

City of Konawa, Oklahoma
Annual Financial Report

For the Fiscal Year Ended
June 30, 2012

**CITY OF KONA
Annual Financial Report
For the Fiscal Year Ended June 30, 2012
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Konawa, Oklahoma

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I.C., City of Konawa, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Konawa, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis and, where applicable, cash flows—modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note I.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the City of Konawa, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Yukon, Oklahoma
December 20, 2012

CITY OF KONAWA
Statement of Net Assets – Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalent	\$ 258,097	\$ 20,337	\$ 278,434
Restricted Cash and Cash Equivalent	-	36,568	36,568
Capital Assets Not Being Depreciated	-	415,624	415,624
Capital Assets, Net of Depreciation	<u>600,665</u>	<u>377,374</u>	<u>978,039</u>
 Total Assets	 <u>858,762</u>	 <u>849,903</u>	 <u>1,708,665</u>
Liabilities			
Long-term Liabilities	9,226	139,936	149,162
Due Within a Year	<u>3,263</u>	<u>249,155</u>	<u>252,418</u>
Total Liabilities	<u>12,489</u>	<u>389,091</u>	<u>401,580</u>
Net Assets			
Invested in Capital Assets	588,176	403,907	992,083
Restricted for Other Purposes	64,302	-	64,302
Unrestricted	<u>193,795</u>	<u>56,905</u>	<u>250,700</u>
Total Net Assets	<u>\$ 846,273</u>	<u>\$ 460,812</u>	<u>\$ 1,307,085</u>

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

CITY OF KONAWA
Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities							
General Government	\$ 101,324	\$ 115,350	\$ 42	\$ -	\$ 14,068	\$ -	\$ 14,068
Public Safety	502,377	213,401	-	8,272	(280,704)	-	(280,704)
Streets	56,836	-	-	-	(56,836)	-	(56,836)
Culture and Recreation	5,178	-	2,259	-	(2,919)	-	(2,919)
Cemetery and Parks	24,868	-	6,177	-	(18,691)	-	(18,691)
Legal and Judicial	12,233	-	-	-	(12,233)	-	(12,233)
Public Health and Welfare	119,154	-	1,966	-	(117,188)	-	(117,188)
Water and Sewer	-	-	-	43,288	43,288	-	43,288
Total Governmental Activities	<u>821,970</u>	<u>328,751</u>	<u>10,444</u>	<u>51,560</u>	<u>(431,215)</u>	<u>-</u>	<u>(431,215)</u>
Business-Type Activities							
Water	228,563	149,680	-	-	-	(78,883)	(78,883)
Sewer	101,388	168,805	-	-	-	67,417	67,417
Garbage	60,228	95,060	-	-	-	34,832	34,832
Administrative	79,209	5,363	-	-	-	(73,846)	(73,846)
Total Business Type Activities	<u>469,388</u>	<u>418,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,480)</u>	<u>(50,480)</u>
Total Primary Government	<u>\$ 1,291,358</u>	<u>\$ 747,659</u>	<u>\$ 10,444</u>	<u>\$ 51,560</u>	<u>(431,215)</u>	<u>(50,480)</u>	<u>(481,695)</u>
General Revenues							
Taxes					469,649	-	469,649
Interest					2,133	558	2,691
Miscellaneous					52,841	-	52,841
Transfers					(208,092)	208,092	-
Total General Revenues and Transfers					<u>316,531</u>	<u>208,650</u>	<u>525,181</u>
Change in Net Assets					(114,684)	158,170	43,486
Value of Assets Donated					19,994	-	19,994
Net Assets - Beginning					<u>940,963</u>	<u>302,642</u>	<u>1,243,605</u>
Net Assets - Ending					<u>\$ 846,273</u>	<u>\$ 460,812</u>	<u>\$ 1,307,085</u>

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

CITY OF KONAWA
Balance Sheet – Governmental Funds – Modified Cash Basis
June 30, 2012

	General	Grant	One Cent Sales Tax	Other Governmental	Total
Assets					
Cash	\$ 193,795	\$ 3,579	\$ 9,226	\$ 51,497	\$ 258,097
Total Assets	\$ 193,795	\$ 3,579	\$ 9,226	\$ 51,497	\$ 258,097
Fund Balances					
Restricted	-	3,579	9,226	51,497	64,302
Unassigned	193,795	-	-	-	193,795
Total Fund Balances	193,795	3,579	9,226	51,497	258,097
Total Liabilities and Fund Balances	\$ 193,795	\$ 3,579	\$ 9,226	\$ 51,497	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	600,665
Long term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(12,489)
Net assets of governmental activities.	\$ 846,273

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

CITY OF KONAWA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2012

	General	Grant	One Cent Sales Tax	Other Governmental	Total
REVENUE					
Taxes	\$ 373,242	\$ -	\$ 96,407	\$ -	\$ 469,649
Intergovernmental	1,966	46,501	7,360	6,338	62,165
Charges for Service	141,792	-	-	-	141,792
Fines & Forfeitures	65,271	-	-	-	65,271
Rent	11,088	-	33,000	-	44,088
Reimbursement	26,433	-	8,640	36,189	71,262
Miscellaneous	52,144	(1)	699	6,177	59,019
Interest	1,643	-	127	363	2,133
Total Revenue	<u>673,579</u>	<u>46,500</u>	<u>146,233</u>	<u>49,067</u>	<u>915,379</u>
EXPENDITURES					
Current					
General Government	173,321	-	-	18,540	191,861
Public Safety	447,882	-	1,695	-	449,577
Streets	70,673	-	92,205	-	162,878
Culture and Recreation	5,178	-	-	-	5,178
Cemetery and Parks	20,197	-	-	-	20,197
Legal and Judicial	12,233	-	-	-	12,233
Public Health and Welfare	-	119,154	-	-	119,154
Capital Outlay					
Public Safety	13,800	-	-	-	13,800
Debt Service	-	-	19,965	31,849	51,814
Total Expenditures	<u>743,284</u>	<u>119,154</u>	<u>113,865</u>	<u>50,389</u>	<u>1,026,692</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(69,705)	(72,654)	32,368	(1,322)	(111,313)
Other Financing Sources					
Capital Lease Financing	13,800	-	-	-	13,800
Transfers In	7,233	-	2,224	8,906	18,363
Transfers Out	-	(9,457)	(63,810)	(8,906)	(82,173)
Total Other Financing Sources	<u>21,033</u>	<u>(9,457)</u>	<u>(61,586)</u>	<u>-</u>	<u>(50,010)</u>
Net Change in Fund Balances	(48,672)	(82,111)	(29,218)	(1,322)	(161,323)
Fund Balances - Beginning	<u>242,467</u>	<u>85,690</u>	<u>38,444</u>	<u>52,819</u>	<u>419,420</u>
Fund Balances - Ending	<u>\$ 193,795</u>	<u>\$ 3,579</u>	<u>\$ 9,226</u>	<u>\$ 51,497</u>	<u>\$ 258,097</u>

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

CITY OF KONAWA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds – Modified Cash Basis to the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in assets - total governmental funds	\$ (161,323)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

	12,771
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The issuance of long-term debt (e.g., leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

	<u>33,868</u>
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Change in net assets of governmental activities.	<u>\$ (114,684)</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF KONAWA
Statement of Net Assets – Proprietary Funds – Modified Cash Basis
June 30, 2012

	<u>Konawa Public Works Authority</u>
ASSETS	
Current Assets	
Cash and Cash Equivalent	\$ 20,337
Restricted Cash and Cash Equivalent	<u>36,568</u>
Total Current Assets	<u>56,905</u>
Noncurrent Assets	
Land	5,000
Land Improvements	8,716
Buildings	23,584
Machinery and Equipment	185,569
Utility System	354,453
Vehicles	3,000
Construction in Progress	410,624
Accumulated Depreciation	<u>(197,948)</u>
Total Noncurrent Assets	<u>792,998</u>
Total Assets	<u>849,903</u>
LIABILITIES	
Current Liabilities	
Notes Payable, Current	<u>249,155</u>
Total Current Liabilities	<u>249,155</u>
Noncurrent Liabilities	
Notes Payable	<u>139,936</u>
Total Noncurrent Liabilities	<u>139,936</u>
Total Liabilities	<u>389,091</u>
NET ASSETS	
Invested in Capital Assets	403,907
Unrestricted	<u>56,905</u>
Total Net Assets	<u>\$ 460,812</u>

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

CITY OF KONAWA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds – Modified Cash Basis
For the Year Ended June 30, 2012

	Konawa Public Works Authority
Operating Revenues:	
Water	\$ 149,680
Sewer	168,805
Garbage	95,060
Miscellaneous	<u>5,363</u>
Total Operating Revenue	<u>418,908</u>
Operating Expenses:	
Water	188,475
Sewer	88,594
Garbage	60,228
Administrative	79,209
Depreciation	<u>31,600</u>
Total Operating Expenses	<u>448,106</u>
Operating Income (Loss)	(29,198)
Nonoperating Revenues (Expenses):	
Interest Revenue	558
Interest Expense	<u>(21,282)</u>
Total Nonoperating Revenues (Expenses)	<u>(20,724)</u>
Income (Loss) before Transfers	(49,922)
Other Financing Sources (Uses):	
Transfers In	208,092
Transfers Out	<u>-</u>
Total Other Financing Sources	<u>208,092</u>
Net Change in Net Assets	158,170
Total Net Assets - Beginning	<u>302,642</u>
Total Net Assets - Ending	<u><u>\$ 460,812</u></u>

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

CITY OF KONAWA
Statement of Cash Flows – Proprietary Funds – Modified Cash Basis
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 418,908
Payments to Employees	(161,270)
Payments to Vendors	<u>(255,236)</u>
Net Cash Provided by Operating Activities	<u>2,402</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers, Net	<u>63,810</u>
Net Cash Provided by Noncapital Financing Activities	<u>63,810</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal Paid on Capital Debt	(54,936)
Interest Paid on Capital Debt	(21,282)
Proceeds from Capital Debt	29,342
Capital Contribution	144,282
Purchase of Capital Assets	<u>(160,784)</u>
Net Cash Used by Capital Financing Activities	<u>(63,378)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	<u>558</u>
Net Cash Used by Investing Activities	<u>558</u>

Net Increase in Cash and Cash Equivalents 3,392

Cash and Cash Equivalents, July 1, 2011 53,513

Cash and Cash Equivalents, June 30, 2012 \$ 56,905

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Loss	<u>\$ (29,198)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and Amortization	<u>31,600</u>
	<u>31,600</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,402</u></u>

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

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Konawa is a charter city created under Title 11 of the Oklahoma Statutes. The governing body of the City is the City Council comprised of five elected members. The City Clerk/Treasurer is also elected. The appointed City Manager is the executive officer of the City.

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

The Konawa Public Works Authority is a Title 60.O.S. public trust. The current City Council serves as the governing body. The Konawa Public Works Authority is a blended component unit.

B. Government-wide and Fund Financial Statements

Government-Wide Financial Statements – Modified Cash Basis

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

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

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Government-wide and Fund Financial Statements - continued

Fund Financial Statements

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

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

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting 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 governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level. The proprietary fund also uses the economic resources measurement focus.

The statement of net assets and activities and the fund financial statements are reported on a modified basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, inventories, receivables, capital assets, deferred outflows, short-term liabilities, long-term liabilities, and deferred inflows arising from cash transactions or events.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event (such as donated assets and postemployment benefit obligations) are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Grant Fund – accounts for grant revenues received and their related expenditures.

One Cent Sales Tax Fund – accounts revenues collected from voter designated sales tax and expenditures of those revenues in accordance with the voter approved purpose.

The government reports the Konawa Public Works Authority as a major proprietary fund. It accounts for activities related to operating the water, wastewater and sanitation systems.

The government reports the following nonmajor governmental funds:

Special Revenue Funds

USDA Loan Fund

USDA Loan 2

Capital Project Funds

Cemetery Care

Cemetery Perpetual

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

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

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

Investments for the government, as well as for its component units, are reported at cost.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2003.

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

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

<i>Assets</i>	<i>Years</i>
Buildings	50
Infrastructure	30
Vehicles	5
Computer Equipment	5
Machinery and Equipment	10

Long-Term Obligations

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

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Fund Equity

Government-wide Statements

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

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

Fund Statements

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

- *Nonspendable*: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted*: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed*: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Fund Equity - continued

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.

- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation of the \$588,176 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

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

Capital Leases	\$ <u>12,489</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	
	\$ <u><u>(12,489)</u></u>

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Land	\$ -
Land Improvements	76,401
Buildings	765,423
Machinery and Equipment	163,959
Infrastructure	145,534
Vehicles	<u>402,534</u>
	1,553,851
Accumulated Depreciation	<u>(953,186)</u>
Capital Assets, Net	<u><u>\$ 600,665</u></u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – continued

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$190,921 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

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

Capital Outlay	73,634
Capital Assets Transferred to Enterprise Fund	0
Depreciation Expense	<u>(60,863)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>	<u>\$ 12,771</u>

Another element of that reconciliation explains that “repayment of principal of long term debt consumes the current financial resources of governmental funds.”

Capital Lease Principal Payments	\$ 47,668
Capital Lease Proceeds	<u>(13,800)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>	<u>\$ 33,868</u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2012, the City's bank balances of \$416,234 were not exposed to custodial credit risk.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust.

Concentration of Credit Risk

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

Restricted Cash

Restricted cash in the Konawa Public Works Authority at June 30, 2012 consists of refundable meter deposits of \$36,568.

**CITY OF KONA
Notes to the Financial Statements
June 30, 2012**

III. DETAILED NOTES ON ALL FUNDS - continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<i>Governmental Activities:</i>				
Capital Assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, being depreciated:				
Land Improvements	76,401	-	-	76,401
Buildings	745,923	19,500	-	765,423
Machinery and Equipment	118,131	45,828	-	163,959
Infrastructure	131,034	14,500	-	145,534
Vehicles	388,734	13,800	-	402,534
Total Capital Assets, being depreciated	1,460,223	93,628	-	1,553,851
Less Accumulated Depreciation	<u>892,323</u>	<u>60,863</u>	<u>-</u>	<u>953,186</u>
Total Capital Assets, being depreciated, net	<u>567,900</u>	<u>32,765</u>	<u>-</u>	<u>600,665</u>
Governmental Activities Capital Assets, net	<u>\$ 567,900</u>	<u>\$ 32,765</u>	<u>\$ -</u>	<u>\$ 600,665</u>
<i>Business Type Activities:</i>				
Capital Assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in Progress	495,489	39,065	123,930	410,624
Total Capital Assets, not being depreciated	<u>500,489</u>	<u>39,065</u>	<u>123,930</u>	<u>415,624</u>
Capital Assets, being depreciated:				
Land Improvements	8,716	-	-	8,716
Buildings	23,584	-	-	23,584
Machinery and Equipment	170,413	15,156	-	185,569
Utility System	123,960	230,493	-	354,453
Vehicles	3,000	-	-	3,000
Total Capital Assets, being depreciated	329,673	245,649	-	575,322
Less Accumulated Depreciation	<u>166,348</u>	<u>31,600</u>	<u>-</u>	<u>197,948</u>
Total Capital Assets, being depreciated, net	<u>163,325</u>	<u>214,049</u>	<u>-</u>	<u>377,374</u>
Business Type Activities Capital Assets, net	<u>\$ 663,814</u>	<u>\$ 253,114</u>	<u>\$ 123,930</u>	<u>\$ 792,998</u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS - continued

B. Capital Assets - continued

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

<i>Governmental Activities:</i>	
General Government	\$ 8,500
Public Safety	47,029
Streets	663
Cemetery and Parks	<u>4,671</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 60,863</u>
<i>Business Type Activities:</i>	
Water	\$ 18,806
Sewer	<u>12,794</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 31,600</u>

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2012 is as follows:

Interfund Transfers

<u>Transfers Out:</u>						
	<i>General</i>	<i>Enterprise</i>	<i>One Cent Sales Tax</i>	<i>Other Governmental</i>	<i>Total</i>	
<u>Transfers In:</u>						
General Fund	\$ -	\$ -	\$ -	\$ 7,233	\$ 7,233	(1)
One Cent Sales Tax	-	-	-	2,224	2,224	(1)
Other Governmental	-	-	-	8,906	8,906	(1)
Enterprise	<u>144,282</u>	-	<u>63,810</u>	-	<u>208,092</u>	(2)
	<u>\$ 144,282</u>	<u>\$ -</u>	<u>\$ 63,810</u>	<u>\$ 18,363</u>	<u>\$ 226,455</u>	

(1) - Reason / Purpose – budgeted operating transfers

(2) - Reason / Purpose – transfer of capital assets purchased

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS - continued

D. Long Term Debt

Changes in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	\$ 14,619	\$ 13,800	\$ 15,930	\$ 12,489	\$ 3,263
Notes Payable	31,738	-	31,738	-	-
Total Long Term Liabilities	<u>\$ 46,357</u>	<u>\$ 13,800</u>	<u>\$ 47,668</u>	<u>\$ 12,489</u>	<u>\$ 3,263</u>
Business Type Activities:					
COEDD	\$ 28,917	-	\$ 11,543	\$ 17,374	\$ 12,135
COEDD	28,917	-	11,543	17,374	12,135
Notes Payable / Capital Leases	356,850	29,342	31,849	354,343	224,885
Total Long Term Liabilities	<u>\$ 414,684</u>	<u>\$ 29,342</u>	<u>\$ 54,935</u>	<u>\$ 389,091</u>	<u>\$ 249,155</u>

Notes Payable – Business-type Activities

The Enterprise Fund incurs bank, association, and individual debt to purchase equipment and improve the water and sewer utility system. The notes have various maturities with rates of 4.70% to 6.50% percent annum.

BancFirst (refinanced June 2012) - 4.50% interest, monthly payments of \$3,013. Matures May 2017. Proceeds used for the upgrade of the utility system. Secured by assigned sales tax revenues.	\$ 159,078
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	17,374
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	17,374
First Bank - 6.50% interest, line of credit. Matures November 2012. Proceeds used for the upgrade of the utility system.	<u>195,265</u>
Total Other Notes Payable	<u>\$ 389,091</u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS - continued

D. Long Term Debt - continued

Notes Payable – Business-type Activities - continued

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 249,155	\$ 13,016
2014	41,369	5,399
2015	32,332	3,828
2016	33,833	2,327
2017	<u>32,402</u>	<u>745</u>
Total	<u>\$ 389,091</u>	<u>\$ 25,315</u>

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum payments as of the inception date.

The assets acquired through capital leases are as follows:

<i>Assets:</i>	<i>Governmental Activities</i>
Vehicles	\$ <u>13,800</u>
	13,800
Less Accumulated Depreciation	<u>(1,150)</u>
	<u>\$ 12,650</u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS - continued

D. Long Term Debt - continued

Capital Leases - continued

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>
2013	\$ 3,814
2014	3,814
2015	3,814
2016	<u>2,227</u>
Total minimum lease payments	13,669
Less amount representing interest	<u>(1,180)</u>
Present value of minimum lease payments	<u>\$ 12,489</u>

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

<i>Business Type Activities</i>		<i>Governmental Activities</i>	
Water	\$ <u>21,282</u>	Public Safety	\$ <u>598</u>
	<u>\$ 21,282</u>		<u>\$ 598</u>

E. Fund Equity

Net Assets - Restricted

The government-wide statement of net assets reports \$64,302 of restricted net assets. Details of restricted net assets are as follows:

<i>Restricted Net Assets</i>	
Cemetery Care Fund	\$ 18,630
Cemetery Perpetual Fund	32,867
Grant Fund	3,579
One Cent Sales Tax Fund	<u>9,226</u>
	<u>\$ 64,302</u>

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS – continued

E. Fund Equity - continued

Governmental Fund Balance Classifications

As of June 30, 2012, fund balances of the Governmental Funds were classified as follows:

Restricted	<u>General</u>	<u>Grant</u>	<u>One Cent Sales Tax</u>	<u>Other Governmental</u>	<u>Total</u>
Cemetery Capital Purchases					
Grant Fund Expenditures	\$ -	\$ -	\$ -	\$ 51,497	\$ 51,497
Dedicated Sales Tax - Capital Improvement	-	3,579	-	-	3,579
Unassigned	-	-	9,226	-	9,226
	<u>193,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,795</u>
	<u>\$ 193,795</u>	<u>\$ 3,579</u>	<u>\$ 9,226</u>	<u>\$ 51,497</u>	<u>\$ 258,097</u>

F. Risk Management

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

General Liability, Physical Property and Automobile Liability/ Physical Damage - general liability, physical property and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group risk entity pool. Deductibles range from \$0 to \$5,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

Worker's Compensation - Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2012

III.DETAILED NOTES ON ALL FUNDS – continued

G. Commitments and Contingencies

Grant Programs

In the normal course of operations; the City participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Lawsuit

The City is a defendant in a lawsuit alleging unlawful arrest and treatment. The City has successfully defended against this action in the courts, however the case is currently being appealed. The City intends to vigorously defend its position. Any potential damages and awards are covered by insurance.

H. Subsequent Events

The City continues to experience problems with its aging water utility infrastructure. On November 26, 2012, the City's water distribution system was shut down for several days until emergency repairs could be made. During that time no water was sold or delivered to customers. Further prolonged interruptions to service could impact water revenues in the coming fiscal year and beyond. The City has obtained a grant to start construction on improvements in 2013, and will continue to seek other grants or loans in the future to further fund improvements to the system.

***SUPPLEMENTARY
INFORMATION***

City of Konawa, Oklahoma
Budgetary Information
June 30, 2012

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

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

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

The following major funds had an excess of expenditures over appropriations as of June 30, 2012:

General Fund	\$19,919
Grant Fund	\$25,554

CITY OF KONAWA
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund – Modified Cash Basis
For the Year Ended June 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With Final Budget
REVENUE				
Taxes	\$ 403,500	\$ 403,500	\$ 373,242	\$ (30,258)
Intergovernmental	-	-	1,966	1,966
Charges for Service	133,900	130,500	141,792	11,292
Fines	30,000	30,300	65,271	34,971
Rent	4,200	3,900	11,088	7,188
Reimbursement	10,000	10,000	26,433	16,433
Miscellaneous	13,034	57,434	52,144	(5,290)
Interest	<u>700</u>	<u>700</u>	<u>1,643</u>	<u>943</u>
Total Revenue	595,334	636,334	673,579	37,245
EXPENDITURES				
Current				
General Government	145,850	148,460	173,321	(24,861)
Public Safety	461,615	454,915	447,882	7,033
Streets	26,400	67,400	70,673	(3,273)
Culture and Recreation	5,000	4,925	5,178	(253)
Cemetery and Parks	14,400	18,565	20,197	(1,632)
Legal and Judicial	15,300	15,300	12,233	3,067
Total Expenditures	668,565	709,565	729,484	(19,919)
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(73,231)</u>	<u>(73,231)</u>	<u>(55,905)</u>	<u>17,326</u>
Other Financing Sources				
Transfers In	-	-	7,233	7,233
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>7,233</u>	<u>7,233</u>
Net Change in Fund Balances	(73,231)	(73,231)	(48,672)	24,559
Fund Balances - Beginning	<u>75,000</u>	<u>75,000</u>	<u>242,467</u>	<u>167,467</u>
Fund Balances - Ending	<u>\$ 1,769</u>	<u>\$ 1,769</u>	<u>\$ 193,795</u>	<u>\$ 192,026</u>

CITY OF KONAWA
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Grant Fund – Modified Cash Basis
For the Year Ended June 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With <u>Final Budget</u>
REVENUE				
Intergovernmental	\$ -	\$ 22,400	\$ 46,501	\$ 24,101
Miscellaneous	-	-	(1)	(1)
Total Revenue	-	22,400	46,500	24,100
EXPENDITURES				
Current				
Public Health and Welfare	-	93,600	119,154	(25,554)
Total Expenditures	-	93,600	119,154	(25,554)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	-	(71,200)	(72,654)	(1,454)
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	-	-	(9,457)	(9,457)
Total Other Financing Sources	-	-	(9,457)	(9,457)
Net Change in Fund Balances	-	(71,200)	(82,111)	(10,911)
Fund Balances - Beginning	-	71,200	85,690	14,490
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,579</u>	<u>\$ 3,579</u>

CITY OF KONAWA
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – One Cent Sales Tax Fund – Modified Cash Basis
For the Year Ended June 30, 2012

	<u>Budget Amounts</u>		<u>Actual</u> Amounts	Variance
	<u>Original</u>	<u>Final</u>		With <u>Final Budget</u>
REVENUE				
Taxes	88,000	88,000	\$ 96,407	8,407
Intergovernmental	-	-	7,360	7,360
Rent	36,000	36,000	33,000	(3,000)
Reimbursement	2,500	2,500	8,640	6,140
Miscellaneous	10,000	27,000	699	(26,301)
Interest	<u>250</u>	<u>250</u>	<u>127</u>	<u>(123)</u>
Total Revenue	136,750	153,750	146,233	(7,517)
EXPENDITURES				
Current				
Public Safety	5,000	5,000	1,695	3,305
Streets	63,000	93,000	92,205	795
Debt Service	<u>92,242</u>	<u>28,432</u>	<u>19,965</u>	<u>8,467</u>
Total Expenditures	160,242	126,432	113,865	12,567
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(23,492)</u>	<u>27,318</u>	<u>32,368</u>	<u>5,050</u>
Other Financing Sources				
Transfers In	-	-	2,224	2,224
Transfers Out	<u>-</u>	<u>(63,810)</u>	<u>(63,810)</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>(63,810)</u>	<u>(61,586)</u>	<u>2,224</u>
Net Change in Fund Balances	(23,492)	(36,492)	(29,218)	7,274
Fund Balances - Beginning	<u>25,000</u>	<u>38,000</u>	<u>38,444</u>	<u>444</u>
Fund Balances - Ending	<u>\$ 1,508</u>	<u>\$ 1,508</u>	<u>\$ 9,226</u>	<u>\$ 7,718</u>

CITY OF KONAWA
Combining Balance Sheet
Nonmajor Governmental Funds – Modified Cash Basis
June 30, 2012

	<u>Cemetery Care</u>	<u>Cemetery Perpetual</u>	<u>USDA Loan</u>	<u>USDA Loan</u>	<u>Total</u>
Assets					
Cash	\$ 18,630	\$ 32,867	\$ -	\$ -	\$ 51,497
Total Assets	<u>\$ 18,630</u>	<u>\$ 32,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,497</u>
Liabilities					
Due To Other Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Restricted	<u>18,630</u>	<u>32,867</u>	<u>-</u>	<u>-</u>	<u>51,497</u>
Total Fund Balances	<u>18,630</u>	<u>32,867</u>	<u>-</u>	<u>-</u>	<u>51,497</u>
Total Liabilities and Fund Balances	<u>\$ 18,630</u>	<u>\$ 32,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,497</u>

CITY OF KONAWA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2012

	<u>Cemetery Care</u>	<u>Cemetery Perpetual</u>	<u>USDA Loan</u>	<u>USDA Loan</u>	<u>Total</u>
REVENUE					
Charges for Services	\$ 4,800	\$ 1,538	\$ -	\$ -	\$ 6,338
Reimbursement	-	-	36,189	-	36,189
Miscellaneous	6,177	-	-	-	6,177
Interest	<u>37</u>	<u>326</u>	<u>-</u>	<u>-</u>	<u>363</u>
Total Revenue	11,014	1,864	36,189	-	49,067
EXPENDITURES					
Current					
General Government	18,540	-	-	-	18,540
Debt Service	<u>-</u>	<u>-</u>	<u>31,849</u>	<u>-</u>	<u>31,849</u>
Total Expenditures	18,540	-	31,849	-	50,389
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(7,526)	1,864	4,340	-	(1,322)
Other Financing Sources					
Transfers In	8,906	-	-	-	8,906
Transfers Out	<u>-</u>	<u>-</u>	<u>(6,517)</u>	<u>(2,389)</u>	<u>(8,906)</u>
Total Other Financing Sources	8,906	-	(6,517)	(2,389)	-
Net Change in Fund Balances					
	1,380	1,864	(2,177)	(2,389)	(1,322)
Fund Balances - Beginning					
	<u>17,250</u>	<u>31,003</u>	<u>2,177</u>	<u>2,389</u>	<u>52,819</u>
Fund Balances - Ending	<u>\$ 18,630</u>	<u>\$ 32,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,497</u>



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

To the City Council
City of Konawa, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Konawa, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Konawa, Oklahoma's basic financial statements and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Konawa, Oklahoma, in a separate letter dated December 20, 2012.

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.

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

Yukon, Oklahoma
December 20, 2012

CITY OF KONAWA
Schedule of Findings and Responses
June 30, 2012

None.

CITY OF KONAWA
Summary Schedule of Prior Year Findings and Responses
June 30, 2012

None.