Town of Adair
Mayes County, Oklahoma

Independent Auditor's Report and Financial Statements

For the Fiscal Year Ended
June 30, 2011

Town of Adair
Mayes County, Oklahoma

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Kirkendall & Swindell CPAs, PLLC
Certified Public Accountants
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Independent Auditor's Report

Board of Trustees
Town of Adair

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. as of the ***Town of Adair, Mayes County, Oklahoma***, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. The financial statements are the responsibility of ***Town of Adair, Mayes County, Oklahoma's*** management. Our responsibility is to express an opinion 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that my audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Town of Adair, Mayes County, Oklahoma*** as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012 on our consideration of the ***Town of Adair, Mayes County, Oklahoma*** internal control over financial reporting and 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 the 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 conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information of pages 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the ***Town of Adair, Mayes County, Oklahoma*** basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements taken as a whole.

Kirkendall & Swindell CPAs PLLC

Kirkendall & Swindell CPAs, PLLC
Certified Public Accountants

January 6, 2012

Our discussion and analysis of the *Town of Adair* financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Town's financial statements that begin on Page 6. Since this is the first year the town has reported under the GASB 34 model, comparisons with prior fiscal years are not provided.

FINANCIAL HIGHLIGHTS

- The Town's total revenues exceeded expenditures by $23,785 for the year, resulting in an increase in total net assets of the previous year.

  The operation of its business-type activities, the Adair Municipal Authority (AMA), resulted in revenues exceeding expenditures by $475,914, with a increase in net assets.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34 and No. 54.

Report Components

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 6-7) provide information about the activities of the Town government-wide (or "as a whole") and present a longer-term view of the Town's finances.

Fund Financial Statements: Fund financial (starting on page 8) focus on the individual parts of the Town government. Fund financial statements also report the Town's operations in more detail then the government-wide statements by providing information about the Town's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about activities the Town operates like businesses, such as the water, sewer and sanitation services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the notes (referred to as "the basic financial statements").

USING THIS ANNUAL REPORT (continued)

Report Components (continued)

Required Supplementary Information: This Management's Discussion and Analysis represents financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements.)

Basis of Accounting
The Town has elected to present its financial statements on the accrual basis of accounting. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities.

Reporting the Town as a Whole
The Town's Reporting Entity Presentation
This annual report includes all activities for which the *Town of Adair* Town Board is fiscally responsible. These activities, defined as the Town's reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit.

The primary government includes the following legal entities:
- The Town of Adair
- The Town of Adair Municipal Authority
- The Town of Adair Economic Development Authority

The Government-Wide Statement of Net Assets and the Statement of Activities
Our financial analysis of the Town as a whole begins on page 6. The government-wide financial statements are presented on pages 6-7. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all of the Town's assets and liabilities resulting from the use of the accrual basis of accounting.

USING THIS ANNUAL REPORT (continued)
Reporting the Town as a Whole (continued)

These two statements report the Town's net assets and changes in them. You can think of the Town's net assets – the difference between assets and liabilities – as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in Town's sales tax base and the condition of the Town's reads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

Governmental activities – Most of the Town's basic services are reported here, including the police, general administration, streets and parks. Sales taxes, franchise fees, fines and state and federal grants finance most of these activities.

Business-type activities – The Town charges a fee to customers to help it cover all or most of certain services it provides. The Town's water, sewer and sanitation systems are reported here.

Fiduciary funds – These funds are used to account for assets that are held in a trustee or fiduciary capacity.

The Fund Financial Statements
Our analysis of the Town's funds begins on page 8. The fund financial statements begin on page 8 and provide detailed information about the most significant – not the Town as a whole. Some funds are required to be established by State Law and by bond covenants. However, the Town Council establishes certain other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to assets and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund statements. The Town considers the General Fund to be its significant or major governmental fund. The other governmental fund is in a single column entitled Street & Alley fund.

Proprietary funds – When the town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the Town's proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. The Town has enterprise funds – the Municipal Utility Authority – and the Economic Development Authority.

USING THIS ANNUAL REPORT (continued)
The Fund Financial Statements (continued)

Fiduciary funds – These funds are the Mayes County Fire Fund, the Town Fire Equipment Fund, and the Town Police Equipment Fund, the Capital Equipment Fund and the Penalty Assessment fund.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE
Government-Wide Net Assets
The Statement of Net Assets looks at the Town as a whole and is a useful indicator of the Town's overall financial position, but other factors should also be considered when evaluating the Town's financial picture for 2011. Since only current year numbers covered in this audit report, a prior year comparison is not presented.

	Governmental Activities	Business-type Activities	Component Unit
Current and other assets	$ 304,461	$ 290,290	$ 72,549
Capital assets	882,679	2,692,622	3,090
Total Assets	**1,187,140**	**2,982,911**	**75,639**
Long-term debt outstanding	141,114	796,472	0
Other liabilities	56,180	246,584	0
Total Liabilities	**197,294**	**1,043,056**	**0**
Net assets			
Invested in capital assets, Net of related debt	711,253	1,780,333	3,090
Restricted for specific purpose	183,753	37,661	72,598
Unrestricted	94,840	121,862	0
Total Net Assets	$ 989,846	$ 1,939,856	$ 75,638

GOVERNMENTAL ACTIVITIES
To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended June 30, 2011, total expenses for governmental activities amounted to $409,728. Of these total expenses, taxpayers and other general revenues funded $433,513. This resulted in a negative change in net assets of $23,785.

USING THIS ANNUAL REPORT (continued)
The Fund Financial Statements (continued)

BUSINESS-TYPE ACTIVITIES
In reviewing the business-type activities' net (expense)/revenue there are certain activities that need to be examined more closely. The water, sewer, and sanitation service activities reported net revenues of $327,746. Additional revenues received were grants and sales tax of $398,220 and interest income of $1,209. Total revenues were $479,275 and total expenses were $253,261. This resulted in a positive change in net assets of $475,914 for the year.

General Fund Budgetary Highlights
The Town's budget is prepared in accordance with Oklahoma law and is based on the beginning surplus plus ninety percent of the previous years recurring revenues. The most significant budgeted fund is the General Fund. An annual appropriation budget is required for the general fund. The Town council is provided with a detailed line-item budget for the general fund. Normally several meetings are devoted to discussion and explanation of the proposed budget by staff. The Town council may transfer appropriations from one line item to another after the budget is adopted by the Town Council. The Council must approve any budget amendments that would alter total budget or make any interfund transfers of money. The Town council closely monitors the budget through the year through the use of monthly financial statements comparing budget to actual revenues and expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
At June 30, 2011, the Town had $882,679 invested in capital assets, net of depreciation, including police equipment, buildings, park facilities, water and sewer lines.

Long-Term Debt
At June 30, 2011, the Town had $2,635,233 in long-term debt. The debt is related to business-type activities, the Town's long-term debt comprises long-term refundable deposits and capital debt obligations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT
This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Town Clerk's office at P.O. Box 198, Adair, Oklahoma 74330 or telephone 918-785-2432.

Town of Adair
Mayes County, Oklahoma
Statement of Net Assets
June 30, 2011

	Primary Government				
	Governmental Activities	Business-Type Activities	Fiduciary Type Activities	Totals	Component Units
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 95,206.94	$ 100,879.99	$ 6,866.85	$ 202,953.78	$ 51,958.22
Cash held by third parties	136,343.50			136,343.50	
Due from other governments	46,769.88	9,258.46		56,028.34	
Prepaid Insurance/fees	10,529.48	12,078.27		22,607.75	
Accounts receivable	15,611.54	168,072.97		183,684.51	20,590.30
Total Current Assets	304,461.34	290,289.69	6,866.85	601,617.88	72,548.52
Non-current Assets:					
Restricted Assets:					
Cash and Cash Equivalents		57,388.77		57,388.77	
Capital Assets:					
Property, Plant & Equipment, net	882,678.64	2,635,233.01		3,517,911.65	3,089.68
Total Non-current Assets	882,678.64	2,692,621.78	0.00	3,575,200.42	3,089.68
Total Assets	1,187,139.98	2,982,911.47	6,866.85	4,176,918.30	75,638.20
LIABILITIES					
Current Liabilities:					
Accounts Payable	25,868.29	158,239.79		184,108.08	
Accrued interest payable		7,188.10		7,188.10	
Due to Town					
Customer Deposits		19,628.10		19,628.10	
Current Portion of Leases Payable	30,311.62			30,311.62	
Current Portion of Notes Payable		58,427.80		58,427.80	
Accrued Liabilities		3,099.94		3,099.94	
Total Current Liabilities	56,179.91	246,583.73	0.00	302,763.64	0.00
Non-current Liabilities:					
Capital Leases Payable	141,113.61			141,113.61	
Notes Payable		796,471.90		796,471.90	
Total Liabilities	141,113.61	1,043,055.63	0.00	1,240,349.15	0.00
NET ASSETS					
Invested in capital assets, net of related debt	711,253.41	1,780,333.31		2,498,453.57	3,089.68
Nonspendable Fund Balance	10,529.48			10,529.48	
Assigned Fund Balance	183,753.11	37,660.67	6,866.85	221,413.78	72,548.52
Unassigned Fund Balance	84,310.46	121,861.86		206,172.32	
Total Net Assets	$ 989,846.46	$ 1,939,855.84	$ 6,866.85	$ 2,936,569.15	$ 75,638.20

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Activities
June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating/Capital Grants and Contributions	Net (Expense) Revenues
Functions/Programs:				
Primary Government:				
General Government	$ 271,151.32	$	$	$ (271,151.32)
Police Department	93,572.16	98,698.14		5,125.98
Fire Department	11,253.48	13,133.36	27,901.75	29,781.63
Street Department	33,751.38			(33,751.38)
Total Governmental Activities	409,728.34	111,831.50	27,901.75	(269,995.09)
Business-Type Activities:				
Municipal Authority	253,260.65	327,745.73	342,441.44	416,926.52
Total Town of Adair	$ 662,988.99	$ 439,577.23	$ 370,343.19	$ 146,931.43
Component Units:				
Adair Dev. Authority	$ 1,173.07	$ 0.00	$ 0.00	$ (1,173.07)

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Totals	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (269,995.09)	$ 416,926.52	$ 146,931.43	$ (1,173.07)
General revenues:				
Taxes:				
Sales Tax	229,732.37	57,778.20	287,510.57	
Franchise Tax	16,907.59		16,907.59	
Use Tax	22,632.43		22,632.43	
Cigarette Tax	3,394.67		3,394.67	
Alcoholic Beverage Tax	4,713.17		4,713.17	
Restricted for transportation purposes:				
Motor Vehicle Tax	4,584.33		4,584.33	
Gasoline Tax	1,356.21		1,356.21	
Miscellaneous	526.34		526.34	
Rental of Property	9,600.00		9,600.00	
Interest income	333.06	1,209.24	1,542.30	2.60
Total revenues	293,780.17	58,987.44	352,767.61	2.60
Change in Net Assets	23,785.08	475,913.96	499,699.04	(1,170.47)
Prior Period Adjustment	0.00	421,878.45	421,878.45	0.00
Net Assets-beginning	966,061.38	1,042,063.43	2,008,124.81	76,808.67
Net Assets-ending	$ 989,846.46	$ 1,939,855.84	$ 2,929,702.30	$ 75,638.20

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2011

	General Fund	Other Governmental Funds	Totals
ASSETS			
Cash	$ 57,288.97	$ 37,917.97	$ 95,206.94
Cash held with third parties		136,343.50	136,343.50
Prepaid Insurance	10,401.98	127.50	10,529.48
Revenue Receivable	35,103.91	11,665.97	46,769.88
Accounts Receivable - Other	15,611.54		15,611.54
Total Assets	$ 118,406.40	$ 186,054.94	$ 304,461.34
LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts Payable	$ 23,566.46	$ 2,301.83	$ 25,868.29
Fund Balances:			
Unreserved	94,839.94		94,839.94
Reserved		183,753.11	183,753.11
Total Fund Balances	94,839.94	183,753.11	278,593.05
Total Liabilities & Fund Balances	$ 115,406.40	$ 186,054.94	$ 304,461.34

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total Fund Balances – Governmental Funds	$ 278,593.05
Amounts reported for governmental activities in the statement of net assets are different Because:	
Capital lease payable	(171,425.23)
Capital assets used in governmental activities are not financial resources and Therefore are not reported in the funds. These assets consist of:	
Property and Equipment, net of depreciation	882,678.64
Net Assets of Governmental Activities	$ 989,846.46

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
June 30, 2011

	General Fund	Other Governmental Funds	Totals
REVENUES			
Taxes:			
Sales Tax	$ 173,334.38	$ 56,397.99	$ 229,732.37
Use Tax	22,632.43		20,632.43
Alcoholic Beverage	4,713.17		4,713.17
Motor Vehicle Tax		4,584.33	4,584.33
Gasoline Tax		1,356.21	1,356.21
Franchise Tax	16,907.59		16,907.59
Cigarette Tax	3,394.67		3,394.67
Other:			
Grants		21,000.00	21,000.00
Rental Income	2,400.00	7,200.00	9,600.00
Interest Income	333.06		333.06
Miscellaneous	526.34		526.34
Fire Runs		1,300.00	1,300.00
Fire Subscriptions		11,833.36	11,833.36
Donations		6,901.75	6,901.75
Police Fines	71,318.14	27,380.00	98,698.14
Total Revenues	295,559.78	137,953.64	433,513.42
EXPENDITURES			
Current:			
Personal Services	147,233.28		147,233.28
Maintenance & Operation	162,926.39	47,379.90	210,306.29
Capital Outlay		58,704.02	58,704.02
Total Expenditures	310,159.67	106,083.92	416,243.59
Excess (deficit) of revenues over expenditures	(14,599.89)	31,869.72	17,269.83
Fund Balance-Beginning	109,439.83	151,883.39	261,323.22
Fund Balance-Ending	$ 94,839.94	$ 183,753.11	$ 278,593.05

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Reconciliation of Change in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2011

Net Change in Fund Balances – Total Governmental Funds	$	17,269.83
Amounts reported for governmental activities in the statement of activities are different because:		
Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Lease Payments		30,557.28
Capital Outlays		58,704.02
Depreciation Expenses		(82,746.05)
Change in Net Assets of Governmental Activities	$	23,785.08

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Net Assets
Proprietary Funds-Enterprise Funds
June 30, 2011

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	100,879.99
Due from other governments		9,258.46
Prepaid insurance		12,078.27
Accounts receivable		168,072.97
Total Current Assets		290,289.69
Non-current Assets:		
Restricted Assets:		
Cash and Cash Equivalents		57,388.77
Capital Assets:		
Property, plant and equipment, net of accumulated depreciation		2,635,233.01
Total Non-current Assets		2,692,621.78
Total Assets		2,982,911.47
LIABILITIES		
Current Liabilities:		
Accounts Payable		158,239.79
Accrued Interest Payable		7,188.10
Customer Deposits		19,628.10
Current Portion of Notes Payable		58,427.80
Accrued Liabilities		3,099.94
Total Current Liabilities		246,583.73
Long Term Liabilities:		
Note Payable		796,471.90
Total Liabilities		1,043,055.63
NET ASSETS		
Invested in capital assets, net of related debt		1,780,333.31
Restricted		37,660.67
Unrestricted		121,861.86
Total Net Assets	$	1,939,855.84

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
June 30, 2011

Operating Revenues:	
Sales – Sewer & Water	$ 239,479.05
Sales – Trash	74,676.01
Other revenues	13,590.67
Total Operating Revenues	327,745.73
Operating Expenses:	
Personal services	66,083.10
Depreciation	30,621.08
Trash services	68,064.35
Operating expenses	53,073.84
Utilities/telephones	19,615.63
Repairs and maintenance	15,802.65
Total Operating Expenses	253,260.65
Operating Income	74,485.08
Non-Operating Revenues (Expenses):	
Grant revenues	342,441.44
Sales tax revenues	57,778.20
Interest revenues	1,209.24
Total Non-Operating Revenues (Expenses)	401,428.88
Change in Net Assets	475,913.96
Prior Period Adjustment	421,878.45
Total Net Assets-Beginning	1,042,063.43
Total Net Assets-Ending	$ 1,939,855.84

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Cash Flows
Proprietary Fund Type - Enterprise Fund
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash inflows:	
Cash received from customers	$ 326,376.32
Cash outflows:	
Cash paid for personal services	67,089.53
Payments for supplies and other goods and services	136,124.55
Total cash outflows	203,214.08
Net Cash Provided (Used) by Operating Activities	123,162.24
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	0.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Sales tax revenue received	57,778.20
Grant revenues	342,441.44
Net Cash Provided (Used) by Capital and Related Financing Activities	400,219.64
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends on investments	1,209.24
Purchase of fixed assets	(646.28)
Increase in construction in progress	(1,216,414.81)
Change in notes payable	690,054.08
Net Cash Provided (Used) by Investing Activities	(525,797.77)
Net increase (decrease) in cash	(2,415.89)
Cash and cash equivalents, beginning of year	160,584.65
Cash and cash equivalents, end of year	$ 158,168.76

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating income	$ 74,485.08
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	30,621.08
Net changes in assets and liabilities:	
Accounts receivable	(135,571.91)
Other liabilities	153,627.99
Net cash provided (used) by operating activities	$ 123,162.24

The accompanying notes are an integral part of the combined financial statements.

Town of Adair
Mayes County, Oklahoma
Statement of Net Assets
Fiduciary Fund Types
Estate Fund
June 30, 2011

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 6,866.85
NET ASSETS	
Restricted	$ 6,866.85

The accompanying notes are an integral part of the combined financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncement and Accounting Principles Board (APB) opinions issued on or before October 23, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

For the fiscal year ended June 30, 2005, the Town implemented the new financial reporting requirements of GASB Statements No. 33 and 34 and in fiscal year June 30, 2011 the Town implemented the GASB 54. As a result, an entirely new financial presentation format has been implemented. This implementation will affect comparability with reports issued in prior years.

Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Adair
Blended Component Unit:	Adair Municipal Authority
Component Unit	Adair Development Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Component Unit	Brief Description/Inclusion Criteria	Reporting
Adair Municipal Authority	Created to finance, develop and operate the water and sewer services activities.	Enterprise Fund

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

Component Unit	Brief Description/Inclusion Criteria	Reporting
Adair Development Authority	Created to finance and develop economics.	Fiduciary Fund

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Fund are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

A. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

B. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

GOVERNMENTAL FUNDS

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

PROPRIETARY FUND

Enterprise Fund. Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Adair Municipal Authority	Accounts for activities of the public trust in providing water and sewer services to the public.

MAJOR AND NON-MAJOR FUNDS

Major:	General fund	
	Proprietary Fund: Adair Municipal Authority	
Non-Major:	Street & Alley Fund	Fire Equipment Fund
	Police Equipment Fund	Penalty Assessment Fund
	Capital Improvement Fund	

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting

Measurement focus is a term used to describe "when" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

The government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expense, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of account, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Cash and Investments

For the purpose of Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity Classifications

Government-Wide Statements

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

a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
c. Unrestricted net assets – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".
d. Assigned fund balance – amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
e. Nonspendable fund balance – the amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained in tact.
f. Unassigned fund balance – the fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purpose within the general fund.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, the unreserved further split between designated. Proprietary fund equity is classified the same as in the government-wide statements.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use and franchise taxes. Business-type activities report water and sewer charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost is actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

Asset Class	Estimated Useful Lives
Buildings	50-75
Building improvements	50-75
Vehicles	5-7
Equipment	5-7

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Restricted assets include funds on deposit representing utility customer meter deposits which are refundable to the customer and funds on deposit required to be reserved by terms of promissory notes.

Revenues, Expenditures and Expenses

SALES TAX

The town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately on month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) are received by the Town in July and August have been accrued and are included under the caption "Due from other governments".

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

USE TAX

The town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received by the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments".

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

EXPENDITURES/EXPENSES

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:)

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay
Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

INTERFUND TRANSFERS

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows:

Fund Accounting Requirements

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

Fund	Required By
Municipal Authority Fund	Trust Indenture

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III A., all deposits were fully insured or collateralized.

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

-1- Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
-2- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
-3- With certain limitation, negotiable certificates of deposit, prime bankers acceptance, 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;
-5- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
-6- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2011, the Town and its public trusts complied, in all material respects, with these investment restrictions.

Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water and Sewer Revenue	Debt Service and Utility Operations

For the year ended June 30, 2011 the Town complied, in all material respects, with those revenue restrictions.

Debt Restrictions and Covenants

GENERAL OBLIGATION DEBT

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the Town had no outstanding general obligation debt.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

OTHER LONG-TERM DEBT

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2011, the Town incurred no such indebtedness.

NOTE 3: DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 21,000.00	$	$	$ 21,000.00
Capital assets being depreciated:				
Building	385,312.87			385,312.87
Equipment	949,334.34	55,329.72	8,731.36	995,932.70
Total capital assets being depreciated	1,355,647.21	$ 55,329.72	$ 8,731.36	1,402,245.57
Less accumulated depreciation	442,059.69	$ 82,746.05	$ 5,238.81	519,566.93
Governmental activity capital assets, net	$ 913,587.52			$ 882,678.64
Business-type activities:				
Land	$ 1,000.00	$	$	$ 1,000.00
Capital assets being depreciated:				
Construction in Progress	685,390.75	1,216,414.81		1,901,805.56
Equipment	77,504.87	4,228.68	3,582.40	78,151.45
Water System	556,143.97			556,143.97
Sewer System	472,789.96			472,789.96
Total capital assets being depreciated	1,792,829.55	$1,220,643.49	$ 3,582.40	3,009,890.94
Less accumulated depreciation for:				
Sewer/Water System and equipment	346,186.29	$ 30,621.08	$ 2,149.44	374,657.93
Business-type activity capital assets, net	$1,446,643.26			$ 2,635,233.01

Restricted Assets

Certain loan agreements of the Adair Municipal Authority require the maintenance of prescribed amounts of cash that can be used only to service outstanding debt and for unforeseen contingencies. Also included are reserves of meter deposits held for customers, and the accrued interest thereon.

Following is a summary of restricted assets held:

Reserved for debt retirement	$ 18,748.77
2000 OWRB	100.00
Reserved for Customer Meter Deposits	15,985.00
Project account	22,455.00
Cash – CDBG Grant 9322	100.00
Total Restricted Assets	$ 57,388.77

Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. Accounts receivable of the business-type activities consists of utilities, sales tax receivable and loan reimbursement receivable.

NOTE 3: DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (cont.d)

Cash and Investments

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town invests entirely in certificates of deposit.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of June 30, 2011, none of the Town's investments were exposed to custodial credit risk because there were uninsured or uncollateralized.

Retirement Funds

The Town offers its employees the opportunity to all regular, full-time employees except police, firefighters and other employees who are covered under an approved system. The employee may contribute up to 3.75% of his/her pay and the town will contribute 8.69% of the participants payroll.

Compensated Absences

The Town compensated absences cannot be determined and is not accrued as a liability in the financial statements.

Prior Period Adjustment

Adjustment made to record prior year EPA federal grant not previously accounted.

NOTE 4: NOTES PAYABLE

On September 1, 2009 the Adair Municipal Authority entered into a promissory note with Oklahoma Water Resources Board for Series 2009 Clean Water SRF Loan in a total amount of $1,400,000 to require interest at a rate of 2.71%. The loan will mature on September 15, 2030.

As of June 30, 2011, the project was not completed and therefore a loan amortization schedule has not been completed. The cumulative amount drawn on the project as of June 30, 2011 was $531,972.40.

On September 14, 2010 the Adair Municipal Authority entered into a promissory note with Oklahoma Water Resources Board for Series 2010 Drinking Water SRF Loan in a total amount of $830,000 to require interest at a rate of 3.62%. The loan will mature on March 15, 2031.

As of June 30, 2011, the project was not completed and therefore a loan amortization schedule has not been completed. The cumulative amount drawn on the project as of June 30, 2011 was $264,499.10.

NOTE 5: OPERATING LEASES

The reporting entity has entered into two operating leases with the Bank of Commerce in Adair, Oklahoma. The lease agreements contain cancellation provisions and are subject to annual appropriations.

Lease #1 Entered into agreement on November 16, 2007 for the lease of a 2007 Dodge Charger. The lease requires 60 monthly payments of $415.85 each beginning December 16, 2007.

Lease #2 Entered into agreement on January 6, 2011 for the lease of the town property. The lease requires 119 monthly payments of $1,777.74 each beginning February 6, 2009.

NOTE 5: OPERATING LEASES (cont.d)

Lease #3 Entered into agreement on August 20, 2008 for the lease of a 2008 Dodge Charger. The lease requires 60 monthly payments of $449.93 each beginning September 20, 2008.

Lease #4 Entered into agreement on October 2, 2007 for the lease of metal building. The lease requires 59 payments of $496.73 each beginning November 2, 2007.

NOTE 6: OTHER INFORMATION

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

Commitments and Contingencies (UPDATE!!!!

As of June 30, 2011 the Town had pending tort claims as follows:

1. Claim by Melissa D. McDowell v City of Adair.
2. Claim by Brandon Lee Yeager, Workers Compensation Court.
3. Governmental Tort Claim by Shannon Newell dated October 7, 2011.

The projected outcome is unknown as to the actual expense to the Town. The Town denies such claims are valid and that such claims and any resulting litigation will be vigorously defended against the Town.

REQUIRED SUPPLEMENTARY INFORMATION

A. Audit Findings

PRIOR YEAR

Finding #1 – Internal Controls – Lack of Segregation of Duties

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevents a proper segregation of accounting functions that is necessary to assure adequate internal accounting controls.

Efficient separation of duties is difficult to obtain without hiring additional people. However, we feel the governing body and management should be aware of the risk associated with this lack of segregation of duties, and attempt to exercise as much oversight control in the area as possible and feasible.

CURRENT YEAR

Finding #1 – Internal Controls – Lack of Segregation of Duties

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevents a proper segregation of accounting functions that is necessary to assure adequate internal accounting controls.

Efficient separation of duties is difficult to obtain without hiring additional people. However, we feel the governing body and management should be aware of the risk associated with this lack of segregation of duties, and attempt to exercise as much oversight control in the area as possible and feasible.

Management Response:

Due to financial constraints, hiring additional personnel is not feasible at this time. The governing body will continue to exercise oversight to minimize risk.

B. Questioned Costs

NONE