

**CITY OF WATONGA OKLAHOMA  
WATONGA, OKLAHOMA**

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

**FOR THE YEAR ENDED  
JUNE 30, 2012**

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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 City of Watonga, Oklahoma, as of and for the year ended June 30, 2012, 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 Watonga, Oklahoma's management. My responsibility is to express opinions on these financial statements based on our audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Watonga, Oklahoma, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watonga, Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Watonga, Oklahoma  
April 30, 2013

**CITY OF WATONGA, OKLAHOMA**  
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**For the fiscal year ended JUNE 30, 2012**

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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, 2012. 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, 2012, the assets of the City exceeded its liabilities by \$24,916,477 (net assets). Of this amount \$3,052,144 (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 \$25,273,541.
- The City's total net assets are comprised of the following:
  - (1) Invested in capital assets, net of related debt of \$20,136,286 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 \$1,728,047.
  - (3) Unrestricted net assets of \$3,052,144 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City increased by \$1,456,144 during the fiscal year. The majority of this increase is attributable to issuance of general obligation debt related to the hospital.
- After transfers of \$1,027,522 from business-type activities to governmental activities, net assets of governmental activities decreased \$234,681 or 1.76%, and net assets of business-type activities decreased \$122,383 or 1.03%. 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 \$1,801,344 or 82% 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

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, 2012 are \$24,916,477. This is a \$357,064 decrease over June 30, 2011 net assets of \$25,273,541. The City reported positive balances in total net assets for both governmental and business-type activities, reporting \$13,264,812 and \$11,651,665, respectively. The City's overall financial position declined during fiscal year 2012.

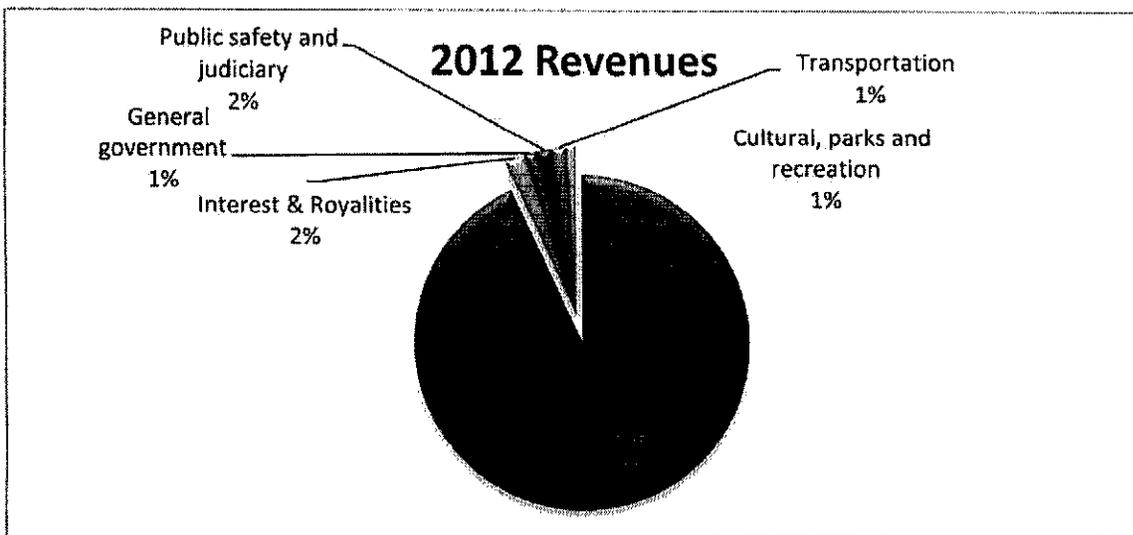
	Governmental Activities		Summary of Net Assets Business-Type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
Current assets	\$ 3,948,000	\$ 2,070,410	\$ 901,888	\$ 874,739	\$ 4,849,888	\$ 2,945,149	\$ 1,904,739	65%
Non-current assets	75,000	-	205,321	206,722	280,321	206,722	73,599	100%
Capital assets, net	11,023,479	11,482,896	10,842,994	11,262,835	21,866,473	22,745,731	(879,258)	-4%
<b>Total assets</b>	<b>15,046,479</b>	<b>13,553,306</b>	<b>11,950,203</b>	<b>12,344,296</b>	<b>26,996,682</b>	<b>25,897,602</b>	<b>1,099,080</b>	<b>4%</b>
Current liabilities	70,394	197,399	223,713	333,019	294,107	530,418	(236,311)	-45%
Non-current liabilities	1,711,273	-	74,825	93,643	1,786,098	93,643	1,692,455	1807%
<b>Total liabilities</b>	<b>1,781,667</b>	<b>197,399</b>	<b>298,538</b>	<b>426,662</b>	<b>2,080,205</b>	<b>624,061</b>	<b>1,456,144</b>	<b>233%</b>
<b>Net assets</b>								
Invested in capital assets, net of related debt	9,387,206	11,357,896	10,749,080	11,032,669	20,136,286	22,390,565	(2,254,279)	-10%
Restricted	1,728,047	128,472	-	-	1,728,047	128,472	1,599,575	1245%
Unrestricted	2,149,559	1,869,539	902,585	884,965	3,052,144	2,754,504	297,640	11%
<b>Total net assets</b>	<b>\$ 13,264,812</b>	<b>\$ 13,355,907</b>	<b>\$ 11,651,665</b>	<b>\$ 11,917,634</b>	<b>\$ 24,916,477</b>	<b>\$ 25,273,541</b>	<b>\$ (357,064)</b>	<b>-1%</b>

Summary of Changes in Net Assets

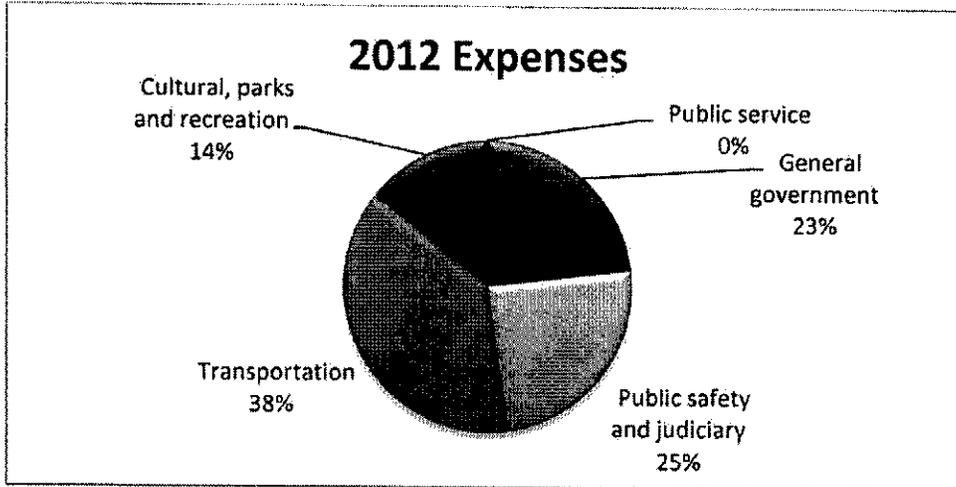
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
<b>Revenues</b>								
Program revenues	\$ 142,880	\$ 130,937	\$ 3,861,687	\$ 3,204,254	\$ 4,004,567	\$ 3,335,191	\$ 669,376	20%
Taxes and other general revenues	2,748,407	1,859,071	1,387	31,268	2,749,794	1,890,339	859,455	45%
<b>Total revenues</b>	<b>2,891,287</b>	<b>1,990,008</b>	<b>3,863,074</b>	<b>3,235,522</b>	<b>6,754,361</b>	<b>5,225,530</b>	<b>1,528,831</b>	<b>66%</b>
<b>Expenses</b>								
General government	696,519	941,507	-	-	696,519	941,507	(244,988)	-26%
Public safety and judiciary	738,571	603,105	-	-	738,571	603,105	135,466	22%
Transportation	1,146,687	1,105,497	-	-	1,146,687	1,105,497	41,190	4%
Cultural, parks, and recreation	426,740	339,393	-	-	426,740	339,393	87,347	26%
Public service	1,797	25,601	-	-	1,797	25,601	(23,804)	100%
Economic development	-	-	5,400	6,250	5,400	6,250	(850)	100%
Electric	-	-	1,838,369	1,687,974	1,838,369	1,687,974	150,395	9%
Water	-	-	312,573	318,496	312,573	318,496	(5,923)	-2%
Sewer	-	-	285,303	279,445	285,303	279,445	5,858	2%
Sanitation	-	-	119,346	105,780	119,346	105,780	13,566	13%
Golf course	-	-	-	42,676	0	42,676	(42,676)	-100%
Airport	-	-	141,769	171,049	141,769	171,049	(29,280)	-17%
Administration	-	-	255,175	227,350	255,175	227,350	27,825	12%
<b>Total expenses</b>	<b>3,010,314</b>	<b>3,015,103</b>	<b>2,957,935</b>	<b>2,839,020</b>	<b>5,968,249</b>	<b>5,854,123</b>	<b>114,126</b>	<b>2%</b>
Excess (deficiency) before transfers	\$ (119,027)	\$ (1,025,095)	\$ 905,139	\$ 396,502	\$ 786,112	\$ (628,593)	\$ 1,414,705	-225%
Transfers - internal	1,027,522	1,142,239	(1,027,522)	(1,142,239)	-	-	-	0%
Residual equity transfer	143,586	-	(143,586)	-	-	-	-	-
Transfers - component unit	(1,143,176)	(335,662)	-	-	(1,143,176)	(335,662.00)	(807,514)	0%
<b>Increase (decrease) in net assets</b>	<b>\$ (91,095)</b>	<b>\$ (218,518)</b>	<b>\$ (265,969)</b>	<b>\$ (745,737)</b>	<b>\$ (357,064)</b>	<b>\$ (964,255)</b>	<b>\$ 607,191</b>	<b>-63%</b>

Revenues for the City increased 66% over the prior year. This decrease in revenues is mainly attributable to increased utility billings and an increase in sales tax. Operating expenses remained consistent with fiscal year 2011 with a 2% change.

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

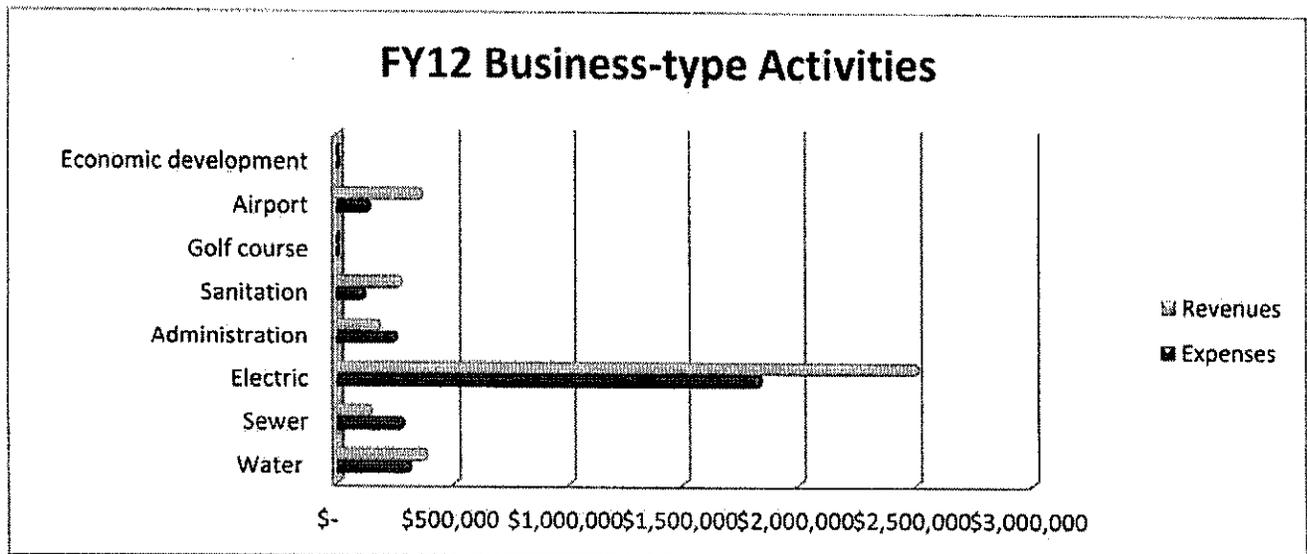


Taxes proved for 93% of the City's governmental revenues in fiscal year 2012. Interest and royalties followed as the second major revenue source accounting for 2% of governmental revenues.



For the year ended June 30, 2012, total expenses for governmental activities were \$3,010,314. Of this amount, transportation with \$1,146,687 was the largest operating service department at 38% 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, 2012, 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 2012 was \$2,435,847. Actual expenses were \$243,646 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, 2012, the City had \$20,136,286 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	
	2012	2011	2012	2011	2012	2011
	Land	\$ 850,540	\$ 645,540	\$ 69,070	\$ 74,070	\$ 719,610
Buildings	174,785	115,461	1,308,446	1,156,425	1,483,231	1,271,886
Machinery & equipment	758,644	749,543	404,102	417,007	1,162,746	1,166,550
Utility property & improvements	9,439,510	9,972,352	9,061,376	9,615,333	18,500,886	19,587,685
<b>Totals</b>	<b>\$ 11,023,479</b>	<b>\$ 11,482,896</b>	<b>\$ 10,842,994</b>	<b>\$ 11,262,835</b>	<b>\$ 21,866,473</b>	<b>\$ 22,745,731</b>

- In Governmental Activities, the most significant additions included computers and software, ADAQ bathroom remodel, lights at the park, a park mower, security cameras, a 2012 Chevrolet police car, tasers, a John Deere grader for the street department, and street overlays.
- In Business-type activities capital additions included a transformer, an Amwell rotary distributor, and a disposal pump.

**Long-Term Debt**

At year-end, the City had \$1,793,914 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	
	2012	2011	2012	2011
Line of credit	-	-	-	119,222
Notes payable	-	-	93,914	110,944
Bonds payable	1,700,000	125,000	-	-
less current portion	-	(125,000)	(19,089)	(136,523)
<b>Totals</b>	<b>\$ 1,700,000</b>	<b>\$ -</b>	<b>\$ 74,825</b>	<b>\$ 93,643</b>

**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 2013**

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. Utility revenues were budgeted to increase by 1.7%. 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, 2012**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,832,983	\$ 398,377	\$ 3,231,360
Investments	846,514	150,000	996,514
Due from other governments	172,455	-	172,455
Accounts receivable (net)	-	353,511	353,511
<b>Total current assets</b>	<b>3,851,952</b>	<b>901,888</b>	<b>4,753,840</b>
<b>Restricted assets:</b>			
Cash and cash equivalents	96,048	-	96,048
<b>Total restricted assets</b>	<b>96,048</b>	<b>-</b>	<b>96,048</b>
<b>Noncurrent Assets:</b>			
Note receivable, related party	-	205,321	205,321
Deferred debt expense, net	75,000	-	75,000
Land and construction in progress	650,540	69,070	719,610
Other capital assets (net of accumulated depreciation)	10,372,939	10,773,924	21,146,863
<b>Total noncurrent assets</b>	<b>11,098,479</b>	<b>11,048,315</b>	<b>22,146,794</b>
<b>Total assets</b>	<b>\$ 15,046,479</b>	<b>\$ 11,950,203</b>	<b>\$ 26,996,682</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 610	\$ 176,770	\$ 177,380
Wages and benefits payable	39,121	10,672	49,793
Compensated absences	30,663	9,122	39,785
Other liabilities	-	8,060	8,060
Notes payable, current	-	19,089	19,089
<b>Total current liabilities</b>	<b>70,394</b>	<b>223,713</b>	<b>294,107</b>
<b>Noncurrent liabilities:</b>			
Notes payable	-	74,825	74,825
Bonds payable, net of premium	1,711,273	-	1,711,273
<b>Total noncurrent liabilities</b>	<b>1,711,273</b>	<b>74,825</b>	<b>1,786,098</b>
<b>Total liabilities</b>	<b>1,781,667</b>	<b>298,538</b>	<b>2,080,205</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,367,206	10,749,080	20,136,286
Reserved for restricted purposes	1,728,047	-	1,728,047
Unrestricted	2,149,559	902,585	3,052,144
<b>Total net assets</b>	<b>\$ 13,264,812</b>	<b>\$ 11,651,665</b>	<b>\$ 24,916,477</b>

**City of Watonga, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
<b>Governmental activities:</b>					
General government	\$ 696,519	\$ 3,514	\$ 30,885	\$ -	\$ (662,140)
Public safety and judiciary	738,571	21,900	21,656	-	(695,015)
Transportation	1,146,687	17,268	24,000	-	(1,105,419)
Cultural, parks and recreation	426,740	13,471	10,206	-	(403,063)
Public service	1,797	-	-	-	(1,797)
<b>Total governmental activities</b>	<b>3,010,314</b>	<b>56,153</b>	<b>86,727</b>	<b>-</b>	<b>(2,867,434)</b>
<b>Business-type activities:</b>					
Water	312,573	381,512	-	-	68,939
Sewer	285,303	146,621	-	-	(138,682)
Electric	1,838,369	2,512,010	-	-	673,641
Administration	255,176	182,275	-	-	(72,900)
Sanitation	119,346	274,891	-	-	155,545
Golf course	-	-	-	-	-
Airport	141,769	34,311	-	330,067	222,609
Economic development	5,400	-	-	-	(5,400)
<b>Total business-type activities</b>	<b>2,957,936</b>	<b>3,531,620</b>	<b>-</b>	<b>330,067</b>	<b>903,752</b>
<b>Total primary government</b>	<b>\$ 5,968,249</b>	<b>\$ 3,587,773</b>	<b>\$ 86,727</b>	<b>\$ 330,067</b>	<b>\$ (1,983,682)</b>

**City of Watonga, Oklahoma**  
**Statement of Activities (continued)**  
**Year Ended June 30, 2012**

**Changes in Net Assets:**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense)/revenue	\$ (2,867,434)	\$ 903,752	\$ (1,963,682)
General revenues:			
Taxes:			
Sales tax	2,423,413	-	2,423,413
Use tax	101,189	-	101,189
Franchise tax	29,398	-	29,398
Property tax	1,680	-	1,680
Other taxes	130,138	-	130,138
Oil and gas royalties	41,310	-	41,310
Investment income	15,735	1,387	17,122
Miscellaneous	5,544	-	5,544
Transfers-Internal activity	1,027,522	(1,027,522)	-
Transfers to component units	(1,143,176)	-	(1,143,176)
Total general revenues and transfers	<u>2,632,753</u>	<u>(1,026,135)</u>	<u>1,606,618</u>
Change in net assets	(234,681)	(122,383)	(357,064)
Net assets-beginning	13,355,907	11,917,634	25,273,541
Residual equity transfer	143,586	(143,586)	-
Net assets-ending	<u>\$ 13,264,812</u>	<u>\$ 11,651,665</u>	<u>\$ 24,916,477</u>

City of Watonga, Oklahoma  
Balance Sheet  
Governmental Funds  
June 30, 2012

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improvement)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 935,612	\$ 80,581	\$ 18,028	\$ 78,020	\$ 102,100	\$ 1,625,375	\$ 89,315	\$ 2,929,031
Investments	846,514	-	-	-	-	-	-	846,514
Due from other governments	89,674	4,083	-	62,975	15,743	-	-	172,455
<b>Total assets</b>	<b>\$ 1,871,800</b>	<b>\$ 84,644</b>	<b>\$ 18,028</b>	<b>\$ 140,995</b>	<b>\$ 117,843</b>	<b>\$ 1,625,375</b>	<b>\$ 89,315</b>	<b>\$ 3,948,000</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 610	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 610
Wages and benefits payable	39,121	-	-	-	-	-	-	39,121
Compensated absences	30,663	-	-	-	-	-	-	30,663
<b>Total liabilities</b>	<b>70,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,394</b>
<b>FUND BALANCES</b>								
Restricted	-	84,644	18,028	-	-	1,625,375	-	1,728,047
Committed	-	-	-	140,995	117,843	-	-	258,838
Assigned	62	-	-	-	-	-	89,315	89,377
Unassigned	1,801,344	-	-	-	-	-	-	1,801,344
<b>Total fund balances</b>	<b>1,801,406</b>	<b>84,644</b>	<b>18,028</b>	<b>140,995</b>	<b>117,843</b>	<b>1,625,375</b>	<b>89,315</b>	<b>3,877,906</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,871,800</b>	<b>\$ 84,644</b>	<b>\$ 18,028</b>	<b>\$ 140,995</b>	<b>\$ 117,843</b>	<b>\$ 1,625,375</b>	<b>\$ 89,315</b>	<b>\$ 3,948,000</b>
Total fund balance- total governmental funds								\$ 3,877,906
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								
Land and construction in process							650,540	
Capital assets							24,786,258	
Less: Accumulated depreciation							(14,413,319)	
								11,023,479
Long-term portion of liabilities are not due and payable in the current period and are not reported								
Deferred debt expense							75,000	
Bonds payable, net							(1,711,273)	
Net assets of governmental activities								<u>\$ 13,264,912</u>

**City of Watonga, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2012**

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improve)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
<b>REVENUES</b>								
Sales tax	\$ 1,211,707	\$ -	\$ -	\$ 969,365	\$ 242,341	\$ -	\$ -	\$ 2,423,413
Use tax	101,189	-	-	-	-	-	-	101,189
Franchise tax	29,398	-	-	-	-	-	-	29,398
Other taxes	67,066	43,072	-	-	-	-	-	110,138
Property taxes	-	-	1,650	-	-	-	-	1,650
Licenses and permits	3,514	-	-	-	-	-	-	3,514
Rents & royalties	41,310	-	-	-	-	-	-	41,310
Fines and forfeitures	20,000	-	-	-	-	-	-	20,000
Charges for services	15,371	18,623	-	-	-	-	-	33,994
Intergovernmental revenues	-	24,000	-	-	-	-	-	24,000
Donations	2,772	-	-	-	-	-	31,862	34,634
Other revenues	30,865	645	-	-	-	-	2,772	33,282
Interest	14,741	87	55	570	60	125	77	15,735
Total revenues	1,557,933	84,427	1,735	969,935	242,421	125	34,711	2,891,267
<b>EXPENDITURES</b>								
<b>Current</b>								
General government:								
General government	542,271	-	-	-	-	-	-	542,271
Managerial	13,967	-	-	-	-	-	-	13,967
City clerk	90,229	-	-	-	-	-	-	90,229
City treasurer	17,071	-	-	-	-	-	-	17,071
City attorney	29,782	-	-	-	-	-	-	29,782
Total general government	692,320	-	-	-	-	-	-	692,320
Public safety and judiciary:								
Municipal court	9,788	-	-	-	-	-	-	9,788
Police	415,338	-	-	-	-	-	-	415,338
Fire	238,956	-	-	-	-	-	27,948	266,904
Total public safety and judiciary	664,082	-	-	-	-	-	27,948	692,030
Transportation:								
Street	464,168	4,234	-	-	-	-	-	468,402
Total transportation	464,168	4,234	-	-	-	-	-	468,402
Cultural, parks and recreation:								
Library	167,471	-	-	-	-	-	9,637	177,108
Park	117,995	-	-	-	6,185	-	-	124,180
Golf	87,453	-	-	-	-	-	-	87,453
Total cultural, parks and recreation	352,919	-	-	-	6,185	-	9,637	368,741
Public service:								
Airport	1,787	-	-	-	-	-	-	1,787
Total public service	1,787	-	-	-	-	-	-	1,787
Capital outlay	16,999	124,021	-	-	38,718	-	6,276	185,017
<b>Debt service:</b>								
Principal	-	-	125,000	-	-	-	-	125,000
Interest	-	-	1,719	-	-	-	-	1,719
Fiscal charges	-	-	250	-	-	-	-	250
Bond issue costs	-	-	-	-	-	74,750	-	74,750
Total expenditures	2,192,203	126,286	125,869	-	44,903	74,750	44,084	2,611,144
Excess (deficiency) of revenues over expenditures	(634,270)	(43,826)	(125,234)	969,935	197,518	(74,625)	(9,283)	280,143
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in:								
Transfers in	1,125,000	-	11,273	63,772	3,307	-	582,562	1,785,904
Transfers out	(69,651)	-	-	(529,895)	(142,235)	(11,273)	(5,126)	(788,382)
Transfers out to component units	-	-	-	(613,996)	-	-	(629,780)	(1,143,178)
Premium on bonds	-	-	-	-	-	11,273	-	11,273
Long-term debt issued	-	-	-	-	-	1,700,000	-	1,700,000
Total other financing sources and uses	1,055,349	-	11,273	(1,079,919)	(138,928)	1,700,000	47,644	1,686,819
Net change in fund balances	420,879	(43,826)	(113,961)	(109,984)	58,590	1,625,375	38,291	1,875,782
Fund balances - beginning	1,376,894	126,472	131,969	250,579	59,253	-	51,024	1,996,011
Residual equity transfer	3,833	-	-	-	-	-	-	3,833
Fund balances - ending	\$ 1,801,406	\$ 84,644	\$ 18,028	\$ 140,995	\$ 117,843	\$ 1,625,375	\$ 89,315	\$ 3,877,606

**City of Watonga, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2012**

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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 \$ 1,875,762  
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	186,017	
Depreciation expense	<u>(785,187)</u>	(599,170)

The proceeds of debt issuances provide current financial resources to governmental  
funds, but issuing debt increases long-term liabilities in the statement of net assets.  
Repayment of debt principal is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net assets

Long-term debt issued	(1,700,000)	
Premium on bonds	(11,273)	
Debt principal	125,000	
Bond issuance costs	74,750	
Fiscal charges	250	
		<u>(1,511,273)</u>

	<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (234,681)</u></b>
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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, 2012**

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>					
Sales tax	\$ 1,511,616	\$ (275,000)	\$ 1,236,616	\$ 1,198,167	\$ (40,449)
Use tax	22,004	70,000	92,004	100,262	8,258
Cigarette tax	-	-	-	35,678	35,678
Franchise Tax	29,139	-	29,139	29,398	259
Alcoholic beverage tax	45,464	-	45,464	53,247	7,783
Police Fines & Court Fees	15,073	-	15,073	21,900	6,827
Insure OK	37,829	-	37,829	25,673	(12,156)
Rentals, sales, miscellaneous	35,753	-	35,753	42,200	6,447
Oil & gas income	31,849	(30,000)	1,849	1,881	32
Licenses & permits	1,754	-	1,754	3,514	1,760
Interest Income	19,995	-	19,995	14,742	(5,253)
Golf fees	-	-	-	13,471	13,471
Watonga Housing Authority	-	-	-	5,192	5,192
<b>Total revenues</b>	<b>1,750,476</b>	<b>(235,000)</b>	<b>1,515,476</b>	<b>1,543,326</b>	<b>27,849</b>
<b>EXPENDITURES</b>					
<b>General government:</b>					
General government:	932,000	(160,050)	771,950	547,550	224,400
Managerial:	12,850	150	13,000	13,967	(967)
City Clerk:	84,000	15,500	99,500	93,724	5,776
City Treasurer:	18,400	1,000	17,400	17,071	329
City Attorney:	35,900	(5,000)	30,900	28,782	2,118
<b>Total General government:</b>	<b>1,081,150</b>	<b>(148,400)</b>	<b>932,750</b>	<b>701,094</b>	<b>231,656</b>
<b>Public safety and judiciary:</b>					
Municipal Court:	9,102	900	10,002	9,768	236
Police Department:	375,000	53,000	428,000	419,123	8,877
Fire Department:	193,575	43,000	236,575	239,956	(2,381)
<b>Total</b>	<b>577,677</b>	<b>96,900</b>	<b>674,577</b>	<b>667,845</b>	<b>6,732</b>
<b>Transportation:</b>					
Street:	435,000	40,000	475,000	466,315	8,685
<b>Total</b>	<b>435,000</b>	<b>40,000</b>	<b>475,000</b>	<b>466,315</b>	<b>8,685</b>
<b>Culture and recreation:</b>					
Library:	146,020	25,500	171,520	169,104	2,416
Park:	110,000	5,000	115,000	118,594	(3,594)
Golf:	61,000	1,000	62,000	67,452	(5,452)
<b>Total Culture and recreation:</b>	<b>317,020</b>	<b>31,500</b>	<b>348,520</b>	<b>355,150</b>	<b>(6,630)</b>
<b>Public services</b>					
Airport:	25,000	(20,000)	5,000	1,797	3,203
<b>Total Public services</b>	<b>25,000</b>	<b>(20,000)</b>	<b>5,000</b>	<b>1,797</b>	<b>3,203</b>
<b>Total expenditures</b>	<b>2,435,847</b>	<b>-</b>	<b>2,435,847</b>	<b>2,182,201</b>	<b>243,646</b>
<b>Revenue over (under) expenditures</b>	<b>(685,371)</b>	<b>(235,000)</b>	<b>(920,371)</b>	<b>(648,876)</b>	<b>(215,797)</b>

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, 2012

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	834,192	270,808	1,105,000	1,055,148	(49,852)
Net other financing sources (uses)	<u>834,192</u>	<u>270,808</u>	<u>1,105,000</u>	<u>1,055,148</u>	<u>(49,852)</u>
Revenues and other financing sources over (under) expenditures and other uses	148,821	35,908	184,829	406,272	(265,649)
Fund balance at beginning of year (Non-GAAP budgetary basis)	1,356,248	1,356,248	1,356,248	1,380,527	1,380,527
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 1,505,069</u>	<u>\$ 1,392,056</u>	<u>\$ 1,540,877</u>	<u>\$ 1,786,799</u>	<u>\$ 1,114,878</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and transfer accruals				14,807	
Fund balance at end of year (GAAP basis)				<u>\$ 1,801,406</u>	

**City of Watonga, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Light and Water Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 327,656	\$ 51,376	\$ 19,345	\$ 398,377
Investments	150,000	-	-	150,000
Accounts receivable, net	353,511	-	-	353,511
<b>Total current assets</b>	<b>831,167</b>	<b>51,376</b>	<b>19,345</b>	<b>901,888</b>
<b>Noncurrent assets:</b>				
Note receivable, related party	205,321	-	-	205,321
Capital assets (net)	9,427,169	1,415,825	-	10,842,994
<b>Total noncurrent assets</b>	<b>9,632,490</b>	<b>1,415,825</b>	<b>-</b>	<b>11,048,315</b>
<b>Total assets</b>	<b>\$ 10,463,657</b>	<b>\$ 1,467,201</b>	<b>\$ 19,345</b>	<b>\$ 11,950,203</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 176,770	\$ -	\$ -	\$ 176,770
Wages and benefits payable	19,794	-	-	19,794
Other liabilities	8,080	-	-	8,080
Notes payable, current	-	19,089	-	19,089
<b>Total current liabilities</b>	<b>204,624</b>	<b>19,089</b>	<b>-</b>	<b>223,713</b>
<b>Noncurrent liabilities:</b>				
Notes payable, non-current	-	74,825	-	74,825
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>74,825</b>	<b>-</b>	<b>74,825</b>
<b>Total liabilities</b>	<b>204,624</b>	<b>93,914</b>	<b>-</b>	<b>298,538</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,427,169	1,321,911	-	10,749,080
Unrestricted	831,864	51,376	19,345	902,585
<b>Total net assets</b>	<b>\$ 10,259,033</b>	<b>\$ 1,373,287</b>	<b>\$ 19,345</b>	<b>\$ 11,651,665</b>

**City of Watonga, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	<u>Light and Water Fund</u>	<u>Golf Course Fund</u>	<u>Public Works Authority</u>	<u>Economic Development Authority</u>	<u>Total Enterprise Funds</u>
<b>Operating revenues:</b>					
Charges for services:					
Water charges	\$ 381,512	\$ -	\$ -	\$ -	\$ 381,512
Sewer charges	146,621	-	-	-	146,621
Electric charges	2,512,010	-	-	-	2,512,010
Sanitation charges	274,891	-	-	-	274,891
Sale of fuel	-	-	11,014	-	11,014
Penalties	47,629	-	-	-	47,629
Total charges for services	<u>3,362,663</u>	<u>-</u>	<u>11,014</u>	<u>-</u>	<u>3,373,677</u>
Lease and rental income	-	-	23,297	-	23,297
Other fees and charges	134,646	-	-	-	134,646
Total operating revenues	<u>3,497,309</u>	<u>-</u>	<u>34,311</u>	<u>-</u>	<u>3,531,620</u>
<b>Operating expenses:</b>					
Cost of sales	1,571,079	-	-	-	1,571,079
Personal services	354,716	-	-	-	354,716
Materials and supplies	164,406	-	7,788	-	172,194
Other services and charges	150,684	-	9,055	5,400	165,139
Depreciation and amortization	569,881	-	119,742	-	689,623
Total operating expenses	<u>2,810,766</u>	<u>-</u>	<u>136,585</u>	<u>5,400</u>	<u>2,952,751</u>
Net operating income	686,543	-	(102,274)	(5,400)	578,869
<b>Nonoperating revenue (expense):</b>					
Grants operating	-	-	330,067	-	330,067
Investment income	1,290	15	59	23	1,387
Interest expense	-	-	(5,184)	-	(5,184)
Total nonoperating revenue/(expense)	<u>1,290</u>	<u>15</u>	<u>324,942</u>	<u>23</u>	<u>326,270</u>
Net income before contributions and transfers	687,833	15	222,668	(5,377)	905,139
<b>Contributions and transfers:</b>					
Contributions	-	-	-	-	-
Transfers from other funds	5,243	-	142,235	-	147,478
Transfers to other funds	<u>(1,175,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,175,000)</u>
Change in net assets	(481,924)	15	364,903	(5,377)	(122,383)
Net assets-beginning of year	10,740,957	143,571	1,008,384	24,722	11,917,634
Residual equity transfer	-	<u>(143,586)</u>	<u>-</u>	<u>-</u>	<u>(143,586)</u>
Net assets-end of year	<u>\$ 10,259,033</u>	<u>\$ -</u>	<u>\$ 1,373,287</u>	<u>\$ 19,345</u>	<u>\$ 11,651,665</u>

City of Watonga, Oklahoma  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2012

	Light and Water Fund	Golf Course Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 3,434,419	\$ -	\$ 34,311	\$ -	\$ 3,468,730
Payments to suppliers	(1,879,228)	-	(16,843)	(5,400)	(1,901,471)
Payments to employees	(353,529)	-	-	-	(353,529)
Net cash provided (used) by operating activities	<u>1,201,662</u>	<u>-</u>	<u>17,468</u>	<u>(5,400)</u>	<u>1,213,730</u>
<b>Cash flows from non-capital financing activities:</b>					
Operating grants and contributions	-	-	330,067	-	330,067
Transfers from other funds	5,243	-	142,235	-	147,478
Transfers to other funds	(1,175,000)	(3,833)	-	-	(1,178,833)
Non-capital note receivable pymt received from component unit	1,401	-	-	-	1,401
Net cash provided (used) by non-capital financing activities	<u>(1,188,356)</u>	<u>(3,833)</u>	<u>472,302</u>	<u>-</u>	<u>(699,887)</u>
<b>Cash flows from capital and related financing activities:</b>					
Purchases of capital assets	(80,032)	-	(329,503)	-	(409,535)
Issuance of capital debt	-	-	-	-	-
Principal paid on capital debt	-	-	(136,252)	-	(136,252)
Interest paid on capital debt	-	-	(5,184)	-	(5,184)
Net cash provided (used) by capital and related financing activities	<u>(80,032)</u>	<u>-</u>	<u>(470,939)</u>	<u>-</u>	<u>(550,971)</u>
<b>Cash flows from investing activities:</b>					
Investment income	1,290	15	59	23	1,387
Net cash provided (used) by investing activities	<u>1,290</u>	<u>15</u>	<u>59</u>	<u>23</u>	<u>1,387</u>
Net increase (decrease) in cash and cash equivalents	(45,436)	(3,818)	18,890	(5,377)	(35,741)
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 & cash equivalents, June 30, 2012	<u>\$ 327,656</u>	<u>\$ -</u>	<u>\$ 51,376</u>	<u>\$ 19,345</u>	<u>\$ 398,377</u>
Cash, including time deposits	<u>\$ 327,656</u>	<u>\$ -</u>	<u>\$ 51,376</u>	<u>\$ 19,345</u>	<u>\$ 398,377</u>
Total cash and cash equivalents, end of year	<u>\$ 327,656</u>	<u>\$ -</u>	<u>\$ 51,376</u>	<u>\$ 19,345</u>	<u>\$ 398,377</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 686,543	\$ -	\$ (102,274)	\$ (5,400)	\$ 578,869
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	589,881	-	119,742	-	689,623
Changes in assets and liabilities:					
(increase) decrease in accounts receivable	(62,890)	-	-	-	(62,890)
Increase (decrease) in accounts payable	6,621	-	-	-	6,621
Increase (decrease) in wages and benefits payable	1,187	-	-	-	1,187
Increase (decrease) in other liabilities	320	-	-	-	320
Total adjustments	<u>515,119</u>	<u>-</u>	<u>119,742</u>	<u>-</u>	<u>634,861</u>
Net cash provided (used) by operating activities	<u>\$ 1,201,662</u>	<u>\$ -</u>	<u>\$ 17,468</u>	<u>\$ (5,400)</u>	<u>\$ 1,213,730</u>

**City of Watonga, Oklahoma**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

	<b>Agency Funds</b>	<b>Total Fiduciary Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 80,261	\$ 80,261
Investments	127,000	127,000
Total assets	\$ 207,261	\$ 207,261
<b>LIABILITIES</b>		
Bonds and deposits subject to refund	\$ 207,261	\$ 207,261
Total liabilities	207,261	207,261

**City of Watonga, Oklahoma**  
**Statement of Changes in Fiduciary Net Assets**  
**June 30, 2012**

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 75,740	\$ 4,521	\$ 80,261
Cash and investments, restricted	127,000	-	127,000
<b>Total assets</b>	<u>\$ 202,740</u>	<u>\$ 4,521</u>	<u>\$ 207,261</u>
<b>LIABILITIES</b>			
Bonds and deposits subject to refund	\$ 202,740	\$ 4,521	\$ 207,261
<b>Total liabilities</b>	<u>\$ 202,740</u>	<u>\$ 4,521</u>	<u>\$ 207,261</u>

**City of Watonga, Oklahoma  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2012**

	<u>Grant Fund</u>	<u>Huff Savings</u>	<u>Library Fund</u>	<u>Total Non-Major Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 54,308	\$ 35,007	\$ -	\$ 89,315
Total assets	<u>\$ 54,308</u>	<u>\$ 35,007</u>	<u>\$ -</u>	<u>\$ 89,315</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Assigned	54,308	35,007	-	89,315
Total fund balances	<u>54,308</u>	<u>35,007</u>	<u>-</u>	<u>89,315</u>
Total liabilities and fund balances	<u>\$ 54,308</u>	<u>\$ 35,007</u>	<u>\$ -</u>	<u>\$ 89,315</u>

**City of Watonga, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**June 30, 2012**

	Grant Fund	Huff Savings	Library Fund	TOTAL Non-Major Funds
<b>REVENUES</b>				
Intergovernmental revenue	\$ 21,656	\$ -	\$ 10,206	\$ 31,862
Donations	-	2,772	-	2,772
Interest income	-	77	-	77
Total revenues	<u>21,656</u>	<u>2,849</u>	<u>10,206</u>	<u>34,711</u>
<b>EXPENDITURES</b>				
Public safety and judiciary:				
Fire	27,848	-	-	27,848
Total public safety and judiciary	<u>27,848</u>	<u>-</u>	<u>-</u>	<u>27,848</u>
Cultural, parks and recreation:				
Library	-	-	9,937	9,937
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>9,937</u>	<u>9,937</u>
Capital outlay	-	-	6,279	6,279
Total expenditures	<u>27,848</u>	<u>-</u>	<u>16,216</u>	<u>44,064</u>
Excess (deficiency) of revenues over expenditures	<u>(6,192)</u>	<u>2,849</u>	<u>(6,010)</u>	<u>(9,353)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In/(out)	44,872	2,772	-	47,644
Total other financing sources and uses	<u>44,872</u>	<u>2,772</u>	<u>-</u>	<u>47,644</u>
Net change in fund balances	38,680	5,621	(6,010)	38,291
Fund balances - beginning	15,628	29,386	6,010	51,024
Fund balances - ending	<u>\$ 54,308</u>	<u>\$ 35,007</u>	<u>\$ -</u>	<u>\$ 89,315</u>

**CITY OF WATONGA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**(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.

**General Obligation Bonds**

Accounts for the proceeds of the General Obligation Hospital Funding Bonds of 2012 which were issued June 1, 2012 to pay obligations incurred in the operations, equipping and maintenance of the Watonga Municipal Hospital as well as for all legal, financial and other costs relating to the issuance of the bonds.

**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

**CITY OF WATONGA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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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 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, 2012, 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.

**CITY OF WATONGA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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***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.

***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, 2012, the City has estimated an allowance of \$170,656.

***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***

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 \$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.

**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.

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 half percent (1/2 %) 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 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 1/2%) 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>	<b>Primary Government</b>			
	<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				
<b>INVESTMENTS:</b>				
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.

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Restricted Assets**

	<u>Cash</u>
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 18,028
Hospital sales tax	78,020
GO bonds- hospital	<u>1,625,375</u>
Total Governmental Activities	<u>1,721,423</u>
<b>Total Restricted Assets</b>	<b><u>\$ 1,721,423</u></b>

**Capital Assets**

**Changes in Capital Assets**

	<b>Primary Government</b>			
	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
<i>Governmental Activities</i>				
Land	\$ 645,540	\$ -	\$ (5,000)	\$ 650,540
Buildings & structures	2,715,838	10,582	(235,702)	2,962,122
Machinery, furniture, & equipment	2,423,794	101,852	(137,355)	2,663,001
Infrastructure & improvements	<u>19,087,551</u>	<u>73,584</u>	<u>-</u>	<u>19,161,135</u>
Total	24,872,723	186,018	(378,057)	25,436,798
Less accumulated depreciation	<u>13,389,827</u>	<u>785,187</u>	<u>(238,305)</u>	<u>14,413,319</u>
Governmental fixed assets, net	<u>\$ 11,482,896</u>	<u>\$ (599,169)</u>	<u>\$ 139,752</u>	<u>\$ 11,023,479</u>
<i>Business-type Activities</i>				
Land	\$ 74,070	\$ -	\$ 5,000	\$ 69,070
Buildings & structures	5,133,511	329,503	174,484	5,288,530
Machinery, furniture, & equipment	1,366,879	67,721	137,355	1,297,245
Infrastructure & improvements	<u>17,895,985</u>	<u>12,310</u>	<u>61,218</u>	<u>17,847,077</u>
Total	24,470,445	409,534	378,057	24,501,922
Less accumulated depreciation	<u>13,207,610</u>	<u>689,623</u>	<u>238,305</u>	<u>13,658,928</u>
Business-type fixed assets, net	<u>\$ 11,262,835</u>	<u>\$ (280,089)</u>	<u>\$ (139,752)</u>	<u>\$ 10,842,994</u>
<b>Total primary government</b>	<b><u>\$ 22,745,731</u></b>	<b><u>\$ (879,258)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 21,866,473</u></b>

***Business-type Activities***

	<u>Light and Water Fund</u>	<u>Public Works Authority</u>	<u>Total Business-Type</u>
Land	\$ 48,070	\$ 21,000	\$ 69,070
Buildings & structures	222,856	5,065,674	5,288,530
Machinery, furniture, & equipment	1,024,570	272,675	1,297,245
Infrastructure & improvements	<u>17,847,077</u>	<u>-</u>	<u>17,847,077</u>
Total	19,142,573	5,359,349	24,501,922
Less accumulated depreciation	<u>(9,715,404)</u>	<u>(3,943,524)</u>	<u>(13,658,928)</u>
Business-type fixed assets, net	<u>\$ 9,427,169</u>	<u>\$ 1,415,825</u>	<u>\$ 10,842,994</u>

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Depreciation Expense**

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 2,480	Water	\$ 221,457
Public safety & judiciary	46,663	Sewer	249,436
Transportation	678,345	Electric	67,866
Cultural, parks & recreation	57,699	Administration	11,647
Total depreciation expense	<u>\$ 785,187</u>	Sanitation	19,475
		Airport	119,742
		Total depreciation expense	<u>\$ 689,623</u>

**B. Liabilities**

**Notes Payable**

**Governmental Activities**

The City of Watonga issued General Obligation Hospital Funding Bonds of 2012 dated June 1, 2012 in the amount of \$1,700,000 to be used for obligations incurred in the operations, equipping and maintenance of Watonga Municipal Hospital as well as all legal, financial, and other costs relating to the issuance of the bonds. Payments are made semi-annually with a variable interest rate ranging from 2.00% to 3.6%. The bonds mature June 1, 2032.

\$ 1,700,000  
  
\$ 1,700,000

**Business-Type Activities**

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.

93,914  
  
\$ 93,914

**Changes in Long-Term Debt**

<u>Type of Debt</u>	<u>Balance at July 1, 2011</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
General Obligation bonds	\$ 125,000	\$ 1,700,000	\$ 125,000	\$ 1,700,000	\$ -
<b>Business-type activities:</b>					
Comerstone Bank LOC	\$ 119,222	\$ -	\$ 119,222	\$ -	\$ -
John Deere Credit	110,944	-	17,030	93,914	19,089
Total business-type activities	<u>\$ 230,166</u>	<u>\$ -</u>	<u>\$ 136,252</u>	<u>\$ 93,914</u>	<u>\$ 19,089</u>
<b>Total primary government</b>	<u>\$ 355,166</u>	<u>\$ 1,700,000</u>	<u>\$ 261,252</u>	<u>\$ 1,793,914</u>	<u>\$ 19,089</u>

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Annual Debt Service Requirements**

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
	2013	\$ -	\$ 63,750	\$ 19,089
2014	80,000	63,750	20,064	3,281
2015	90,000	60,750	21,089	2,256
2016	90,000	57,375	22,167	1,179
2017	90,000	54,000	11,505	168
2018-2022	450,000	219,375	-	-
2023-2027	450,000	135,000	-	-
2028-2032	450,000	50,625	-	-
<b>Totals</b>	<b>\$ 1,700,000</b>	<b>\$ 704,625</b>	<b>\$ 93,914</b>	<b>\$ 11,140</b>

**C. Interfund Balances**

	Transfers In	Transfers Out
<b>GENERAL FUND</b>		
Light and Water Fund	\$ 1,125,000	\$ -
Sales Tax (Capital Improvement) Fund	-	3,307
Hospital Special Revenue Fund	-	63,772
Huff Savings	-	2,772
Total General Fund	1,125,000	69,851
<b>DEBT SERVICE FUND</b>		
General Obligation Bond Fund	11,273	-
Total Capital Improvement Fund	11,273	-
<b>HOSPITAL SPECIAL REVENUE FUND</b>		
General Fund	63,772	-
Light and Water Fund	-	115
Grant Fund	-	529,780
Total Hospital Special Revenue Fund	63,772	529,895
<b>SALES TAX (CAPITAL IMPROVEMENT) FUND</b>		
General Fund	3,307	-
Public Works Authority	-	142,235
Total Sales Tax (Cap Improve) Fund	3,307	142,235
<b>GENERAL OBLIGATION BOND FUND</b>		
Debt Service Fund	-	11,273
Total General Obligation Bond Fund	-	11,273
<b>LIGHT AND WATER FUND</b>		
General Fund	-	1,125,000
Grant Fund	5,128	50,000
Hospital Special Revenue Fund	115	-
Total Light and Water Fund	5,243	1,175,000
<b>PUBLIC WORKS AUTHORITY</b>		
Sales Tax (Capital Improvement) Fund	142,235	-
Total Public Works Authority	142,235	-
<b>GRANT FUND</b>		
General Fund	50,000	-
Light & Water Fund	-	5,128
Hospital Special Revenue Fund	529,780	-
Total Grant Fund	579,780	5,128
<b>HUFF SAVINGS</b>		
General Fund	2,772	-
Total Huff Savings	2,772	-
<b>GRAND TOTAL</b>	<b>\$ 1,933,382</b>	<b>\$ 1,933,382</b>

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**(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"> <li>- Normal retirement at age 65 with 10 years of service or age 62 with 30 or more 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> </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

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

- 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) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/11	3,280,366	4,501,853	1,221,487	72.9%	952,870	128.2%

- 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
  - 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	\$240,490
Employee Contributions	\$52,122
Employer Contributions	\$188,368

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 Firefighter's 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.

	<u>Oklahoma Firefighter's Pension and Retirement System</u>	<u>Oklahoma Police Pension and Retirement System</u>
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

**CITY OF WATONGA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

Contributions 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.

**(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 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.

**(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.

**WILLIAM K. GAUER**  
*CERTIFIED PUBLIC ACCOUNTANT*

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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  
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 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, as of and for the year ended June 30, 2012, which collectively comprise the City of Watonga, Oklahoma's basic financial statements and have issued my report thereon dated April 30, 2013. 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**

Management of City of Watonga, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Watonga, Oklahoma's internal control over financial reporting as a basis for designing my 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 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, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of my tests disclosed a single instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

*Funds were not deposited on a daily basis in the Public Works Authority Light & Water Fund.*

I noted certain matters that I reported to management of City of Watonga, Oklahoma, in a separate letter dated April 30, 2013.

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

City of Watonga  
April 30, 2013  
Page 2

specified parties.

A handwritten signature in black ink, appearing to read "Wil R. Davis". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Watonga, Oklahoma  
April 30, 2013