

City of Konawa, Oklahoma  
Annual Financial Report

For the Fiscal Year Ended  
June 30, 2011

**CITY OF KONAWA**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2011**  
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***INTRODUCTORY SECTION***

**CITY OF KONAWA**  
**List of Elected and Appointed Officials**  
**June 30, 2011**

*Elected Officials*

Mayor  
Vice Mayor  
Council Member  
Council Member

Bob Rounsaville  
John Short  
LaDonna Bryce  
LaTrelle Ellis

*Appointed Officials*

City Manager

Rita LaPresto

***FINANCIAL SECTION***



## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Konawa, Oklahoma

We have audited the accompanying modified cash 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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I.C., the 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, 2011, and the respective changes in financial position-modified cash basis, and cash flows-modified cash basis, where applicable, thereof for the year then ended in conformity with basis of accounting described in Note I.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of

Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards and 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 sections and the 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.

*HBC CPAs & Advisors*

Yukon, Oklahoma

May 31, 2012

**CITY OF KONAWA**  
**Statement of Net Assets – Modified Cash Basis**  
**June 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalent	\$ 419,419	\$ 21,459	\$ 440,878
Restricted Cash and Cash Equivalent	-	32,054	32,054
<b>Total Current Assets</b>	<b>419,419</b>	<b>53,513</b>	<b>472,932</b>
<b>Noncurrent Assets</b>			
Land	-	5,000	5,000
Land Improvements	76,401	8,716	85,117
Buildings	745,923	23,584	769,507
Machinery and Equipment	118,131	170,413	288,544
Infrastructure	131,034	-	131,034
Utility System	-	123,960	123,960
Vehicles	388,734	3,000	391,734
Construction in Progress	-	495,489	495,489
Accumulated Depreciation	(892,323)	(166,348)	(1,058,671)
<b>Total Noncurrent Assets</b>	<b>567,900</b>	<b>663,814</b>	<b>1,231,714</b>
<b>Total Assets</b>	<b>987,319</b>	<b>717,327</b>	<b>1,704,646</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Capital Leases, Current Portion	14,619	-	14,619
Notes Payable, Current Portion	31,738	379,941	411,679
<b>Total Liabilities</b>	<b>46,357</b>	<b>379,941</b>	<b>426,298</b>
<b>Noncurrent Liabilities</b>			
Notes Payable	-	34,743	34,743
<b>Total Liabilities</b>	<b>46,357</b>	<b>414,684</b>	<b>461,041</b>
<b>Net Assets</b>			
Invested in Capital Assets	521,543	249,130	770,673
Restricted for Other Purposes	176,952	-	176,952
Unrestricted	242,467	53,513	295,980
<b>Total Net Assets</b>	<b>\$ 940,962</b>	<b>\$ 302,643</b>	<b>\$ 1,243,605</b>

*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, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Primary Government		
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities							
General Government	\$ 181,781	\$ 96,663	\$ 4,100	\$ -	\$ (81,018)	\$ -	\$ (81,018)
Public Safety	509,623	275,211	9,500	78,141	(146,771)	-	(146,771)
Streets	24,191	-	-	-	(24,191)	-	(24,191)
Culture and Recreation	5,191	-	4,930	-	(261)	-	(261)
Cemetery and Parks	15,037	-	2,624	-	(12,413)	-	(12,413)
Legal and Judicial	6,544	-	-	-	(6,544)	-	(6,544)
Public Health and Welfare	245,791	-	3,357	250,000	7,566	-	7,566
Water and Sewer	-	-	-	245,840	245,840	-	245,840
Total Governmental Activities	<u>988,158</u>	<u>371,874</u>	<u>24,511</u>	<u>573,981</u>	<u>(17,792)</u>	<u>-</u>	<u>(17,792)</u>
Business-Type Activities							
Water	216,797	145,490	-	-	-	(71,307)	(71,307)
Sewer	88,686	147,206	-	-	-	58,520	58,520
Garbage	57,811	94,144	-	-	-	36,333	36,333
Administrative	92,424	14,204	-	-	-	(78,220)	(78,220)
Total Business Type Activities	<u>455,718</u>	<u>401,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,674)</u>	<u>(54,674)</u>
Total Primary Government	<u>\$ 1,443,876</u>	<u>\$ 772,918</u>	<u>\$ 24,511</u>	<u>\$ 573,981</u>	<u>(17,792)</u>	<u>(54,674)</u>	<u>(72,466)</u>
General Revenues							
Taxes					531,986	-	531,986
Interest					2,529	782	3,311
Miscellaneous					20,774	-	20,774
Transfers					(84,819)	84,818	(1)
Total General Revenues and Transfers					<u>470,470</u>	<u>85,600</u>	<u>556,070</u>
Change in Net Assets					452,678	30,926	483,604
Contributed Capital					(219,852)	219,852	-
Adjustment to Beginning Net Assets					243,637	(26,955)	216,682
Net Assets - Beginning					<u>464,499</u>	<u>78,820</u>	<u>543,319</u>
Net Assets - Ending					<u>\$ 940,962</u>	<u>\$ 302,643</u>	<u>\$ 1,243,605</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, 2011**

	General	Grant	USDA Loan	Other Governmental	Total
<b>Assets</b>					
Cash and Cash Equivalent	\$ 242,467	\$ 85,690	\$ 2,177	\$ 89,085	\$ 419,419
Total Assets	\$ 242,467	\$ 85,690	\$ 2,177	\$ 89,085	\$ 419,419
<b>Liabilities</b>					
Due To Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-	-
<b>Fund Balances</b>					
Restricted	-	85,690	2,177	89,085	176,952
Unassigned	242,467	-	-	-	242,467
Total Fund Balances	242,467	85,690	2,177	89,085	419,419
Total Liabilities and Fund Balances	\$ 242,467	\$ 85,690	\$ 2,177	\$ 89,085	

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.	567,900
Long term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(46,357)
Net assets of governmental activities.	\$ 940,962

*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, 2011**

	General	Grant	USDA Loan	Other Governmental	Total
<b>REVENUE</b>					
Taxes	\$ 429,338	\$ -	\$ -	\$ 102,648	\$ 531,986
Intergovernmental	-	565,868	30,000	3,414	599,282
Charges for Service	212,523	-	-	-	212,523
Fines & Forfeitures	59,274	-	-	-	59,274
Rent	8,398	-	-	36,000	44,398
Reimbursement	22,403	-	21,770	8,092	52,265
Miscellaneous	18,602	-	-	4,798	23,400
Interest	1,443	-	-	1,086	2,529
Total Revenue	<u>751,981</u>	<u>565,868</u>	<u>51,770</u>	<u>156,038</u>	<u>1,525,657</u>
<b>EXPENDITURES</b>					
Current					
General Government	143,513	-	-	7,959	151,472
Public Safety	460,739	-	-	22,842	483,581
Streets	23,891	-	-	10,035	33,926
Culture and Recreation	5,191	-	-	-	5,191
Cemetery and Parks	11,501	-	-	-	11,501
Legal and Judicial	6,544	-	-	-	6,544
Public Health and Welfare	-	245,791	-	-	245,791
Capital Outlay					
General Government	4,150	-	-	1,065	5,215
Public Safety	-	58,932	206,097	27,548	292,577
Cemetery and Parks	-	-	-	34,691	34,691
Water / Sewer	20,100	164,046	-	35,706	219,852
Debt Service	-	-	19,593	25,984	45,577
Total Expenditures	<u>675,629</u>	<u>468,769</u>	<u>225,690</u>	<u>165,830</u>	<u>1,535,918</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,352	97,099	(173,920)	(9,792)	(10,261)
Other Financing Sources					
Capital Lease Financing	-	-	50,000	-	50,000
Transfers In	10,012	-	-	33,489	43,501
Transfers Out	(19,000)	(36,501)	-	(72,819)	(128,320)
Total Other Financing Sources	<u>(8,988)</u>	<u>(36,501)</u>	<u>50,000</u>	<u>(39,330)</u>	<u>(34,819)</u>
Net Change in Fund Balances	67,364	60,598	(123,920)	(49,122)	(45,080)
Fund Balances - Beginning	<u>175,103</u>	<u>25,092</u>	<u>126,097</u>	<u>138,207</u>	<u>464,499</u>
Fund Balances - Ending	<u>\$ 242,467</u>	<u>\$ 85,690</u>	<u>\$ 2,177</u>	<u>\$ 89,085</u>	<u>\$ 419,419</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, 2011**

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

Net change in assets - total governmental funds	\$ (45,080)
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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.	504,943
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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>(7,185)</u>
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Change in net assets of governmental activities.	<u>\$ 452,678</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, 2011**

	<u>Konawa Public Works Authority</u>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalent	\$ 21,459
Restricted Cash and Cash Equivalent	32,054
Due from Other Funds	-
Total Current Assets	<u>53,513</u>
Noncurrent Assets	
Land	5,000
Land Improvements	8,716
Buildings	23,584
Machinery and Equipment	170,413
Utility System	123,960
Vehicles	3,000
Construction in Progress	495,489
Accumulated Depreciation	<u>(166,348)</u>
Total Noncurrent Assets	<u>663,814</u>
Total Assets	<u>717,327</u>
<b>LIABILITIES</b>	
Current Liabilities	
Notes Payable, Current	<u>379,941</u>
Total Current Liabilities	<u>379,941</u>
Noncurrent Liabilities	
Notes Payable	<u>34,743</u>
Total Noncurrent Liabilities	<u>34,743</u>
Total Liabilities	<u>414,684</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	249,130
Restricted for Debt Service	-
Unrestricted	<u>53,513</u>
Total Net Assets	<u>\$ 302,643</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, 2011**

	Konawa Public Works Authority
Operating Revenues:	
Water	\$ 145,490
Sewer	147,206
Garbage	94,144
Miscellaneous	<u>14,204</u>
Total Operating Revenue	401,044
Operating Expenses:	
Water	190,666
Sewer	78,779
Garbage	57,811
Administrative	92,424
Depreciation	<u>22,047</u>
Total Operating Expenses	<u>441,727</u>
Operating Income (Loss)	(40,683)
Nonoperating Revenues (Expenses):	
Interest Revenue	782
Interest Expense	<u>(13,991)</u>
Total Nonoperating Revenues (Expenses)	<u>(13,209)</u>
Income (Loss) before Transfers	(53,892)
Other Financing Sources (Uses):	
Contributed Capital	219,852
Transfers In	84,818
Transfers Out	<u>-</u>
Total Other Financing Sources	<u>304,670</u>
Net Change in Net Assets	250,778
Adjustment to Beginning Net Assets	(26,955)
Total Net Assets - Beginning	<u>78,820</u>
Total Net Assets - Ending	<u><u>\$ 302,643</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, 2011**

*CASH FLOWS FROM OPERATING ACTIVITIES*

Operating Revenues Received	\$ 401,044
Vendors and Others Paid	<u>(419,680)</u>
Net Cash Used by Operating Activities	<u>(18,636)</u>

*CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*

Transfers, Net	<u>84,818</u>
Net Cash Provided by Noncapital Financing Activities	<u>84,818</u>

*CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES*

Payment of Debt	(58,828)
Proceeds from Notes Payable	287,491
Purchase of Property, Plant and Equipment	<u>(306,943)</u>
Net Cash Used by Capital Financing Activities	<u>(78,280)</u>

*CASH FLOWS FROM INVESTING ACTIVITIES*

Interest Expense	(13,991)
Interest Income	<u>782</u>
Net Cash Used by Investing Activities	<u>(13,209)</u>

Net Decrease in Cash and Cash Equivalents (25,307)

Cash and Cash Equivalents, July 1, 2010 78,820

Cash and Cash Equivalents, June 30, 2011 \$ 53,513

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

Operating Income	\$ <u>(40,683)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and Amortization	<u>22,047</u>
	<u>22,047</u>
Net Cash Provided by Operating Activities	<u><u>\$ (18,636)</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, 2011**

**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*

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, 2011**

***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. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Debt issue cost and the amortization of those costs, where applicable
- Long-term debt
- Cash-based interfund receivables and payables
- Other cash-based receivable and payables

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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.

*USDA Loan Fund* – accounts loan and grand funds received and expended for the purchase of public safety equipment.

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*

- Cemetery Care
- Cemetery Perpetual
- One Cent Sales Tax
- USDA Loan 2

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, 2011**

**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, which approximates fair value.

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

***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.

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, 2011**

**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, 2011**

***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, 2011**

**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 \$521,543 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	\$	14,619
Notes Payable		31,738
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>		\$ (46,357)

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

Land	\$	-
Land Improvements		76,401
Buildings		745,923
Machinery and Equipment		118,131
Infrastructure		131,034
Vehicles		388,734
		1,460,223
Accumulated Depreciation		(892,323)
Capital Assets, Net	\$	567,900

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

***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 \$497,758 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	332,483
Capital Assets Transferred to Enterprise Fund	219,852
Depreciation Expense	<u>(47,392)</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>\$ 504,943</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	\$ 42,815
Capital Lease Proceeds	<u>(50,000)</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>\$ (7,185)</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**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, 2011, the City's bank balances of \$532,848 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. The City's investments at June 30, 2011 consisted of \$62,476 in Cavanal Hill U.S. Treasury money market mutual funds with a Moody's credit rating of Aaa.

*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, 2011 consists of refundable meter deposits of \$32,054.

**CITY OF KONA  
Notes to the Financial Statements  
June 30, 2011**

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

**B. Capital Assets**

Capital asset activity for the year ended June 30, 2011 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	-	-	-	-
Capital Assets, being depreciated:				
Land Improvements	41,710	34,691	-	76,401
Buildings	741,773	4,150	-	745,923
Machinery and Equipment	54,084	64,047	-	118,131
Infrastructure	131,034	-	-	131,034
Vehicles	159,139	229,595	-	388,734
Total Capital Assets, being depreciated	1,127,740	332,483	-	1,460,223
Less Accumulated Depreciation	844,931	47,392	-	892,323
Total Capital Assets, being depreciated, net	282,809	285,091	-	567,900
Governmental Activities Capital Assets, net	<u>\$ 282,809</u>	<u>\$ 285,091</u>	<u>\$ -</u>	<u>\$ 567,900</u>
<b><i>Business Type Activities:</i></b>				
Capital Assets, not being depreciated:				
Land	\$ -	\$ 5,000	\$ -	\$ 5,000
Construction in Progress	-	495,489	-	495,489
Total Capital Assets, not being depreciated	-	500,489	-	500,489
Capital Assets, being depreciated:				
Land Improvements	-	8,716	-	8,716
Buildings	23,584	-	-	23,584
Machinery and Equipment	167,913	2,500	-	170,413
Utility System	108,870	15,090	-	123,960
Vehicles	3,000	-	-	3,000
Total Capital Assets, being depreciated	303,367	26,306	-	329,673
Less Accumulated Depreciation	144,301	22,047	-	166,348
Total Capital Assets, being depreciated, net	159,066	4,259	-	163,325
Business Type Activities Capital Assets, net	<u>\$ 159,066</u>	<u>\$ 504,748</u>	<u>\$ -</u>	<u>\$ 663,814</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

**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	\$ 7,469
Public Safety	36,087
Streets	300
Cemetery and Parks	<u>3,536</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 47,392</u>
<i>Business Type Activities:</i>	
Water	\$ 12,140
Sewer	<u>9,907</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 22,047</u>

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

The composition of interfund balances as of June 30, 2011 is as follows:

*Interfund Transfers*

	<b>Transfers Out:</b>			
	<b>General</b>	<b>Enterprise</b>	<b>Other Governmental</b>	<b>Total</b>
<b><u>Transfers In:</u></b>				
General Fund	\$ -	\$ -	\$ 10,012	\$ 10,012
Other Governmental	9,000	-	24,489	33,489
Enterprise	<u>10,000</u>	-	<u>74,819</u>	<u>84,819</u>
	<u>\$ 19,000</u>	<u>\$ -</u>	<u>\$ 109,320</u>	<u>\$ 128,320</u>

Reason / Purpose – all transfers are operating transfers.

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

**D. Long Term Debt**

*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 - 4.70% interest, monthly payments of \$3,079. Matures April 2012. Proceeds used for the upgrade of the utility system.	\$ 188,161
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	28,917
Central Oklahoma Development Trust - 5.0% interest, monthly payments of \$1,061. Matures November 2013.	28,917
First Bank - 6.50% interest, line of credit. Matures November 2012. Proceeds used for the upgrade of the utility system.	166,111
John Deere Credit - 5.75% interest, monthly payments of \$848. Matures October 2011. Proceeds used for the purchase of a backhoe.	<u>2,578</u>
Total Other Notes Payable	<u><u>\$ 414,684</u></u>

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 379,941	\$ 20,142
2013	24,270	1,186
2014	<u>10,473</u>	<u>133</u>
Total	<u><u>\$ 414,684</u></u>	<u><u>\$ 21,461</u></u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

**D. Long Term Debt - continued**

*Notes Payable – Governmental Activities*

The Governmental Funds entered into a note payable for the purchase of a new fire truck, during the 2010-2011 fiscal year. Details of that note payable are as follows:

United States Department of Agriculture - 4.25% interest,  
monthly payments of \$2,177. Matures July 2011. \$ 31,738

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2012	<u>\$ 31,738</u>	<u>\$ 4,403</u>
Total	<u>\$ 31,738</u>	<u>\$ 4,403</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>
Equipment	\$ 96,397
Vehicles	<u>11,700</u>
	108,097
Less Accumulated Depreciation	<u>(42,264)</u>
	<u>\$ 65,833</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

**D. Long Term Debt - continued**

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>
2012	\$ 13,241
2013	<u>1,708</u>
Total minimum lease payments	14,949
Less amount representing interest	<u>(330)</u>
Present value of minimum lease payments	<u><u>\$ 14,619</u></u>

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

<i>Business Type Activities</i>	<u>\$</u>	<u>13,991</u>	<i>Governmental Activities</i>	<u>\$</u>	<u>2,762</u>
Water	<u>\$</u>	<u>13,991</u>	Public Safety	<u>\$</u>	<u>2,762</u>
	<u>\$</u>	<u>13,991</u>		<u>\$</u>	<u>2,762</u>

*Changes in Long-Term Liabilities*

Long term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Capital Leases	\$ 39,172	\$ -	\$ 24,553	\$ 14,619	\$ 14,619
Notes Payable	<u>-</u>	<u>50,000</u>	<u>18,262</u>	<u>31,738</u>	<u>31,738</u>
Total Long Term Liabilities	<u>\$ 39,172</u>	<u>\$ 50,000</u>	<u>\$ 42,815</u>	<u>\$ 46,357</u>	<u>\$ 46,357</u>
<b>Business Type Activities:</b>					
COEDD	\$ 39,899	\$ -	\$ 10,982	\$ 28,917	\$ 11,545
COEDD	39,899	-	10,982	28,917	11,546
Notes Payable / Capital Leases	<u>106,223</u>	<u>287,492</u>	<u>36,865</u>	<u>356,850</u>	<u>356,850</u>
Total Long Term Liabilities	<u>\$ 186,021</u>	<u>\$ 287,492</u>	<u>\$ 58,829</u>	<u>\$ 414,684</u>	<u>\$ 379,941</u>

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

**E. Fund Equity**

*Net Assets Restricted by Enabling Legislation*

The government-wide statement of net assets reports \$176,952 of restricted net assets, of which \$86,696 is restricted by enabling legislation.

<i><b>Enabling Legislation</b></i>	
Cemetery Care Fund	\$ 17,250
Cemetery Perpetual Fund	31,002
One Cent Sales Tax Fund	<u>38,444</u>
	<u><u>\$ 86,696</u></u>

*Governmental Fund Balance Classifications*

As of June 30, 2011, fund balances of the Governmental Funds were classified as follows:

	General	Grant	USDA Loan	Other Governmental	Total
<b>Restricted</b>					
Cemetery Capital Purchases	\$ -	\$ -	\$ -	\$ 48,252	\$ 48,252
Grant Fund Expenditures	-	85,690	-	-	85,690
Dedicated Sales Tax	-	-	-	38,444	38,444
Loan Proceeds and Capital Expenditures	-	-	2,177	2,389	4,566
<b>Unassigned</b>	<u>242,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242,467</u>
	<u><u>\$ 242,467</u></u>	<u><u>\$ 85,690</u></u>	<u><u>\$ 2,177</u></u>	<u><u>\$ 89,085</u></u>	<u><u>\$ 419,419</u></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.

**CITY OF KONAWA**  
**Notes to the Financial Statements**  
**June 30, 2011**

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

**F. Risk Management**

*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.

**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 or awards are covered by insurance.

**H. Accounting Change**

The City implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Beginning fund balances for the governmental funds have been restated to reflect the new classifications. As part of this implementation, certain funds have been reclassified to conform with GASB Statement 54.

***SUPPLEMENTARY  
INFORMATION***

**City of Konawa, Oklahoma**  
**Budgetary Information**  
**June 30, 2011**

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, 2011:

USDA Loan Fund	\$123,920
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**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, 2011**

	Budget Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 374,400	\$ 428,605	\$ 429,338	\$ 733
Intergovernmental	-	-	-	-
Charges for Service	160,479	193,022	212,523	19,501
Fines	200	200	59,274	59,074
Rent	2,100	2,100	8,398	6,298
Reimbursement	10,000	10,000	22,403	12,403
Miscellaneous	13,034	19,808	18,602	(1,206)
Interest	500	500	1,443	943
Total Revenue	<u>560,713</u>	<u>654,235</u>	<u>751,981</u>	<u>97,746</u>
<b>EXPENDITURES</b>				
Current				
General Government	134,692	176,970	147,663	29,307
Public Safety	442,301	460,740	460,739	1
Streets	30,699	23,891	23,891	-
Culture and Recreation	5,000	5,265	5,191	74
Cemetery and Parks	12,500	11,427	11,501	(74)
Legal and Judicial	10,521	6,544	6,544	-
Water and Sewer	-	<u>22,792</u>	<u>20,100</u>	<u>2,692</u>
Total Expenditures	<u>635,713</u>	<u>707,629</u>	<u>675,629</u>	<u>32,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(75,000)</u>	<u>(53,394)</u>	<u>76,352</u>	<u>129,746</u>
Other Financing Sources				
Transfers In	25,000	51,249	10,012	(41,237)
Transfers Out	-	<u>(10,000)</u>	<u>(19,000)</u>	<u>(9,000)</u>
Total Other Financing Sources	<u>25,000</u>	<u>41,249</u>	<u>(8,988)</u>	<u>(50,237)</u>
Net Change in Fund Balances	(50,000)	(12,145)	67,364	79,509
Fund Balances - Beginning	<u>50,000</u>	<u>50,000</u>	<u>175,103</u>	<u>125,103</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 37,855</u>	<u>\$ 242,467</u>	<u>\$ 204,612</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, 2011**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With Final Budget
<b>REVENUE</b>				
Intergovernmental	\$ -	\$ 600,702	\$ 565,868	\$ (34,834)
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	-	600,702	565,868	(34,834)
<b>EXPENDITURES</b>				
Current				
Public Safety	-	81,303	58,932	22,371
Public Health and Welfare	-	259,960	245,791	14,169
Water and Sewer	<u>-</u>	<u>166,471</u>	<u>164,046</u>	<u>2,425</u>
Total Expenditures	-	507,734	468,769	38,965
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>-</u>	<u>92,968</u>	<u>97,099</u>	<u>4,131</u>
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	<u>-</u>	<u>(36,596)</u>	<u>(36,501)</u>	<u>95</u>
Total Other Financing Sources	<u>-</u>	<u>(36,596)</u>	<u>(36,501)</u>	<u>95</u>
Net Change in Fund Balances				
	-	56,372	60,598	4,226
Fund Balances - Beginning				
	<u>50,000</u>	<u>27,724</u>	<u>25,092</u>	<u>(2,632)</u>
Fund Balances - Ending				
	<u>\$ 50,000</u>	<u>\$ 84,096</u>	<u>\$ 85,690</u>	<u>\$ 1,594</u>

**CITY OF KONAWA**  
**Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – USDA Loan Fund – Modified Cash Basis**  
**For the Year Ended June 30, 2011**

	Budget Amounts		Actual Amounts	Variance
	Original	Final		With Final Budget
<b>REVENUE</b>				
Intergovernmental	\$ -	\$ -	\$ 30,000	\$ 30,000
Reimbursement	-	-	21,770	21,770
Total Revenue	-	-	51,770	51,770
<b>EXPENDITURES</b>				
Current				
Public Safety	-	-	225,690	(225,690)
Total Expenditures	-	-	225,690	(225,690)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(173,920)	(173,920)
Other Financing Sources				
Capital Lease Financing	-	-	50,000	50,000
Total Other Financing Sources	-	-	50,000	50,000
Net Change in Fund Balances	-	-	(123,920)	(123,920)
Fund Balances - Beginning	-	-	126,097	126,097
Fund Balances - Ending	\$ -	\$ -	\$ 2,177	\$ 2,177

**CITY OF KONAWA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Modified Cash Basis**  
**June 30, 2011**

	<u>Cemetery Care</u>	<u>Cemetery Perpetual</u>	<u>Once Cent Sales Tax</u>	<u>USDA Loan</u>	<u>Total</u>
Assets					
Cash and Cash Equivalent	\$ 17,250	\$ 31,002	\$ 38,444	\$ 2,389	\$ 89,085
Total Assets	<u>\$ 17,250</u>	<u>\$ 31,002</u>	<u>\$ 38,444</u>	<u>\$ 2,389</u>	<u>\$ 89,085</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>17,250</u>	<u>31,002</u>	<u>38,444</u>	<u>2,389</u>	<u>89,085</u>
Total Fund Balances	<u>17,250</u>	<u>31,002</u>	<u>38,444</u>	<u>2,389</u>	<u>89,085</u>
Total Liabilities and Fund Balances	<u>\$ 17,250</u>	<u>\$ 31,002</u>	<u>\$ 38,444</u>	<u>\$ 2,389</u>	<u>\$ 89,085</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, 2011**

	Cemetery Care	Cemetery Perpetual	One Cent Sales Tax	USDA Loan	Total
<b>REVENUE</b>					
Taxes	\$ -	\$ -	\$ 102,648	\$ -	\$ 102,648
Charges for Services	2,701	713	-	-	3,414
Rent	-	-	36,000	-	36,000
Reimbursement	-	-	8,092	-	8,092
Miscellaneous	2,624	-	(3)	2,177	4,798
Interest	169	615	302	-	1,086
Total Revenue	<u>5,494</u>	<u>1,328</u>	<u>147,039</u>	<u>2,177</u>	<u>156,038</u>
<b>EXPENDITURES</b>					
Current					
Public Safety	-	-	22,842	-	22,842
Streets	-	-	10,035	-	10,035
General Government	7,958	1	-	-	7,959
Capital Outlay					
Public Safety	4,050	-	23,498	-	27,548
General Government	-	-	1,065	-	1,065
Cemetery and Parks	-	-	34,691	-	34,691
Water and Sewer	2,500	-	33,206	-	35,706
Debt Service	-	-	25,984	-	25,984
Total Expenditures	<u>14,508</u>	<u>1</u>	<u>151,321</u>	<u>-</u>	<u>165,830</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,014)	1,327	(4,282)	2,177	(9,792)
Other Financing Sources					
Transfers In	12,000	-	21,489	-	33,489
Transfers Out	-	-	(72,819)	-	(72,819)
Total Other Financing Sources	<u>12,000</u>	<u>-</u>	<u>(51,330)</u>	<u>-</u>	<u>(39,330)</u>
Net Change in Fund Balances	2,986	1,327	(55,612)	2,177	(49,122)
Fund Balances - Beginning	<u>14,264</u>	<u>29,675</u>	<u>94,056</u>	<u>212</u>	<u>138,207</u>
Fund Balances - Ending	<u>\$ 17,250</u>	<u>\$ 31,002</u>	<u>\$ 38,444</u>	<u>\$ 2,389</u>	<u>\$ 89,085</u>



CPAs &  
Advisors

**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 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, 2011, which collectively comprise the City of Konawa, Oklahoma's basic financial statements and have issued our report thereon dated May 31, 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

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 May 31, 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.

May 31, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council  
City of Konawa, Oklahoma

Compliance

We have audited City of Konawa, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Konawa, Oklahoma's major federal programs for the year ended June 30, 2011. City of Konawa, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Konawa, Oklahoma's management. Our responsibility is to express an opinion on City of Konawa, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Konawa, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Konawa, Oklahoma's compliance with those requirements.

In our opinion, City of Konawa, Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of City of Konawa, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Konawa, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Konawa, Oklahoma's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Konawa, Oklahoma's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Konawa, Oklahoma's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

*HBC CPAs & Advisors*

May 31, 2012

**CITY OF KONAWA**  
**Schedule of Expenditures of Federal Awards**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2011**

<u>Federal/State Grantor/Pass Through Agency Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grant #</u>	<u>Award Amount</u>	<u>Awards Expended</u>
<b>FEDERAL AWARDS:</b>				
<i><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></i>				
Assistance to Firefighters Grant Program	97.044	EMW-2009-FO-10100	\$ 48,925	\$ 41,790
Assistance to Firefighters Grant Program	97.044	EMW-2008-FO-11841	35,054	21,392
SAFER Grant			6,554	5,791
Ice Storm Assistance	97.036		<u>10,400</u>	<u>10,400</u>
Total U.S. Department of Homeland Security			<u>\$ 100,933</u>	<u>\$ 79,373</u>
<i><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></i>				
Passed Through Oklahoma Housing Finance Agency: HOME Investment Partnerships Program	14.239	1271-HOME-09	\$ 260,000	\$ 260,000
Passed Through Oklahoma Department of Commerce: Community Development Block Grant	14.228	14312-CDBG-10	<u>245,840</u>	<u>166,046</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 505,840</u>	<u>\$ 426,046</u>
<i><u>U.S. DEPARTMENT OF JUSTICE:</u></i>				
JAG Grant Program	16.803	JR09-070	<u>\$ 9,500</u>	<u>\$ 9,500</u>
Total U.S. Department of Justice			<u>\$ 9,500</u>	<u>\$ 9,500</u>
<i><u>U.S. DEPARTMENT OF AGRICULTURE:</u></i>				
Passed Through Oklahoma Rural Development: Community Facilities Loans and Grant	10.766	97-01	<u>\$ 80,000</u>	<u>\$ 80,000</u>
Total U.S. Department of Agriculture			<u>\$ 80,000</u>	<u>\$ 80,000</u>
<b>TOTAL FEDERAL AWARDS</b>			<b><u>\$ 696,273</u></b>	<b><u>\$ 594,919</u></b>

**CITY OF KONAWA**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2011**

**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of City of Konawa, Oklahoma, under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of City of Konawa, Oklahoma, it is not intended to and does not present the financial position, changes in net assets or cash flows of City of Konawa, Oklahoma.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**CITY OF KONAWA**  
**Schedule of Findings and Responses**  
**June 30, 2011**

***SECTION I - Summary of Auditor's Results***

Type of Audit Report	Unqualified Opinion		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____ No	
Significant Deficiency(ies) that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> _____ No	
Noncompliance material to financial statements	_____ Yes	_____ <u>X</u> _____ No	

***Federal Awards***

Internal control over major program:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____ No	
Significant Deficiency(ies) that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> _____ No	
Type of auditor's report issued on compliance for major programs:	Unqualified Opinion		
Any audit findings disclosed that are required to be	_____ Yes	_____ <u>X</u> _____ No	

Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
HOME Investment Partnerships Program	14.239
Community Development Block Grant	14.228

Dollar threshold used to distinguish between Type A programs \$ 300,000

Auditee qualified as a low risk auditee?

_____ Yes	_____ <u>X</u> _____ No
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***SECTION II - Financial Statement Findings***

None.

**CITY OF KONAWA**  
**Summary Schedule of Prior Year Findings and Responses**  
**June 30, 2011**

None.