%
Non-current liabilities	-	125,000	93,643	-	93,643	125,000	(31,357)	-25%
Total liabilities	197,399	240,000	426,662	159,281	624,061	399,281	224,780	56%
Net assets								
Invested in capital assets, net of related debt	11,357,896	12,093,015	11,032,669	10,548,976	22,390,565	22,641,991	(251,426)	-1%
Restricted	128,472	208,383	-	224,337	128,472	432,720	(304,248)	-70%
Unrestricted	1,869,539	1,273,027	884,965	1,890,058	2,754,504	3,163,085	(408,581)	-13%
Total net assets	\$ 13,355,907	\$ 13,574,425	\$ 11,917,634	\$ 12,663,371	\$ 25,273,541	\$ 26,237,796	\$ (964,255)	-4%

Summary of Changes in Net Assets

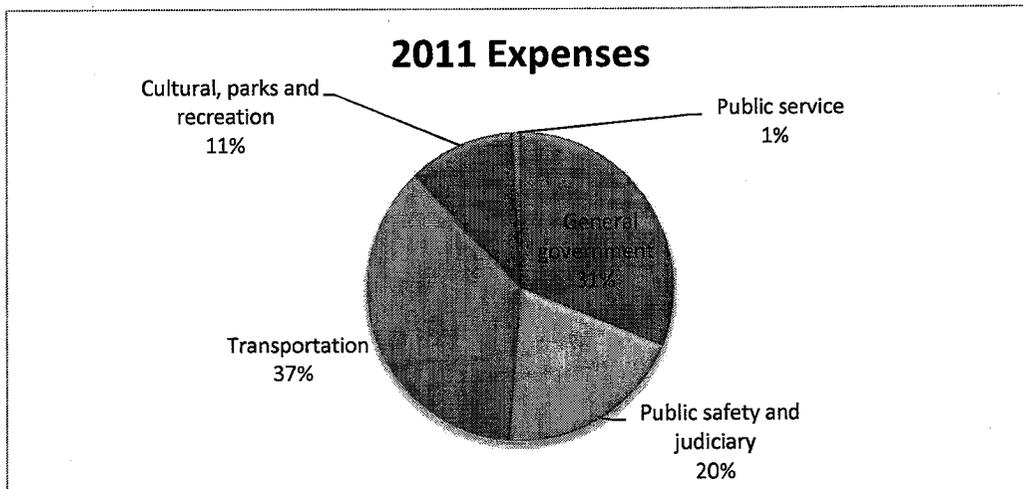
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2011	2010	2011	2010	2011	2010		
Revenues								
Program revenues	\$ 130,937	\$ 78,934	\$ 3,204,254	\$ 3,811,797	\$ 3,335,191	\$ 3,890,731	\$ (555,540)	-14%
Taxes and other general revenues	1,859,071	1,405,928	31,268	398,870	1,890,339	1,804,798	85,541	5%
Total revenues	1,990,008	1,484,862	3,235,522	4,210,667	5,225,530	5,695,529	(469,999)	-10%
Expenses								
General government	941,507	1,001,745	-	-	941,507	1,001,745	(60,238)	-6%
Public safety and judiciary	603,105	569,076	-	-	603,105	569,076	34,029	6%
Transportation	1,105,497	429,168	-	-	1,105,497	429,168	676,329	158%
Cultural, parks, and recreation	339,393	394,820	-	-	339,393	394,820	(55,427)	-14%
Public service	25,601	-	-	-	25,601	-	25,601	100%
Economic development	-	-	6,250	-	6,250	-	6,250	100%
Electric	-	-	1,687,974	1,810,315	1,687,974	1,810,315	(122,341)	-7%
Water	-	-	318,496	46,507	318,496	46,507	271,989	585%
Sewer	-	-	279,445	100,189	279,445	100,189	179,256	179%
Sanitation	-	-	105,780	29,149	105,780	29,149	76,631	263%
Golf course	-	-	42,676	25,256	42,676	25,256	17,420	69%
Airport	-	25,106	171,049	-	171,049	25,106	145,943	581%
Administration	-	1,031,216	227,350	421,581	227,350	1,452,797	(1,225,447)	-84%
Total expenses	3,015,103	3,451,131	2,839,020	2,432,997	5,854,123	5,884,128	(30,005)	-1%
Excess (deficiency) before transfers	\$ (1,025,095)	\$ (1,966,269)	\$ 396,502	\$ 1,777,670	\$ (628,593)	\$ (188,599)	\$ (439,994)	233%
Transfers - internal	1,142,239	964,511	(1,142,239)	(719,214)	-	245,297	(245,297)	0%
Transfers - component unit	(335,662)	-	-	-	(335,662)	-	(335,662)	0%
Increase (decrease) in net assets	\$ (218,518)	\$ (1,001,758)	\$ (745,737)	\$ 1,058,456	\$ (964,255)	\$ 56,698	\$ (1,020,953)	-1801%

Revenues for the City decreased 10% year over year. This decrease in revenues is mainly attributable to decreasing utility billings. Operating expenses remained consistent with fiscal year 2010 with a 1% change.

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

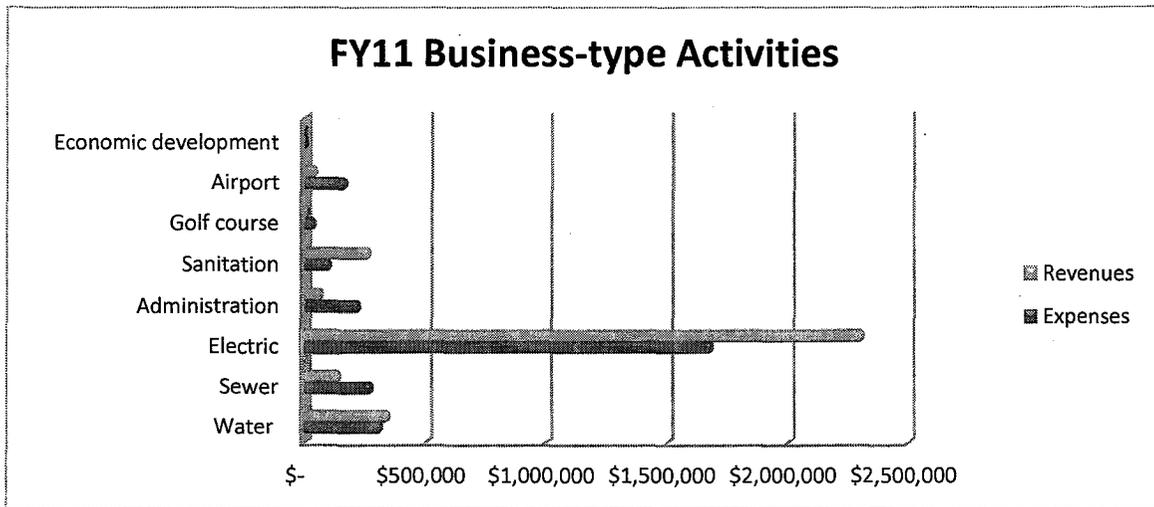


Taxes proved for 89% of the City's governmental revenues in fiscal year 2011. Interest and royalties followed as the second major revenue source accounting for 5% of governmental revenues.



For the year ended June 30, 2011, total expenses for governmental activities were \$3,015,103. Of this amount, transportation with \$1,105,497 was the largest operating service department at 37% of the total cost of services for governmental activities. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Light and Water fund. 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, and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The adopted budget for the General Fund for fiscal year 2011 was \$2,435,847. Actual expenses were \$190,145 less than budgeted amounts. 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 \$22,390,565 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 Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 645,540	\$ 645,540	\$ 74,070	\$ 74,070	\$ 719,610	\$ 719,610
Buildings	115,461	-	1,156,425	1,350,704	1,271,886	1,350,704
Machinery & equipment	749,543	725,860	417,007	522,127	1,166,550	1,247,987
Utility property & improvements	9,972,352	10,721,615	9,615,333	9,911,406	19,587,685	20,633,021
Totals	\$ 11,482,896	\$ 12,093,015	\$ 11,262,835	\$ 11,858,307	\$ 22,745,731	\$ 23,951,322

- In Governmental Activities, the most significant additions included a sprinkler system for the park, a stake park, playground equipment, and a 2010 Dodge Charger for the police department.

- In Business-type activities capital additions included a 4,000 gallon tank in the water department, a grinder in the sanitation department, and a sprinkler system for the golf course.

Long-Term Debt

At year-end, the City had \$93,643 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 Activities		Business-type Activities	
	2011	2010	2011	2010
Line of credit	-	-	119,222	116,456
Notes payable	-	-	110,944	127,948
Bonds payable	125,000	240,000	-	-
less current portion	(125,000)	(115,000)	(136,523)	(133,460)
Totals	\$ -	\$ 125,000	\$ 93,643	\$ 110,944

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 due to the 1% increase passed by the citizens. That tax increase was passed to support the Watonga Municipal Hospital Authority and became effective January 2011. Because the City has effective processes in place to deal with the economic declines, the impact of the national recession 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.

Fiscal Year 2012

The City falls under the Estimate of Needs budget basis. Recurring revenues, including sales and use taxes, are budgeted at 90% of prior year collections. This approach will ensure that any further decline in the economic can be absorbed by the City.

Operating expenses are budgeted consistent with prior year.

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 Watonga City Hall.

City of Watonga, Oklahoma
Statement of Net Assets
June 30, 2011

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 699,203	\$ 434,118	\$ 1,133,321
Investments	846,514	150,000	996,514
Due from other governments	142,125	-	142,125
Accounts receivable (net)	-	290,621	290,621
Total current assets	<u>1,687,842</u>	<u>874,739</u>	<u>2,562,581</u>
Restricted assets:			
Cash and cash equivalents	382,568	-	382,568
Total restricted assets	<u>382,568</u>	<u>-</u>	<u>382,568</u>
Noncurrent Assets:			
Note receivable, related party	-	206,722	206,722
Land and construction in progress	645,540	74,070	719,610
Other capital assets (net of accumulated depreciation)	10,837,356	11,188,765	22,026,121
Total noncurrent assets	<u>11,482,896</u>	<u>11,469,557</u>	<u>22,952,453</u>
Total assets	<u>\$ 13,553,306</u>	<u>\$ 12,344,296</u>	<u>\$ 25,897,602</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 170,149	\$ 170,149
Payroll liabilities	35,858	9,485	45,343
Compensated absences	36,541	9,122	45,663
Other liabilities	-	7,740	7,740
Notes payable, current	125,000	136,523	261,523
Total current liabilities	<u>197,399</u>	<u>333,019</u>	<u>530,418</u>
Noncurrent liabilities:			
Notes payable, non-current	-	93,643	93,643
Total noncurrent liabilities	<u>-</u>	<u>93,643</u>	<u>93,643</u>
Total liabilities	<u>197,399</u>	<u>426,662</u>	<u>624,061</u>
NET ASSETS			
Invested in capital assets, net of related debt	11,357,896	11,032,669	22,390,565
Reserved for restricted purposes	128,472	-	128,472
Unrestricted	1,869,539	884,965	2,754,504
Total net assets	<u>\$ 13,355,907</u>	<u>\$ 11,917,634</u>	<u>\$ 25,273,541</u>

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 941,507	\$ 47,467	\$ -	\$ -	\$ (894,040)
Public safety and judiciary	603,105	23,323	19,790	-	(559,992)
Transportation	1,105,497	16,074	-	-	(1,089,423)
Cultural, parks and recreation	339,393	-	24,283	-	(315,110)
Public service	25,601	-	-	-	(25,601)
Total governmental activities	<u>3,015,103</u>	<u>86,864</u>	<u>44,073</u>	<u>-</u>	<u>(2,884,166)</u>
Business-type activities:					
Water	318,496	348,851	-	-	30,355
Sewer	279,445	145,928	-	-	(133,517)
Electric	1,687,974	2,311,414	-	-	623,440
Administration	227,350	70,236	-	-	(157,114)
Sanitation	105,780	268,748	-	-	162,968
Golf course	42,676	12,998	-	-	(29,678)
Airport	171,049	46,079	-	-	(124,970)
Economic development	6,250	-	-	-	(6,250)
Total business-type activities	<u>2,839,020</u>	<u>3,204,254</u>	<u>-</u>	<u>-</u>	<u>365,234</u>
 Total primary government	 <u>\$ 5,854,123</u>	 <u>\$ 3,291,118</u>	 <u>\$ 44,073</u>	 <u>\$ -</u>	 <u>\$ (2,518,932)</u>

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2011

Changes in Net Assets:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (2,884,166)	\$ 365,234	\$ (2,518,932)
General revenues:			
Taxes:			
Sales tax	1,457,849	-	1,457,849
Use tax	29,267	-	29,267
Franchise tax	32,376	-	32,376
Property tax	123,081	-	123,081
Other taxes	116,493	-	116,493
Oil and gas royalties	76,089	-	76,089
Investment income	23,916	753	24,669
Miscellaneous	-	30,515	30,515
Transfers-Internal activity	1,142,239	(1,142,239)	(0)
Transfers to component units	(335,662)	-	(335,662)
Total general revenues and transfers	<u>2,665,648</u>	<u>(1,110,971)</u>	<u>1,554,677</u>
Change in net assets	(218,518)	(745,737)	(964,255)
Net assets-beginning	13,574,425	12,663,371	26,237,796
Net assets-ending	<u>\$ 13,355,907</u>	<u>\$ 11,917,634</u>	<u>\$ 25,273,541</u>

City of Watonga, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improvement)	Non-Major Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 476,970	\$ 124,592	\$ 131,989	\$ 250,579	\$ 46,617	\$ 51,024	\$ 1,081,771
Investments	846,514	-	-	-	-	-	846,514
Due from other governments	125,609	3,880	-	-	12,636	-	142,125
Total assets	<u>\$ 1,449,093</u>	<u>\$ 128,472</u>	<u>\$ 131,989</u>	<u>\$ 250,579</u>	<u>\$ 59,253</u>	<u>\$ 51,024</u>	<u>\$ 2,070,410</u>
LIABILITIES							
Compensated absences	\$ 72,399	-	-	-	-	-	\$ 72,399
Total liabilities	<u>72,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,399</u>
FUND BALANCES							
Restricted	-	128,472	-	-	-	-	128,472
Committed	-	-	131,989	250,579	-	-	382,568
Assigned	1,162	-	-	-	59,253	51,024	111,439
Unassigned	1,375,532	-	-	-	-	-	1,375,532
Total fund balances	<u>1,376,694</u>	<u>128,472</u>	<u>131,989</u>	<u>250,579</u>	<u>59,253</u>	<u>51,024</u>	<u>1,998,011</u>
Total liabilities and fund balances	<u>\$ 1,449,093</u>	<u>\$ 128,472</u>	<u>\$ 131,989</u>	<u>\$ 250,579</u>	<u>\$ 59,253</u>	<u>\$ 51,024</u>	<u>\$ 2,070,410</u>
Total fund balance- total governmental funds							\$ 1,998,011
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, in the funds, and therefore, are not reported							
					645,540		
					24,227,183		
					(13,389,827)		
							11,482,896
Long-term portion of liabilities are not due and payable in the current period and are not reported							
							(125,000)
Net assets of governmental activities							<u>\$ 13,355,907</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2011

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improve)	Non-Major Funds	Total Governmental Funds
REVENUES							
Sales tax	\$ 841,860	\$ -	\$ -	\$ 452,026	\$ 163,963	\$ -	\$ 1,457,849
Use tax	29,267	-	-	-	-	-	29,267
Franchise tax	32,376	-	-	-	-	-	32,376
Other taxes	72,345	44,148	-	-	-	-	116,493
Property taxes	-	-	123,081	-	-	-	123,081
Licenses and permits	1,930	-	-	-	-	-	1,930
Rents & royalties	76,089	-	-	-	-	-	76,089
Fines and forfeitures	16,747	-	-	-	-	-	16,747
Charges for services	6,576	11,253	-	-	-	-	17,829
Intergovernmental revenues	-	-	-	-	-	38,801	38,801
Donations	-	-	-	-	-	5,272	5,272
Other revenues	45,537	4,821	-	-	-	-	50,358
Interest	22,217	170	196	927	270	196	23,916
Total revenues	1,144,944	60,392	123,277	452,953	164,233	44,209	1,990,008
EXPENDITURES							
Current							
General government:							
General government	791,457	-	-	-	-	-	791,457
Managerial	12,259	-	-	-	-	-	12,259
City clerk	77,866	-	-	-	-	-	77,866
City treasurer	16,308	-	-	-	-	-	16,308
City attorney	37,153	-	-	-	-	-	37,153
Total general government	935,043	-	-	-	-	-	935,043
Public safety and judiciary:							
Municipal court	9,275	-	-	-	-	-	9,275
Police	361,029	-	-	-	-	-	361,029
Fire	169,100	-	-	-	-	15,269	184,369
Total public safety and judiciary	539,404	-	-	-	-	15,269	554,673
Transportation:							
Street	391,898	34,466	-	-	-	-	426,364
Total transportation	391,898	34,466	-	-	-	-	426,364
Cultural, parks and recreation:							
Library	143,972	-	-	-	-	10,758	154,730
Park	104,228	-	-	-	1,775	-	106,003
Golf	40,827	-	-	-	-	-	40,827
Total cultural, parks and recreation	289,027	-	-	-	1,775	10,758	301,560
Public service:							
Airport	25,601	-	-	-	-	-	25,601
Total public service	25,601	-	-	-	-	-	25,601
Capital outlay	64,729	4,750	-	-	132,503	4,743	206,725
Debt service							
Principal	-	-	115,000	-	-	-	115,000
Interest	-	-	3,300	-	-	-	3,300
Fiscal charges	-	-	1,719	-	-	-	1,719
Total expenditures	2,245,702	39,216	120,019	-	134,278	30,770	2,569,985
Excess (deficiency) of revenues over expenditures	(1,100,758)	21,176	3,258	452,953	29,955	13,439	(579,977)
OTHER FINANCING SOURCES (USES)							
Transfers in	1,255,000	-	-	63,642	6,138	-	1,324,780
Transfers out	(14,273)	-	-	-	(164,383)	(3,885)	(182,541)
Transfers out to component units	-	-	-	(335,662)	-	-	(335,662)
Total other financing sources and uses	1,240,727	-	-	(272,020)	(158,245)	(3,885)	806,577
Net change in fund balances	139,969	21,176	3,258	180,933	(128,290)	9,554	226,600
Fund balances - beginning	1,236,725	107,296	128,731	69,646	187,543	41,470	1,771,411
Fund balances - ending	\$ 1,376,694	\$ 128,472	\$ 131,989	\$ 250,579	\$ 59,253	\$ 51,024	\$ 1,998,011

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2011

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 \$ 226,600
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	206,725	
Depreciation expense	<u>(766,843)</u>	(560,118)

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		<u>115,000</u>
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	<u><u>\$ (218,518)</u></u>
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City of Watonga, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2011

	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES			
Sales tax	\$ 723,331	\$ 827,888	\$ 104,557
Franchise Tax	30,706	32,376	1,670
Other tax and licenses	63,707	95,138	31,431
License, Fees & Permits	1,537	1,930	393
Police Fines & Court Fees	23,574	23,323	(251)
Oil & Gas Royalty	44,601	35,388	(9,213)
Rentals	49,566	40,701	(8,865)
Interest Income	24,343	22,217	(2,126)
Miscellaneous	-	45,537	45,537
Total revenues	961,365	1,124,498	163,133
EXPENDITURES			
<u>General government:</u>			
General government:			
Personal Service	22,000	14,102	7,898
Maintenance & Operation	810,000	777,355	32,645
Capital Outlay	100,000	-	100,000
Managerial:			
Personal Service	12,850	12,259	591
City Clerk:			
Personal Service	76,000	72,636	3,364
Maintenance & Operation	8,000	5,230	2,770
City Treasurer:			
Personal Service	15,600	15,843	(243)
Maintenance & Operation	800	465	335
City Attorney:			
Personal Service	3,900	3,911	(11)
Maintenance & Operation	32,000	33,242	(1,242)
Total General government:	1,081,150	980,580	191,644
<u>Public safety and judiciary:</u>			
Municipal Court:			
Personal Service	8,502	8,525	(23)
Maintenance & Operation	600	751	(151)
Police Department:			
Personal Service	320,000	264,025	55,975
Maintenance & Operation	55,000	97,004	(42,004)
Capital Outlay	-	9,640	(9,640)
Fire Department:			
Personal Service	160,000	143,913	16,087
Maintenance & Operation	33,575	25,187	8,388
Capital Outlay	-	2,983	(2,983)
Total	577,677	552,028	25,649
<u>Transportation:</u>			
Street:			
Personal Service	235,000	219,583	15,417
Maintenance & Operation	200,000	172,315	27,685
Capital Outlay	-	2,105	(2,105)
Total	1,003,575	936,755	66,820

City of Watonga, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Culture and recreation:</u>			
Library:			
Personal Service	108,000	105,662	2,338
Maintenance & Operation	38,020	38,310	(290)
Park:			
Personal Service	80,000	79,360	640
Maintenance & Operation	30,000	24,868	5,132
Capital Outlay	-	50,000	(50,000)
Golf:			
Personal Service	61,000	40,827	20,173
Total Culture and recreation:	<u>317,020</u>	<u>339,027</u>	<u>(22,007)</u>
<u>Public services</u>			
Airport:			
Personal Service	25,000	25,601	(601)
Total Public services	<u>25,000</u>	<u>25,601</u>	<u>(601)</u>
Total expenditures	<u>2,435,847</u>	<u>2,245,702</u>	<u>190,145</u>
Revenue over (under) expenditures	(1,474,482)	(1,121,204)	(27,012)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in/(out)	402,890	1,240,727	837,837
Net other financing sources (uses)	<u>402,890</u>	<u>1,240,727</u>	<u>837,837</u>
Revenues and other financing sources over (under) expenditures and other uses	(1,071,592)	119,523	810,825
Fund balance at beginning of year (Non-GAAP budgetary basis)		1,236,725	1,236,725
Fund balance at end of year (Non-GAAP budgetary basis)		<u>\$ 1,356,248</u>	<u>\$ 2,047,550</u>

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

	Light and Water Fund	Golf Course Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 373,092	\$ 3,818	\$ 32,486	\$ 24,722	\$ 434,118
Investments	150,000	-	-	-	150,000
Accounts receivable, net	290,621	-	-	-	290,621
Total current assets	<u>813,713</u>	<u>3,818</u>	<u>32,486</u>	<u>24,722</u>	<u>874,739</u>
Noncurrent assets:					
Note receivable, related party	206,722	-	-	-	206,722
Capital assets (net)	9,917,018	139,753	1,206,064	-	11,262,835
Total noncurrent assets	<u>10,123,740</u>	<u>139,753</u>	<u>1,206,064</u>	<u>-</u>	<u>11,469,557</u>
Total assets	<u>\$ 10,937,453</u>	<u>\$ 143,571</u>	<u>\$ 1,238,550</u>	<u>\$ 24,722</u>	<u>\$ 12,344,296</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 170,149	\$ -	\$ -	\$ -	\$ 170,149
Wages and benefits payable	18,607	-	-	-	18,607
Other liabilities	7,740	-	-	-	7,740
Notes payable, current	-	-	136,523	-	136,523
Total current liabilities	<u>196,496</u>	<u>-</u>	<u>136,523</u>	<u>-</u>	<u>333,019</u>
Noncurrent liabilities:					
Notes payable, non-current	-	-	93,643	-	93,643
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>93,643</u>	<u>-</u>	<u>93,643</u>
Total liabilities	<u>196,496</u>	<u>-</u>	<u>230,166</u>	<u>-</u>	<u>426,662</u>
NET ASSETS					
Invested in capital assets, net of related debt	9,917,018	139,753	975,898	-	11,032,669
Unrestricted	823,939	3,818	32,486	24,722	884,965
Total net assets	<u>\$ 10,740,957</u>	<u>\$ 143,571</u>	<u>\$ 1,008,384</u>	<u>\$ 24,722</u>	<u>\$ 11,917,634</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011

	Light and Water Fund	Golf Course Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
<u>Operating revenues:</u>					
Charges for services:					
Water charges	\$ 348,851	\$ -	\$ -	\$ -	\$ 348,851
Sewer charges	145,928	-	-	-	145,928
Electric charges	2,311,414	-	-	-	2,311,414
Sanitation charges	268,748	-	-	-	268,748
Sale of fuel	-	-	21,809	-	21,809
Penalties	42,880	-	-	-	42,880
Total charges for services	<u>3,117,821</u>	<u>-</u>	<u>21,809</u>	<u>-</u>	<u>3,139,630</u>
Lease and rental income	-	-	24,270	-	24,270
Other fees and charges	27,356	12,998	-	-	40,354
Total operating revenues	<u>3,145,177</u>	<u>12,998</u>	<u>46,079</u>	<u>-</u>	<u>3,204,254</u>
<u>Operating expenses:</u>					
Cost of sales	1,464,086	-	-	-	1,464,086
Personal services	422,441	-	-	-	422,441
Materials and supplies	136,908	23,783	54,038	-	214,729
Other services and charges	23,131	-	-	6,250	29,381
Depreciation and amortization	572,479	18,893	103,266	-	694,638
Total operating expenses	<u>2,619,045</u>	<u>42,676</u>	<u>157,304</u>	<u>6,250</u>	<u>2,825,275</u>
Net operating income	526,132	(29,678)	(111,225)	(6,250)	378,979
<u>Nonoperating revenue (expense):</u>					
Grants operating	-	-	20,515	-	20,515
Investment income	537	10	41	165	753
Interest expense	-	-	(13,745)	-	(13,745)
Total nonoperating revenue/(expense)	<u>537</u>	<u>10</u>	<u>6,811</u>	<u>165</u>	<u>7,523</u>
Net income before contributions and transfers	526,669	(29,668)	(104,414)	(6,085)	386,502
<u>Contributions and transfers:</u>					
Contributions	-	-	-	10,000	10,000
Transfers from other funds	25,181	67,219	77,983	-	170,383
Transfers to other funds	(1,262,622)	-	(50,000)	-	(1,312,622)
Change in net assets	(710,772)	37,551	(76,431)	3,915	(745,737)
Net assets-beginning of year	11,451,729	106,020	1,084,815	20,807	12,663,371
Net assets-end of year	<u>\$ 10,740,957</u>	<u>\$ 143,571</u>	<u>\$ 1,008,384</u>	<u>\$ 24,722</u>	<u>\$ 11,917,634</u>

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Light and Water Fund	Golf Course Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
Cash flows from operating activities:					
Receipts from customers	\$ 3,193,697	\$ 12,998	\$ 46,079	\$ -	\$ 3,252,774
Payments to suppliers	(1,612,815)	(23,783)	(54,038)	(6,250)	(1,696,886)
Payments to employees	(424,385)	-	-	-	(424,385)
Net cash provided (used) by operating activities	1,156,497	(10,785)	(7,959)	(6,250)	1,131,503
Cash flows from non-capital financing activities:					
Operating grants and contributions	-	-	20,515	10,000	30,515
Transfers from other funds	25,181	67,219	77,983	-	170,383
Transfers to other funds	(1,262,622)	-	(50,000)	-	(1,312,622)
Non-capital note receivable increased to component unit	(11,280)	-	-	-	(11,280)
Net cash provided (used) by non-capital financing activities	(1,248,721)	67,219	48,498	10,000	(1,123,004)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(37,947)	(61,219)	-	-	(99,166)
Issuance of capital debt	-	-	50,000	-	50,000
Principal paid on capital debt	-	-	(64,238)	-	(64,238)
Interest paid on capital debt	-	-	(13,745)	-	(13,745)
Net cash provided (used) by capital and related financing activities	(37,947)	(61,219)	(27,983)	-	(127,149)
Cash flows from investing activities:					
Investment income	537	10	41	165	753
Net cash provided (used) by investing activities	537	10	41	165	753
Net increase (decrease) in cash and cash equivalents	(129,634)	(4,775)	12,597	3,915	(117,897)
Cash & cash equivalents, June 30, 2010	502,726	8,593	19,889	20,807	552,015
Cash & cash equivalents, June 30, 2011	<u>\$ 373,092</u>	<u>\$ 3,818</u>	<u>\$ 32,486</u>	<u>\$ 24,722</u>	<u>\$ 434,118</u>
Cash, including time deposits	\$ 373,092	\$ 3,818	\$ 32,486	\$ 24,722	\$ 434,118
Total cash and cash equivalents, end of year	<u>\$ 373,092</u>	<u>\$ 3,818</u>	<u>\$ 32,486</u>	<u>\$ 24,722</u>	<u>\$ 434,118</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 526,132	\$ (29,678)	\$ (111,225)	\$ (6,250)	\$ 378,979
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	572,479	18,893	103,266	-	694,638
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	48,520	-	-	-	48,520
Increase (decrease) in accounts payable	3,570	-	-	-	3,570
Increase (decrease) in wages and benefits payable	(1,944)	-	-	-	(1,944)
Increase (decrease) in other liabilities	7,740	-	-	-	7,740
Total adjustments	630,365	18,893	103,266	-	752,524
Net cash provided (used) by operating activities	\$ 1,156,497	\$ (10,785)	\$ (7,959)	\$ (6,250)	\$ 1,131,503

City of Watonga, Oklahoma
Statement of Fiduciary Net Assets
June 30, 2011

	Agency Funds	Total Fiduciary Funds	
ASSETS			
Cash and cash equivalents	\$ 60,674	\$ 60,674	
Investments	127,000	127,000	
Total assets	\$ 187,674	\$ 187,674	
LIABILITIES			
Bonds and deposits subject to refund	\$ 187,674	\$ 187,674	
Total liabilities	187,674	187,674	

City of Watonga, Oklahoma
Statement of Changes in Fiduciary Net Assets
June 30, 2011

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 58,046	\$ 2,628	\$ 60,674
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 185,046</u>	<u>\$ 2,628</u>	<u>\$ 187,674</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 185,046	\$ 2,628	\$ 187,674
Total liabilities	<u>\$ 185,046</u>	<u>\$ 2,628</u>	<u>\$ 187,674</u>

City of Watonga, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

	<u>Grant Fund</u>	<u>Huff Savings</u>	<u>Library Fund</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash and cash equivalents	\$ 15,628	\$ 29,386	\$ 6,010	\$ 51,024
Total assets	<u>\$ 15,628</u>	<u>\$ 29,386</u>	<u>\$ 6,010</u>	<u>\$ 51,024</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Assigned	15,628	29,386	6,010	51,024
Total fund balances	<u>15,628</u>	<u>29,386</u>	<u>6,010</u>	<u>51,024</u>
Total liabilities and fund balances	<u>\$ 15,628</u>	<u>\$ 29,386</u>	<u>\$ 6,010</u>	<u>\$ 51,024</u>

City of Watonga, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2011

	Grant Fund	Huff Savings	Library Fund	Total Non-Major Funds
REVENUES				
Intergovernmental revenue	\$ 19,790	\$ -	\$ 19,011	\$ 38,801
Donations	-	2,772	2,500	5,272
Interest income	-	136	-	136
Total revenues	<u>19,790</u>	<u>2,908</u>	<u>21,511</u>	<u>44,209</u>
EXPENDITURES				
Public safety and judiciary:				
Fire	15,269	-	-	15,269
Total public safety and judiciary	<u>15,269</u>	<u>-</u>	<u>-</u>	<u>15,269</u>
Cultural, parks and recreation:				
Library	-	-	10,758	10,758
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>10,758</u>	<u>10,758</u>
Capital outlay	-	-	4,743	4,743
Total expenditures	<u>15,269</u>	<u>-</u>	<u>15,501</u>	<u>30,770</u>
Excess (deficiency) of revenues over expenditures	<u>4,521</u>	<u>2,908</u>	<u>6,010</u>	<u>13,439</u>
OTHER FINANCING SOURCES (USES)				
Transfers in/(out)	-	(3,885)	-	(3,885)
Total other financing sources and uses	<u>-</u>	<u>(3,885)</u>	<u>-</u>	<u>(3,885)</u>
Net change in fund balances	4,521	(977)	6,010	9,554
Fund balances - beginning	11,107	30,363	-	41,470
Fund balances - ending	<u>\$ 15,628</u>	<u>\$ 29,386</u>	<u>\$ 6,010</u>	<u>\$ 51,024</u>

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Watonga, 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.

Street and Alley Fund

Accounts for the legally restricted gasoline and commercial vehicle taxes. Funds are used for maintenance and repair of streets and street equipment.

Debt Service Fund

Accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt.

Hospital Special Revenue Fund

Accounts for the 2% sales tax restricted for the Hospital Authority's capital expenditures and the transfer to the Hospital Authority.

Sales Tax (Capital Improvement) Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax.

Non-Major Governmental Funds

Grant Fund

Established as a special revenue fund to account for the City's grant programs

Huff Savings Fund

Established as a special revenue fund to account for assigned donations.

Library Fund

Established as a special revenue fund to account for the operations of the municipal library.

Major Proprietary Funds

Light and Water Fund

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

Golf Course Fund

Accounts for the operating activities of the municipal golf course.

Public Works Authority

Accounts for the operating activities of the municipal airport.

Economic Development Authority

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

Fiduciary Component Units (reported in fiduciary financial statements)

Meter Deposit Fund

Accounts for utility deposits received by customers.

Municipal Court Bond Fund

Accounts for bonds held by the City related to the municipal court operations.

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

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 follows the Estimate of Needs based budgeting. The budget is submitted on the required form no later than August 27. Revenues estimated for the General Fund are limited to 90% of the prior year recurring revenues plus any unreserved fund balance carry-over. The Council approves the budget.

Compliance

At June 30, 2011, the City was in material compliance with Oklahoma budgeting regulations.

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.

Due from other governments

Significant receivables include sales tax, use tax, gasoline and motor vehicle tax receivables due from the state of Oklahoma and Blaine County. Sales and Use Tax are considered fully collectible.

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Accounts Receivable

Significant receivables include 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 90 days. At June 30, 2011, the City has estimated an allowance of \$170,714.

Restricted Assets

Restricted assets include assets legally restricted for capital projects at the hospital funded through sales tax directives. Restricted assets are current in nature and are reported with current assets 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 as due to/due from other funds include outstanding charges by one fund to another for services for 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

They 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 \$1,000 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	20-50 years
• Other improvements	10 years
• Machinery, furniture & equipment	5-25 years
• Infrastructure	20-40 years

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

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 at 1 day per month with a specified maximum of 65 days. Sick leave is not payable at the termination of employment. Employees are entitled to 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.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability.

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.

CITY OF WATONGA, OKLAHOMA
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JUNE 30, 2011

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.

Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

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.

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

Effective January 2011, the City increased the sales tax levy from 4% to 5% based upon a vote of the citizens. The sales tax is levied on taxable sales within the City and is collected by the Oklahoma Tax Commission. Tax collections is remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax levied is restricted as to the use.

One percent (1%) is restricted and recorded as sales tax revenue in the Hospital Special Revenue Fund for capital improvements at the Hospital. One percent (1%) is restricted and recorded in the Sales Tax (Capital Improvement) Fund to development of the Huff-Lorang Park, other park improvements, and police and fire department use. One percent (1%) is

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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restricted and reported as sales tax transfer to component units in the General Fund for the benefit of the Hospital, a title 60 trust of the City.

The remaining two percent (2%) is unrestricted and is recorded as sales tax revenue within the General Fund.

(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>	<u>Primary Government</u>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
INVESTMENTS:				
Certificates of deposit	\$ 996,514	\$ 996,514	N/A	134
Total investments	<u>996,514</u>	<u>996,514</u>		
 Total primary government investments	 <u>\$ 996,514</u>	 <u>\$ 996,514</u>		

RECONCILIATION TO STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ 846,514	\$ 150,000	\$ 996,514
Total investments	<u>\$ 846,514</u>	<u>\$ 150,000</u>	<u>\$ 996,514</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.

Restricted Assets

	<u>Cash</u>
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 131,989
Hospital sales tax	250,579
Total Governmental Activities	<u>382,568</u>
Total Restricted Assets	<u>\$ 382,568</u>

CITY OF WATONGA, 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><u>Governmental Activities</u></i>				
Land	\$ 645,540	\$ -	\$ -	\$ 645,540
Buildings & structures	6,173,053	-	-	6,173,053
Machinery, furniture, & equipment	4,231,523	82,774	-	4,314,297
Infrastructure & improvements	19,705,733	73,950	-	19,779,683
Total	30,755,849	156,724	-	30,912,573
Less accumulated depreciation	18,662,834	766,843	-	19,429,677
Governmental fixed assets, net	\$ 12,093,015	\$ (610,119)	\$ -	\$ 11,482,896
<i><u>Business-type Activities</u></i>				
Land	\$ 74,070	\$ -	\$ -	\$ 74,070
Buildings & structures	5,133,511	-	-	5,133,511
Machinery, furniture, & equipment	1,354,113	12,766	-	1,366,879
Infrastructure & improvements	17,809,585	86,400	-	17,895,985
Total	24,371,279	99,166	-	24,470,445
Less accumulated depreciation	12,512,972	694,638	-	13,207,610
Business-type fixed assets, net	\$ 11,858,307	\$ (595,472)	\$ -	\$ 11,262,835
Total primary government	\$ 23,951,322	\$ (1,205,591)	\$ -	\$ 22,745,731

Business-type Activities

	Light and Water Fund	Golf Course Fund	Public Works Authority	Total Business-Type
Land	\$ 48,070	\$ 5,000	\$ 21,000	\$ 74,070
Buildings & structures	222,856	174,484	4,736,171	5,133,511
Machinery, furniture, & equipment	956,849	137,355	272,675	1,366,879
Infrastructure & improvements	17,834,766	61,219	-	17,895,985
Total	19,062,541	378,058	5,029,846	24,470,445
Less accumulated depreciation	(9,145,523)	(238,305)	(3,823,782)	(13,207,610)
Business-type fixed assets, net	\$ 9,917,018	\$ 139,753	\$ 1,206,064	\$ 11,262,835

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Depreciation Expense

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 1,446	Water	\$ 222,957
Public safety & judiciary	48,432	Sewer	250,103
Transportation	679,133	Electric	71,888
Cultural, parks & recreation	37,832	Administration	11,647
Total depreciation expense	\$ 766,843	Sanitation	15,884
		Golf course	18,893
		Airport	103,266
		Total depreciation expense	\$ 694,638

B. Liabilities

Notes Payable

Governmental Activities

The City of Watonga issued General Obligation Hospital Funding Bonds, Series 2004 dated December 1, 2004 in the amount of \$700,000 to be used for the retirement of certain Watonga Municipal Hospital Trust Authority obligations. Payments are made semi-annually with a variable interest rate ranging from 2.75% to 3%. The bonds mature December 1, 2011.	\$ 125,000
	\$ 125,000

Business-Type Activities

The PWA has established a line of credit with Cornerstone bank to be used for operations. The line carries an interest rate of 6.5%. Payments are made monthly.	119,222
In October 2009, PWA entered into an agreement with John Deere credit for the purchase of a wheel loader in the amount of \$133,783. The loan carries a fixed interest rate of 5.87% for 84 months, maturing September 2016.	110,944
	\$ 230,166

Changes in Long-Term Debt

Type of Debt	Balance at July 1, 2010	Amount Issued	Amount Retired	Balance at June 30, 2011	Due Within One Year
Governmental activities:					
General Obligation bonds	\$ 240,000	\$ -	\$ 115,000	\$ 125,000	\$ 125,000
Business-type activities:					
Cornerstone Bank LOC	\$ 116,456	\$ 50,000	\$ 47,234	\$ 119,222	\$ 119,222
John Deere Credit	127,948	-	17,004	110,944	17,301
Total business-type activities	\$ 244,404	\$ 50,000	\$ 64,238	\$ 230,166	\$ 136,523
Total primary government	\$ 484,404	\$ 50,000	\$ 179,238	\$ 355,166	\$ 261,523

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Annual Debt Service Requirements

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 125,000	\$ 3,438	\$ 136,523	\$ 13,799
2013	-	-	18,344	5,007
2014	-	-	19,450	3,901
2015	-	-	20,623	2,729
2016	-	-	21,866	1,485
2017	-	-	13,360	263
Totals	\$ 125,000	\$ 3,438	\$ 230,166	\$ 27,184

C. Interfund Balances

	Transfers In	Transfers Out
GENERAL FUND		
Light and Water Fund	\$ 1,205,000	\$ -
Public Works Authority	50,000	-
Sales Tax (Capital Improvement) Fund	-	2,253
Hospital Special Revenue Fund	-	6,020
Golf Course Fund	-	6,000
Total General Fund	<u>1,255,000</u>	<u>14,273</u>
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	2,253	-
Light and Water Fund	-	25,182
Golf Course Fund	-	61,218
Public Works Authority	-	77,983
Huff Savings	3,885	-
Total Capital Improvement Fund	<u>6,138</u>	<u>164,383</u>
HOSPITAL SPECIAL REVENUE FUND		
Light and Water Fund	57,622	-
General Fund	6,020	-
Total Hospital Special Revenue Fund	<u>63,642</u>	<u>-</u>
LIGHT AND WATER FUND		
General Fund	-	1,205,000
Sales Tax (Capital Improvement) Fund	25,181	-
Hospital Special Revenue Fund	-	57,622
Total Light and Water Fund	<u>25,181</u>	<u>1,262,622</u>
PUBLIC WORKS AUTHORITY		
General Fund	-	50,000
Sales Tax (Capital Improvement) Fund	77,983	-
Total Public Works Authority	<u>77,983</u>	<u>50,000</u>
GOLF COURSE		
General Fund	6,000	-
Sales Tax (Capital Improvement) Fund	61,219	-
Total Golf Course Fund	<u>67,219</u>	<u>-</u>
HUFF SAVINGS		
Sales Tax (Capital Improvement) Fund	-	3,885
Total Huff Savings	<u>-</u>	<u>3,885</u>
GRAND TOTAL	\$ 1,495,163	\$ 1,495,163

(3) REVENUES AND EXPENSES

Interfund Transfers

Refer to Note (2)C. Interfund Balances

(4) 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 each municipality. Participants are required to participate 4% of their covered compensation. The City contributes 18.41% 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 OMRF. 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	18.41% of covered payroll
- Employer Rate	4% 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"> - Normal retirement at age 65 with 10 years of service or age 62 with 30 or more years of service - Early Retirement after age 55 with 10 years or more of service. - Disability retirement upon disability with 10 years of service. - Termination before retirement age return of employee contributions with interest
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

**CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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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 Statue. 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. 63rd Street, Suite 305, Oklahoma City, OK 7316-7335.

(5) 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 statue 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.

(6) SUBSEQUENT EVENTS

Watonga Municipal Hospital Trust Authority Bonds

In March 2012, The City of Watonga authorized the sale of bonds by the City of Watonga, OK to provide \$1,700,000 to retire certain obligations of the Watonga Municipal Hospital Trust Authority.

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

To the City Council
City of Watonga, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Watonga, Oklahoma, and related Authorities as of and for the year ended June 30, 2011, which collectively comprise the City of Watonga, Oklahoma's basic financial statements and have issued our report thereon dated March 15, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Watonga, 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 my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted NO certain matters that to be reported to management of City of Watonga, Oklahoma.

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.



Watonga, Oklahoma
March 15, 2012