

City of Konawa, Oklahoma  
Annual Financial Report

For the Fiscal Year Ended  
June 30, 2013

**CITY OF KONAWA**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2013**  
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***FINANCIAL SECTION***



CPAs &  
Advisors

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Konawa, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of City of Konawa, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note I.C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position 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, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note I.C.

### Basis of Accounting

We draw attention to Note I.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Konawa, Oklahoma's basic financial statements. The budgetary comparison statements and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison statements and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison statements and the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014, 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* in considering City of Konawa, Oklahoma's internal control over financial reporting and compliance.

*HBC CPAs & Advisors*

December 11, 2014  
Yukon, Oklahoma

**CITY OF KONAWA**  
**Statement of Net Position – Modified Cash Basis**  
**June 30, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalent	\$ 215,664	\$ 53,167	\$ 268,831
Restricted Cash and Cash Equivalent	-	37,390	37,390
Capital Assets Not Being Depreciated	-	575,208	575,208
Capital Assets, Net of Depreciation	<u>539,836</u>	<u>362,199</u>	<u>902,035</u>
 Total Assets	 <u>755,500</u>	 <u>1,027,964</u>	 <u>1,783,464</u>
<b>Liabilities</b>			
Long-term Liabilities	5,795	378,567	384,362
Due Within a Year	<u>3,430</u>	<u>41,369</u>	<u>44,799</u>
Total Liabilities	<u>9,225</u>	<u>419,936</u>	<u>429,161</u>
<b>Net Position</b>			
Invested in Capital Assets	530,611	517,471	1,048,082
Restricted for Other Purposes	91,052	-	91,052
Unrestricted	<u>124,612</u>	<u>90,557</u>	<u>215,169</u>
Total Net Position	<u>\$ 746,275</u>	<u>\$ 608,028</u>	<u>\$ 1,354,303</u>

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

**CITY OF KONAWA**  
**Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis**  
**For the Year Ended June 30, 2013**

	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	\$ 241,992	\$ 66,654	\$ -	\$ -	\$ (175,338)	\$ -	\$ (175,338)
Public Safety	472,013	232,706	-	4,484	(234,823)	-	(234,823)
Streets	34,419	-	-	-	(34,419)	-	(34,419)
Culture and Recreation	5,063	-	2,749	-	(2,314)	-	(2,314)
Cemetery and Parks	18,749	-	3,149	-	(15,600)	-	(15,600)
Legal and Judicial	14,731	-	-	-	(14,731)	-	(14,731)
Water and Sewer	-	-	-	1,019	1,019	-	1,019
Total Governmental Activities	<u>786,967</u>	<u>299,360</u>	<u>5,898</u>	<u>5,503</u>	<u>(476,206)</u>	<u>-</u>	<u>(476,206)</u>
Business-Type Activities							
Water	250,830	145,902	-	-	-	(104,928)	(104,928)
Sewer	104,311	170,492	-	-	-	66,181	66,181
Garbage	50,681	98,400	-	-	-	47,719	47,719
Administrative	67,110	104,244	-	-	-	37,134	37,134
Total Business Type Activities	<u>472,932</u>	<u>519,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,106</u>	<u>46,106</u>
Total Primary Government	<u>\$ 1,259,899</u>	<u>\$ 818,398</u>	<u>\$ 5,898</u>	<u>\$ 5,503</u>	<u>(476,206)</u>	<u>46,106</u>	<u>(430,100)</u>
General Revenues							
Taxes					465,337	-	465,337
Interest					930	364	1,294
Miscellaneous					10,689	-	10,689
Transfers					(100,746)	100,746	-
Total General Revenues and Transfers					<u>376,210</u>	<u>101,110</u>	<u>477,320</u>
Change in Net Position					(99,996)	147,216	47,220
Net Position - Beginning					<u>846,271</u>	<u>460,812</u>	<u>1,307,083</u>
Net Position - Ending					<u>\$ 746,275</u>	<u>\$ 608,028</u>	<u>\$ 1,354,303</u>

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

**CITY OF KONAWA**  
**Statement of Assets, Liabilities and Fund Balance – Governmental Funds – Modified Cash Basis**  
**June 30, 2013**

	General	One Cent Sales Tax	Other Governmental	Total
Assets				
Cash	\$ 124,612	\$ 38,264	\$ 52,788	\$ 215,664
Total Assets	\$ 124,612	\$ 38,264	\$ 52,788	\$ 215,664
Fund Balances				
Restricted	-	38,264	52,788	91,052
Unassigned	124,612	-	-	124,612
Total Fund Balances	124,612	38,264	52,788	215,664
Total Liabilities and Fund Balances	\$ 124,612	\$ 38,264	\$ 52,788	

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. 539,836

Long term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (9,225)

\$ 746,275

*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, 2013**

	General	One Cent Sales Tax	Other Governmental	Total
<b>REVENUE</b>				
Taxes	\$ 370,632	\$ 94,705	\$ -	\$ 465,337
Intergovernmental	-	-	8,252	8,252
Charges for Service	171,546	-	2,100	173,646
Fines & Forfeitures	59,060	-	-	59,060
Rent	4,543	39,000	-	43,543
Reimbursement	17,770	5,341	-	23,111
Miscellaneous	7,189	3,501	3,148	13,838
Interest	663	56	211	930
Total Revenue	631,403	142,603	13,711	787,717
<b>EXPENDITURES</b>				
Current				
General Government	191,079	-	7,727	198,806
Public Safety	423,084	25,279	4,484	452,847
Streets	32,669	4,094	-	36,763
Culture and Recreation	5,063	-	3,787	8,850
Cemetery and Parks	13,591	-	-	13,591
Legal and Judicial	14,731	-	-	14,731
Debt Service	-	3,814	-	3,814
Total Expenditures	680,217	33,187	15,998	729,402
Excess (Deficiency) of Revenues Over (Under) Expenditures	(48,814)	109,416	(2,287)	58,315
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	(20,368)	(80,378)	-	(100,746)
Total Other Financing Sources	(20,368)	(80,378)	-	(100,746)
Net Change in Fund Balances	(69,182)	29,038	(2,287)	(42,431)
Fund Balances - Beginning	193,794	9,226	55,075	258,095
Fund Balances - Ending	\$ 124,612	\$ 38,264	\$ 52,788	\$ 215,664

*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 Revenues, Expenses and**  
**Changes in Net Position – Modified Cash Basis**  
**For the Year Ended June 30, 2013**

Amounts reported for governmental activities

in the statement of activities are different because:

Net change in assets - total governmental funds \$ (42,431)

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. (60,829)

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. 3,264

Change in Net Position - total governmental activities \$ (99,996)

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

**CITY OF KONAWA**  
**Statement of Net Position – Proprietary Funds – Modified Cash Basis**  
**June 30, 2013**

	Konawa Public Works <u>Authority</u>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalent	\$ 53,167
Restricted Cash and Cash Equivalent	<u>37,390</u>
Total Current Assets	<u>90,557</u>
Noncurrent Assets	
Land	5,000
Land Improvements	18,202
Buildings	23,584
Machinery and Equipment	185,569
Utility System	359,613
Vehicles	9,000
Construction in Progress	570,208
Accumulated Depreciation	<u>(233,769)</u>
Total Noncurrent Assets	<u>937,407</u>
Total Assets	<u>1,027,964</u>
<b>LIABILITIES</b>	
Current Liabilities	
Notes Payable, Current	<u>41,369</u>
Total Current Liabilities	<u>41,369</u>
Noncurrent Liabilities	
Notes Payable	<u>378,567</u>
Total Noncurrent Liabilities	<u>378,567</u>
Total Liabilities	<u>419,936</u>
<b>NET POSITION</b>	
Invested in Capital Assets	517,471
Unrestricted	<u>90,557</u>
Total Net Position	<u>\$ 608,028</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, 2013**

	Konawa Public Works Authority
Operating Revenues:	
Water	\$ 145,902
Sewer	170,492
Garbage	98,400
Miscellaneous	<u>104,244</u>
Total Operating Revenue	<u>519,038</u>
Operating Expenses:	
Water	209,377
Sewer	89,786
Garbage	50,681
Administrative	67,110
Depreciation	<u>35,821</u>
Total Operating Expenses	<u>452,775</u>
Operating Income (Loss)	66,263
Nonoperating Revenues (Expenses):	
Interest Revenue	364
Interest Expense	<u>(20,157)</u>
Total Nonoperating Revenues (Expenses)	<u>(19,793)</u>
Income (Loss) before Transfers	46,470
Other Financing Sources (Uses):	
Transfers In	100,746
Transfers Out	<u>-</u>
Total Other Financing Sources	<u>100,746</u>
Net Change in Net Position	147,216
Total Net Position - Beginning	<u>460,812</u>
Total Net Position - Ending	<u><u>\$ 608,028</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, 2013**

*CASH FLOWS FROM OPERATING ACTIVITIES*

Receipts from Customers	\$ 519,038
Payments to Employees	(157,783)
Payments to Vendors	<u>(259,171)</u>
Net Cash Provided by Operating Activities	<u>102,084</u>

*CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*

Transfers, Net	<u>100,746</u>
Net Cash Provided by Noncapital Financing Activities	<u>100,746</u>

*CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES*

Principal Paid on Capital Debt	(207,786)
Interest Paid on Capital Debt	(20,157)
Proceeds from Capital Debt	238,631
Purchase of Capital Assets	<u>(180,230)</u>
Net Cash Used by Capital Financing Activities	<u>(169,542)</u>

*CASH FLOWS FROM INVESTING ACTIVITIES*

Interest Income	<u>364</u>
Net Cash Used by Investing Activities	<u>364</u>

Net Increase in Cash and Cash Equivalents 33,652

Cash and Cash Equivalents, July 1, 2012 56,905

Cash and Cash Equivalents, June 30, 2013 \$ 90,557

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

Operating Loss	<u>\$ 66,263</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and Amortization	<u>35,821</u>
	<u>35,821</u>
Net Cash Provided by Operating Activities	<u>\$ 102,084</u>

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

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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 these 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 position and the statement of changes in net position) 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, 2013**

***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 position 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, 2013**

**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.

*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*

Grant Fund

*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, 2013**

**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 Position 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, 2013**

***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued***

**D. Assets, Liabilities and Net Position 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 position.

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued***

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

*Fund Equity*

Government-wide Statements

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

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

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, 2013**

***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued***

**D. Assets, Liabilities and Net Position 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, 2013**

**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 Position**

The governmental fund balance sheet includes a reconciliation of the \$530,611 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

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>9,225</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ <u>(9,225)</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	165,944
Infrastructure	145,534
Vehicles	<u>405,033</u>
	1,558,335
Accumulated Depreciation	<u>(1,018,499)</u>
Capital Assets, Net	<u>\$ 539,836</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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 \$57,565 difference between *net changes in fund balances - total governmental funds* and *changes in net position 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	4,484
Depreciation Expense	<u>(65,313)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position -</i> <i>governmental activities</i>	<u>\$ (60,829)</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	<u>\$ 3,264</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position -</i> <i>governmental activities</i>	<u>\$ 3,264</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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, 2013, the City's bank balances of \$616,744 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, 2013 consists of refundable meter deposits of \$37,390.

**CITY OF KONA  
Notes to the Financial Statements  
June 30, 2013**

**III. DETAILED NOTES ON ALL FUNDS - continued**

**B. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b><i>Governmental Activities:</i></b>				
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	765,423	-	-	765,423
Machinery and Equipment	163,959	1,985	-	165,944
Infrastructure	145,534	-	-	145,534
Vehicles	402,534	2,499	-	405,033
Total Capital Assets, being depreciated	<u>1,553,851</u>	<u>4,484</u>	<u>-</u>	<u>1,558,335</u>
Less Accumulated Depreciation	<u>953,186</u>	<u>65,313</u>	<u>-</u>	<u>1,018,499</u>
Total Capital Assets, being depreciated, net	<u>600,665</u>	<u>(60,829)</u>	<u>-</u>	<u>539,836</u>
Governmental Activities Capital Assets, net	<u>\$ 600,665</u>	<u>\$ (60,829)</u>	<u>\$ -</u>	<u>\$ 539,836</u>
<b><i>Business Type Activities:</i></b>				
Capital Assets, not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in Progress	410,624	159,584	-	570,208
Total Capital Assets, not being depreciated	<u>415,624</u>	<u>159,584</u>	<u>-</u>	<u>575,208</u>
Capital Assets, being depreciated:				
Land Improvements	8,716	9,486	-	18,202
Buildings	23,584	-	-	23,584
Machinery and Equipment	185,569	-	-	185,569
Utility System	354,453	5,160	-	359,613
Vehicles	3,000	6,000	-	9,000
Total Capital Assets, being depreciated	<u>575,322</u>	<u>20,646</u>	<u>-</u>	<u>595,968</u>
Less Accumulated Depreciation	<u>197,948</u>	<u>35,821</u>	<u>-</u>	<u>233,769</u>
Total Capital Assets, being depreciated, net	<u>377,374</u>	<u>(15,175)</u>	<u>-</u>	<u>362,199</u>
Business Type Activities Capital Assets, net	<u>\$ 792,998</u>	<u>\$ 144,409</u>	<u>\$ -</u>	<u>\$ 937,407</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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	\$ 9,636
Public Safety	48,769
Streets	1,750
Cemetery and Parks	<u>5,158</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 65,313</u>
<i>Business Type Activities:</i>	
Water	\$ 21,296
Sewer	<u>14,525</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 35,821</u>

**C. Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of June 30, 2013 is as follows:

*Interfund Transfers*

<u><i>Transfers Out:</i></u>						
<u><i>Transfers In:</i></u>	<i>General</i>	<i>Enterprise</i>	<i>One Cent Sales Tax</i>	<i>Other Governmental</i>	<i>Total</i>	
Enterprise	\$ 20,368	\$ -	\$ 80,378	\$ -	\$ 100,746	(2)
	<u>\$ 20,368</u>	<u>\$ -</u>	<u>\$ 80,378</u>	<u>\$ -</u>	<u>\$ 100,746</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, 2013**

**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, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Capital Leases	\$ 12,489	\$ -	\$ 3,264	\$ 9,225	\$ 3,430
Notes Payable	-	-	-	-	-
Total Long Term Liabilities	<u>\$ 12,489</u>	<u>\$ -</u>	<u>\$ 3,264</u>	<u>\$ 9,225</u>	<u>\$ 3,430</u>
<b>Business Type Activities:</b>					
COEDD	\$ 17,374	\$ -	\$ 12,136	\$ 5,238	\$ 5,238
COEDD	17,374	-	12,136	5,238	5,238
Notes Payable / Capital Leases	<u>354,343</u>	<u>280,000</u>	<u>224,883</u>	<u>409,460</u>	<u>30,893</u>
Total Long Term Liabilities	<u>\$ 389,091</u>	<u>\$ 280,000</u>	<u>\$ 249,155</u>	<u>\$ 419,936</u>	<u>\$ 41,369</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.	\$ 129,460
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	5,238
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	5,238
USDA Rural Development - Note Payable	<u>280,000</u>
Total Other Notes Payable	<u>\$ 419,936</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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>
2014	\$ 41,369	\$ 5,399
2015	32,332	3,828
2016	33,833	2,327
2017	32,402	745
Thereafter	<u>280,000</u>	<u>-</u>
Total	<u>\$ 419,936</u>	<u>\$ 12,299</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>(3,910)</u>
	<u>\$ 9,890</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**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, 2013 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>
2014	\$ 3,814
2015	3,814
2016	<u>2,225</u>
Total minimum lease payments	9,853
Less amount representing interest	<u>(628)</u>
Present value of minimum lease payments	<u><u>\$ 9,225</u></u>

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

<i>Business Type Activities</i>	<u>          </u>	<i>Governmental Activities</i>	<u>          </u>
Water	\$ 20,157	Public Safety	\$ 550
	<u>\$ 20,157</u>		<u>\$ 550</u>

**E. Fund Equity**

*Net Position - Restricted*

The government-wide statement of net position reports \$91,052 of restricted net position. Details of restricted net position are as follows:

<b><i>Restricted Net Assets</i></b>	
Cemetery Care Fund	\$ 18,591
Cemetery Perpetual Fund	33,595
Grant Fund	602
One Cent Sales Tax Fund	<u>38,264</u>
	<u><u>\$ 91,052</u></u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**III. DETAILED NOTES ON ALL FUNDS – continued**

**E. Fund Equity - continued**

*Governmental Fund Balance Classifications*

As of June 30, 2013, fund balances of the Governmental Funds were classified as follows:

<b>Restricted</b>	<u>General</u>	<u>One Cent Sales Tax</u>	<u>Other Governmental</u>	<u>Total</u>
Cemetery Capital Purchases	\$ -	\$ -	\$ 52,186	\$ 52,186
Grant Fund				
Expenditures	-	-	602	602
Dedicated Sales				
Tax - Capital				
Improvement	-	38,264	-	38,264
<b>Unassigned</b>	<u>124,612</u>	<u>-</u>	<u>-</u>	<u>124,612</u>
	<u>\$ 124,612</u>	<u>\$ 38,264</u>	<u>\$ 52,788</u>	<u>\$ 215,664</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, 2013**

***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.

***SUPPLEMENTARY  
INFORMATION***

**City of Konawa, Oklahoma**  
**Budgetary Information**  
**June 30, 2013**

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

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

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

**CITY OF KONAWA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – General Fund (Unaudited) – Modified Cash Basis**  
**For the Year Ended June 30, 2013**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With Final Budget
<b>REVENUE</b>				
Taxes	\$ 368,640	\$ 368,640	\$ 370,632	\$ 1,992
Charges for Service	155,800	155,800	171,546	15,746
Fines	35,070	35,070	59,060	23,990
Rent	9,550	9,550	4,543	(5,007)
Reimbursement	21,000	21,000	17,770	(3,230)
Miscellaneous	12,560	50,160	7,189	(42,971)
Interest	1,300	1,300	663	(637)
Total Revenue	<u>603,920</u>	<u>641,520</u>	<u>631,403</u>	<u>(10,117)</u>
<b>EXPENDITURES</b>				
Current				
General Government	148,769	206,769	191,079	15,690
Public Safety	440,664	420,864	423,084	(2,220)
Streets	29,900	30,550	32,669	(2,119)
Culture and Recreation	4,925	5,475	5,063	412
Cemetery and Parks	14,770	13,370	13,591	(221)
Legal and Judicial	12,617	15,317	14,731	586
Total Expenditures	<u>651,645</u>	<u>692,345</u>	<u>680,217</u>	<u>12,128</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(47,725)</u>	<u>(50,825)</u>	<u>(48,814)</u>	<u>2,011</u>
Other Financing Sources				
Transfers Out	<u>-</u>	<u>-</u>	<u>(20,368)</u>	<u>(20,368)</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>(20,368)</u>	<u>(20,368)</u>
Net Change in Fund Balances	(47,725)	(50,825)	(69,182)	(18,357)
Fund Balances - Beginning	<u>50,000</u>	<u>53,100</u>	<u>193,794</u>	<u>140,694</u>
Fund Balances - Ending	<u>\$ 2,275</u>	<u>\$ 2,275</u>	<u>\$ 124,612</u>	<u>\$ 122,337</u>

**CITY OF KONAWA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – One Cent Sales Tax Fund (Unaudited) – Modified Cash Basis**  
**For the Year Ended June 30, 2013**

	Budget Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	88,000	75,000	\$ 94,705	19,705
Intergovernmental	-	-	-	-
Rent	36,000	36,000	39,000	3,000
Reimbursement	2,500	5,000	5,341	341
Miscellaneous	10,000	10,000	3,501	(6,499)
Interest	250	140	56	(84)
Total Revenue	136,750	126,140	142,603	16,463
<b>EXPENDITURES</b>				
Current				
Public Safety	40,000	40,000	25,279	14,721
Streets	63,000	25,000	4,094	20,906
Debt Service	66,800	2,990	3,814	(824)
Total Expenditures	169,800	67,990	33,187	34,803
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(33,050)	58,150	109,416	51,266
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	-	(63,810)	(80,378)	(16,568)
Total Other Financing Sources	-	(63,810)	(80,378)	(16,568)
Net Change in Fund Balances				
	(33,050)	(5,660)	29,038	34,698
Fund Balances - Beginning				
	25,000	15,000	9,226	(5,774)
Fund Balances - Ending	\$ (8,050)	\$ 9,340	\$ 38,264	\$ 28,924

**CITY OF KONAWA**  
**Combining Statement of Assets, Liabilities and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Modified Cash Basis**  
**June 30, 2013**

	<u>Cemetery Care</u>	<u>Cemetery Perpetual</u>	<u>Grant</u>	<u>Total</u>
Assets				
Cash	\$ 18,591	\$ 33,595	\$ 602	\$ 52,788
Total Assets	<u>\$ 18,591</u>	<u>\$ 33,595</u>	<u>\$ 602</u>	<u>\$ 52,788</u>
Fund Balances				
Restricted	<u>18,591</u>	<u>33,595</u>	<u>602</u>	<u>52,788</u>
Total Fund Balances	<u>18,591</u>	<u>33,595</u>	<u>602</u>	<u>52,788</u>
Total Liabilities and Fund Balances	<u>\$ 18,591</u>	<u>\$ 33,595</u>	<u>\$ 602</u>	<u>\$ 52,788</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, 2013**

	<u>Cemetery Care</u>	<u>Cemetery Perpetual</u>	<u>Grant</u>	<u>Total</u>
<b>REVENUE</b>				
Intergovernmental	\$ -	\$ -	\$ 8,252	\$ 8,252
Charges for Services	1,549	551	-	2,100
Miscellaneous	3,149	-	(1)	3,148
Interest	<u>33</u>	<u>178</u>	<u>-</u>	<u>211</u>
Total Revenue	4,731	729	8,251	13,711
<b>EXPENDITURES</b>				
Current				
Public Safety	-	-	4,484	4,484
Culture and Recreation	-	-	3,787	3,787
General Government	<u>4,770</u>	<u>-</u>	<u>2,957</u>	<u>7,727</u>
Total Expenditures	4,770	-	11,228	15,998
Net Change in Fund Balances	(39)	729	(2,977)	(2,287)
Fund Balances - Beginning	<u>18,630</u>	<u>32,866</u>	<u>3,579</u>	<u>55,075</u>
Fund Balances - Ending	<u>\$ 18,591</u>	<u>\$ 33,595</u>	<u>\$ 602</u>	<u>\$ 52,788</u>



CPAs &  
Advisors

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

To the City Council  
City of Konawa, Oklahoma

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise City of Konawa, Oklahoma's basic financial statements, and have issued our report thereon dated December 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Konawa, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of Konawa, Oklahoma's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Konawa, Oklahoma's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*HBC CPAs & Advisors*

December 11, 2014

**CITY OF KONAWA**  
**Schedule of Findings and Responses**  
**June 30, 2013**

None.

**CITY OF KONAWA**  
**Summary Schedule of Prior Year Findings and Responses**  
**June 30, 2013**

None.