

CITY OF PAULS VALLEY
June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 and the report of other auditors provide a reasonable basis for our opinions.

The financial statements do not include financial data for the City's legally separate component unit, Pauls Valley Hospital Authority. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit is not reasonable determinable.

In our opinion, because of the omission of the discretely presented component unit, Pauls Valley Hospital Authority, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City of Pauls Valley, Oklahoma, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

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

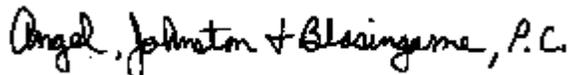
In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Pauls Valley has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pauls Valley's financial statements as a whole. The accompanying other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was 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 by us 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 taken as a whole.



Chickasha, Oklahoma
June 25, 2013

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND ACTIVITIES

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Net Assets
June 30, 2012

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit PVAA
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,829,698	\$ 790,138	\$ 2,619,836	\$ 186,464
Investments	150,387	522,864	673,251	-
Receivables, net	963,403	287,918	1,251,321	18,840
Internal Balances	-	-	-	-
Inventory	-	-	-	33,715
Prepaid Expenses	40,487	34,640	75,127	-
<i>Total Current Assets</i>	<u>2,983,975</u>	<u>1,635,560</u>	<u>4,619,535</u>	<u>239,019</u>
Noncurrent Assets:				
Restricted Cash	463,249	43,008	506,257	-
Restricted Investments	-	130,842	130,842	-
Advance to Component Unit	38,500	-	38,500	-
Land and construction in progress	1,341,735	344,526	1,686,261	104,942
Other capital assets, net	15,480,211	25,139,916	40,620,127	3,586,564
Note issue costs, net	-	98,401	98,401	-
<i>Total Noncurrent Assets</i>	<u>17,323,695</u>	<u>25,756,693</u>	<u>43,080,388</u>	<u>3,691,506</u>
<i>Total Assets</i>	<u>20,307,670</u>	<u>27,392,253</u>	<u>47,699,923</u>	<u>3,930,525</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	70,655	53,869	124,524	-
Accrued Expenses	17,463	22,125	39,588	2,228
Accrued Interest Payable	8,201	91,628	99,829	-
Due to Depositors	-	122,119	122,119	-
Landfill closure and postclosure liability	-	66,568	66,568	-
Advance from Primary Government	-	-	-	40,900
AT&T 911 Fee Advances	83,215	-	83,215	-
Construction escrow in lieu of retainage	-	-	-	-
Capital Leases, Current Portion	142,506	100,320	242,826	-
Contract Payable, Current Portion	-	91,385	91,385	-
Notes Payable, Current Portion	-	325,691	325,691	-
Compensated Absences	169,260	78,467	247,727	-
<i>Total Current Liabilities</i>	<u>491,300</u>	<u>952,172</u>	<u>1,443,472</u>	<u>43,128</u>
Noncurrent Liabilities:				
Capital Leases/Contract/Notes Payable	339,203	8,701,610	9,040,813	-
<i>Total Liabilities</i>	<u>830,503</u>	<u>9,653,782</u>	<u>10,484,285</u>	<u>43,128</u>
<u>Net Assets</u>				
Invested in Capital Assets, net of related debt	16,340,237	16,363,837	32,704,074	3,691,506
Restricted:				
Nonexpendable endowment	50,000	-	50,000	-
Capital Projects	385,863	-	385,863	-
Economic Development	322,808	-	322,808	-
Culture and recreation	697,630	-	697,630	-
Cemetery	8,693	-	8,693	-
Unrestricted	1,671,936	1,374,634	3,046,570	195,891
<i>Total Net Assets</i>	<u>\$ 19,477,167</u>	<u>\$ 17,738,471</u>	<u>\$ 37,215,638</u>	<u>\$ 3,887,397</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Activities
For the Year Ending June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>			<u>Component Unit</u>
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Primary Government:								
Governmental Activities:								
General Government	\$ 661,038	\$ 25,143	\$ 28,439	\$ -	\$ (607,456)	\$ -	\$ (607,456)	\$ -
Public Safety	2,066,823	196,263	7,981	16,560	(1,846,019)	-	(1,846,019)	-
Culture, Parks and Recreation	1,630,653	561,440	7,195	597,162	(464,856)	-	(464,856)	-
Streets	841,688	-	49,120	-	(792,568)	-	(792,568)	-
Cemetery	205,141	48,750	-	-	(156,391)	-	(156,391)	-
Airport (payments for Airport Auth)	26,254	-	-	-	(26,254)	-	(26,254)	-
Economic Development	115,640	-	-	-	(115,640)	-	(115,640)	-
Interest on Long-term Debt	12,383	-	-	-	(12,383)	-	(12,383)	-
<i>Total Governmental Activities</i>	<u>5,559,620</u>	<u>831,596</u>	<u>92,735</u>	<u>613,722</u>	<u>(4,021,567)</u>	<u>-</u>	<u>(4,021,567)</u>	<u>-</u>
Business-Type Activities:								
Water	1,508,852	1,357,019	-	-	-	(151,833)	(151,833)	-
Sewer	443,640	393,391	-	-	-	(50,249)	(50,249)	-
Sanitation	978,451	1,213,153	-	-	-	234,702	234,702	-
Lake	172,518	61,002	-	-	-	(111,516)	(111,516)	-
Administration	508,488	-	-	-	-	(508,488)	(508,488)	-
<i>Total Business-Type Activities</i>	<u>3,611,949</u>	<u>3,024,565</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(587,384)</u>	<u>(587,384)</u>	<u>-</u>
<i>Total Primary Government</i>	<u>9,171,569</u>	<u>3,856,161</u>	<u>92,735</u>	<u>613,722</u>	<u>(4,021,567)</u>	<u>(587,384)</u>	<u>(4,608,951)</u>	
Component Unit:								
Airport Authority	501,704	321,133	-	-	-	-	-	(180,571)
<i>Total Component Unit</i>	<u>501,704</u>	<u>321,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(180,571)</u>
General Revenues:								
Taxes:								
Sales and Use Taxes					5,222,643	-	5,222,643	-
Franchise Taxes					376,083	-	376,083	-
Hotel/Motel Taxes					222,634	-	222,634	-
E-911 Taxes					26,489	-	26,489	-
Advalorem Taxes					151,031	-	151,031	-
Intergovernmental Revenue					259,086	-	259,086	-
Investment Income					7,099	8,731	15,830	259
Miscellaneous					76,190	44,100	120,290	156
Payments from Primary Government					(401,213)	-	(401,213)	401,213
Transfers - Internal Activity					(1,111,134)	1,111,134	-	-
<i>Total General Revenues and Transfers</i>					<u>4,828,908</u>	<u>1,163,965</u>	<u>5,992,873</u>	<u>401,628</u>
<i>Change in Net Assets</i>					807,341	576,581	1,383,922	221,057
<i>Net Assets - Beginning, restated</i>					<u>18,669,826</u>	<u>17,161,890</u>	<u>35,831,716</u>	<u>3,666,340</u>
<i>Net Assets - Ending</i>					<u>\$ 19,477,167</u>	<u>\$ 17,738,471</u>	<u>\$ 37,215,638</u>	<u>\$ 3,887,397</u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 690,637	\$ 1,139,061	\$ 1,829,698
Restricted cash and cash equivalents		463,249	463,249
Investments		150,387	150,387
Receivables:			
Interest		226	226
Accounts	174,253		174,253
Taxes	739,975	48,949	788,924
Due from other funds		934	934
Prepaid expenses	36,791	3,696	40,487
Advance to component unit	38,500	-	38,500
	<u>1,680,156</u>	<u>1,806,502</u>	<u>3,486,658</u>
<i>Total Assets</i>			
Liabilities			
Accounts payable	62,248	8,407	70,655
Accrued liabilities	17,463		17,463
Due to other funds		934	934
AT&T 911 fee advances			-
Deferred revenue	66,281	83,215	149,496
	<u>145,992</u>	<u>92,556</u>	<u>238,548</u>
<i>Total Liabilities</i>			
Fund Balances			
Nonspendable	75,291	50,000	125,291
Restricted		1,414,994	1,414,994
Committed			-
Assigned	779,142	248,952	1,028,094
Unassigned	679,731		679,731
	<u>1,534,164</u>	<u>1,713,946</u>	<u>3,248,110</u>
<i>Total Fund Balances</i>			
<i>Total Liabilities and Fund Balances</i>	\$ <u>1,680,156</u>	\$ <u>1,806,502</u>	\$ <u>3,486,658</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 5,598,726	\$ 400,155	\$ 5,998,881
Intergovernmental	333,787	407,242	741,029
Charges for services	619,633	16,258	635,891
Fines and forfeitures	166,436	25	166,461
Licenses and permits	25,143		25,143
Investment income	1,778	5,319	7,097
Miscellaneous	68,241	232,463	300,704
<i>Total Revenues</i>	<u>6,813,744</u>	<u>1,061,462</u>	<u>7,875,206</u>
Expenditures			
Current:			
Administration	897,385		897,385
Police	1,027,213	4,898	1,032,111
Fire	651,282		651,282
Emergency 911		53,121	53,121
Streets	565,365		565,365
Shop	45,101		45,101
Park	167,635		167,635
Cemetery	187,314		187,314
Golf	281,365		281,365
Library	117,590	7,830	125,420
Senior center	59,265	7,033	66,298
Airport	24,030	2,224	26,254
Aquatic	198,976		198,976
Recreation	401,331	3,600	404,931
Animal control	110,009		110,009
Economic development		130,990	130,990
Capital outlay	573,766	86,813	660,579
Debt service	152,255	2,924	155,179
<i>Total Expenditures</i>	<u>5,459,882</u>	<u>299,433</u>	<u>5,759,315</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,353,862</u>	<u>762,029</u>	<u>2,115,891</u>
Other Financing Sources (Uses)			
Proceeds from capital leases	287,652		287,652
Contributed capital revenue	250,405		250,405
Transfers in	353,893	187,935	541,828
Transfers out	(1,902,158)	(1,208)	(1,903,366)
Transfers to component unit	(21,600)	(379,613)	(401,213)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,031,808)</u>	<u>(192,886)</u>	<u>(1,224,694)</u>
Net Change in Fund Balances	322,054	569,143	891,197
Fund Balances - Beginning, restated	<u>1,212,110</u>	<u>1,144,803</u>	<u>2,356,913</u>
Fund Balances - Ending	<u>\$ 1,534,164</u>	<u>\$ 1,713,946</u>	<u>\$ 3,248,110</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds
June 30, 2012

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$ 3,248,110
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 funds:	16,821,946
Certain non-current assets are not available to pay current fund liabilities and, therefore, are deferred in the funds:	
Police fines receivable, net of allowance for doubtful accounts	66,281
Long-term liabilities are not due and payable from current period and, therefore are not reported in the funds:	
Capital lease obligations	(481,709)
Accrued compensated absences	(169,260)

Net assets of governmental activities	\$ <u><u>19,485,368</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ 891,197
Amounts reported for governmental activities on the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized in governmental funds	1,007,252
Depreciation expense	(919,301)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Deferred revenue	4,100
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease obligation principal payments	140,479
Capital lease proceeds	(287,652)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in accrued compensated absences	(31,051)

Change in net assets of governmental activities	\$ <u><u>805,024</u></u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

PROPRIETARY FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Pauls Valley Municipal Authority	Non-Major Enterprise Fund Sanitation Capital Improvement	Total Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 760,788	\$ 29,350	\$ 790,138
Investments	522,864	-	522,864
Accrued interest receivable	804	-	804
Accounts receivable, net	287,114	-	287,114
Due from other funds	-	-	-
Prepaid expenses	34,640	-	34,640
<i>Total Current Assets</i>	<u>1,606,210</u>	<u>29,350</u>	<u>1,635,560</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	43,008	-	43,008
Restricted investments	130,842	-	130,842
Land and construction in progress	344,526	-	344,526
Other capital assets, net of accumulated depreciation	25,139,916	-	25,139,916
Note issue costs, net of accumulated amortization	98,401	-	98,401
<i>Total Noncurrent Assets</i>	<u>25,756,693</u>	<u>-</u>	<u>25,756,693</u>
<i>Total Assets</i>	<u>27,362,903</u>	<u>29,350</u>	<u>27,392,253</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	53,869	-	53,869
Accrued liabilities	22,125	-	22,125
Accrued interest payable	91,628	-	91,628
Due to other funds	-	-	-
Due to depositors	122,119	-	122,119
Landfill closure and postclosure liability	66,568	-	66,568
Construction escrow in lieu of retainage	-	-	-
Capital lease obligations payable	100,320	-	100,320
Contract payable	91,385	-	91,385
Notes payable	325,691	-	325,691
Accrued compensated absences	78,467	-	78,467
<i>Total Current Liabilities</i>	<u>952,172</u>	<u>-</u>	<u>952,172</u>
Noncurrent Liabilities:			
Capital lease obligations payable	220,827	-	220,827
Contract payable	606,359	-	606,359
Notes payable	7,874,424	-	7,874,424
<i>Total Noncurrent Liabilities</i>	<u>8,701,610</u>	<u>-</u>	<u>8,701,610</u>
<i>Total Liabilities</i>	<u>9,653,782</u>	<u>-</u>	<u>9,653,782</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	16,363,837	-	16,363,837
Restricted	-	-	-
Unrestricted	1,345,284	29,350	1,374,634
<i>Total Net Assets</i>	<u>\$ 17,709,121</u>	<u>\$ 29,350</u>	<u>\$ 17,738,471</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ending June 30, 2012

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
Operating Revenues			
Charges for Services:			
Water revenue	\$ 1,339,713	\$ -	\$ 1,339,713
Sewer revenue	387,059	-	387,059
Sanitation revenue	1,186,972	7,609	1,194,581
Penalties	61,001	-	61,001
Lake revenue	42,211	-	42,211
<i>Total Operating Revenues</i>	<u>3,016,956</u>	<u>7,609</u>	<u>3,024,565</u>
Operating Expenses			
Water operations	603,917	-	603,917
Sewer operations	251,382	-	251,382
Sanitation operations	814,841	46	814,887
Administration	497,398	-	497,398
Water Distribution	213,949	-	213,949
Lake operations	122,155	-	122,155
Amortization expense	5,179	-	5,179
Depreciation expense	745,671	-	745,671
<i>Total Operating Expenses</i>	<u>3,254,492</u>	<u>46</u>	<u>3,254,538</u>
<i>Operating Income (Loss)</i>	<u>(237,536)</u>	<u>7,563</u>	<u>(229,973)</u>
Nonoperating Revenues (Expenses)			
Investment income	8,668	62	8,730
Interest expense and fiscal charges	(357,411)	-	(357,411)
Miscellaneous revenue	44,103	-	44,103
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(304,640)</u>	<u>62</u>	<u>(304,578)</u>
Net Income (Loss) Before Contributions and Transfers	(542,176)	7,625	(534,551)
Capital contributions	(250,405)	-	(250,405)
Contribution expense	1,714,252	-	1,714,252
Transfers in	(352,714)	-	(352,714)
Transfers out	-	-	-
<i>Change in Net Assets</i>	568,957	7,625	576,582
<i>Net Assets - Beginning, restated</i>	<u>17,140,164</u>	<u>21,725</u>	<u>17,161,889</u>
<i>Net Assets - Ending</i>	<u>\$ 17,709,121</u>	<u>\$ 29,350</u>	<u>\$ 17,738,471</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Cash Flows
Proprietary Funds
For the Year Ending June 30, 2012

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
Cash Flows From Operating Activities			
Receipts from customers	\$ 3,054,106	\$ 7,717	\$ 3,061,823
Vendors and others paid	(2,727,171)	(46)	(2,727,217)
Other receipts (payments)	3,052	-	3,052
<i>Net Cash Provided by Operating Activities</i>	<u>329,987</u>	<u>7,671</u>	<u>337,658</u>
Cash Flows From Noncapital Financing Activities			
Miscellaneous revenues	44,104	-	44,104
Transfers from other funds	1,277,764	459	1,278,223
Transfers to other funds	(226,224)	-	(226,224)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>1,095,644</u>	<u>459</u>	<u>1,096,103</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	(231,194)	-	(231,194)
Loss on disposal of asset	7,593	-	7,593
Proceeds from debt	197,324	-	197,324
Construction Escrow Repaid	(475,000)	-	(475,000)
Principal paid on long-term debt	(906,385)	-	(906,385)
Fiscal charges paid on long-term debt	(43,916)	-	(43,916)
Interest paid on long-term debt	(322,934)	-	(322,934)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(1,774,512)</u>	<u>-</u>	<u>(1,774,512)</u>
Cash Flows From Investing Activities			
Interest received	8,741	62	8,803
Increase in investments	(5,576)	-	(5,576)
<i>Net Cash Provided by Investing Activities</i>	<u>3,165</u>	<u>62</u>	<u>3,227</u>
<i>Net Increase in Cash and Cash Equivalents</i>	(345,716)	8,192	(337,524)
<i>Balance - Beginning of the Year</i>	<u>1,149,512</u>	<u>21,158</u>	<u>1,170,670</u>
<i>Balance - End of the Year</i>	<u><u>803,796</u></u>	<u><u>29,350</u></u>	<u><u>833,146</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(460,741)	7,562	(453,179)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	750,850	-	750,850
Changes in assets and liabilities:			
Receivables	37,147	109	37,256
Due from other funds	-	-	-
Prepaid expenses	(17,379)	-	(17,379)
Accounts payable and accrued expenses	17,058	-	17,058
Due to depositors	3,052	-	3,052
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 329,987</u>	<u>\$ 7,671</u>	<u>\$ 337,658</u>

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

FIDUCIARY FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Assets and Liabilities
Fiduciary Funds
For the Year Ending June 30, 2012

	<u>Agency Fund</u> <u>PV Special</u> <u>Ambulance Service</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ <u>314</u>
<i>Total Assets</i>	<u><u>314</u></u>
<u>Liabilities</u>	
Due to PV Hospital Authority	<u>314</u>
<i>Total Liabilities</i>	\$ <u><u>314</u></u>

See accompanying notes to basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Pauls Valley), its blended and discretely presented component units. This report includes all activities for which the City of Pauls Valley's City Council is fiscally responsible. In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units for which the City is financially accountable.

The City of Pauls Valley – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of Pauls Valley is an incorporated municipality with a population of approximately 6,150 located in central Oklahoma. The City is a Home Rule Charter form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

Blended Component Unit:

Pauls Valley Municipal Authority – that operates the water, wastewater, and sewer activities of the City (PVMA).

Discretely Presented Component Unit:

Pauls Valley Airport Authority – that operates the Municipal Airport activities (PVAA).

Each of these component units is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets, which are acquired or constructed with Authority debt, or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Inactive Component Unit:

Pauls Valley Urban Renewal Authority – that operated to identify dilapidated and/or abandoned structures and encourage the owners to rehabilitate the structures or purchase the structures using eminent domain. The Urban and Renewal Authority is financially inactive.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

1.B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). 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 government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

The City reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Aggregated Non-Major Governmental Funds:

Special Revenue Funds:

- Police Special Fund – accounts for a portion of court fine revenue and miscellaneous donations to be expended for police related expenditures.
- Cemetery Beautification Fund – accounts for miscellaneous donations and monument setting fees to be expended for the beautification of cemeteries.
- Senior Citizens Fund – accounts for revenues and expenditures of the senior citizens' program.
- 911 Account Fund – accounts for E-911 revenues legally restricted for E-911 services.
- CDBG Fund – accounts for revenues and expenditures of various Community Development Block Grants. This fund is currently inactive.
- Marianne Ewert Bequest Fund – accounts for investment income and principal restricted for park capital improvements.
- Cemetery Care Fund – accounts for 25% of all cemetery revenues of which 12.5% is legally restricted for cemetery capital improvements.
- PV Airport Projects Fund – accounts for grant revenues and expenditures related to airport improvement projects.
- Nora Sparks Warren Library Trust Fund – accounts for investment income and donations for library expenditures.
- Street Scape Fund – accounts for grant and donation revenues and expenditures related to the streetscape project.
- TIF Fund – accounts for revenues of ad valorem tax increments generated in the increment district boundaries to be expended for expenses of the Pauls Valley Economic Development Project Plan.
- Tourism/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for the promotion of tourism.
- Community Center Fund – accounts for donations and grants to be expended for the community center.

Proprietary Funds

Major Enterprise Fund:

- Pauls Valley Municipal Authority – operates the water, sewer, and sanitation services of the City (blended component unit).

Non-Major Enterprise Fund:

- Sanitation Capital Improvement Fund – accounts for a \$.25 fee assessed and collected from sanitation customers to be expended on capital improvements of the City's sanitation service.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital 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 the enterprise fund 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.

1.D. Assets, Liabilities and Fund Equity

Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component units, are reported at cost.

Inventories - The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase. The Pauls Valley Airport Authority has fuel inventory that is recorded at cost using the first-in/first-out method.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These costs are allocated to expense as used or consumed or with the passage of the applicable time period.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenue such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Billed and unbilled utility accounts receivable comprise the majority of the receivables. All such receivables are shown net of an allowance for uncollectible accounts.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Capital Assets - Capital assets consist of land, construction in progress, building, improvements, machinery and equipment, and infrastructure. Recorded assets are reported at actual or estimated historical cost. A capitalization threshold of \$3,500 is used to report capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Prior to July 1, 2001, governmental activities' infrastructure assets were not capitalized. These assets have not been valued or recorded as capital assets. Only infrastructure additions subsequent to July 1, 2001, have been included in the balances of capital assets.

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The depreciable capital assets of the primary government and the Pauls Valley Airport Authority are depreciated on a straight-line basis over useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 50 years
- Improvements other than buildings 20-30 years
- Machinery, furniture and equipment 5-24 years
- Utility property and improvements 15-50 years
- General Infrastructure 15-50 years

Due to Depositors - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time in varying amounts according to policies and contracts. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

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. Note issuance costs are deferred and amortized over the life of the debt using the straight-line method.

Equity Classifications - In the government-wide and proprietary fund financial 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 attributed to the acquisition, construction, or improvements 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 and 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.”

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements fund equity is classified as fund balance. Since the City implemented GASB 54 in the current fiscal year, fund balance is further classified as follows:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority, (i.e. ordinance).
- d. *Assigned* – includes amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's policy that the order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Negative amounts shall not be reported for restricted, committed, or assigned funds.

1.E. Fund Balance Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City had no negative fund balances for the year ended June 30, 2012.

1.F. Sales Tax Revenue

Sales Tax - The City presently levies a four-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. Three cents is recorded in the General Fund and the remaining one-cent is recorded in the One Cent Sales Tax Fund. The City is required to transfer one cent of its General Fund three-cent sales tax to the PVMA for debt retirement of the 2008 OWRB note and a lease-purchase agreement with Pauls Valley National Bank.

1.G. Tax Incremental Financing (TIF)

TIF is a method of obtaining financing using future gains in taxes to finance current improvements which will create the conditions for those gains. When a public project is carried out, the increase in the value of surrounding real estate, and perhaps new investment, generates increased property tax revenues dedicated to finance debt issued to pay for the project. The City uses TIF to stimulate economic development. The TIF Fund is used to account for the advalorem tax received from Garvin County for payment of project costs until the expiration of the TIF district on December 31, 2022.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

1.H. Use of Estimates

In preparing the City of Pauls Valley's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Detailed Notes on all Funds

2.A. Deposits and Investments Risk

At June 30, 2012, the primary government reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>
Deposits:	
Demand deposits	\$ 3,126,092
Time deposits	<u>804,094</u>
Total Deposits	<u>\$ 3,930,186</u>
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 2,672,477
 Investments	 673,251
Restricted Cash and cash equivalents	453,616
Restricted Investments	<u>130,842</u>
Total Cash and Investments	<u>\$ 3,930,186</u>

Custodial Credit Risk - Deposits – Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does have a written deposit policy for custodial credit risk that requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2012, the City was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The City does have a written investment policy that limits its investment choices according to the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest 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 deposits 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 judgements, 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.

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.

As of June 30, 2012, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Investment Interest Rate Risk – The City does have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase. All certificates of deposit have maturities of one year or less.

Concentration of Investment Credit Risk – The City places no limit on the amount it may invest in any one issuer.

Discretely Presented Component Unit:

Pauls Valley Airport Authority

Custodial Credit Risk - Deposits – As of June 30, 2012, the Authority was not exposed to custodial credit risk as defined above.

2.B. Restricted Assets

Amounts reported as restricted assets in the governmental fund Statement of Net Assets are comprised of AT&T 911 fees received in advance and funds for the Community Center project maintenance, repair and equipment and Community Center donations for swimming pool; and in the proprietary fund Statement of Net Assets are comprised of amounts due to depositors related to utility deposits. The restricted assets as of June 30, 2012 were as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
AT&T 911 Fee Advances	\$ 83,215	\$ -
Community Center Maintenance	327,393	-
Community Center Pool	52,641	-
Utility Deposits	<u>43,008</u>	<u>130,842</u>
Total Restricted Assets	<u>\$ 506,257</u>	<u>\$ 130,842</u>

2.C. Receivables

Accounts receivable consist of customer utilities services provided, both billed and unbilled, due at year-end, reported net of allowance for uncollectible amounts, in the enterprise fund and taxes and police fines in the governmental funds. Interest receivable on investments is also recorded. Receivables as of June 30, 2012, including the applicable allowances for uncollectible accounts are as follows:

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Discretely Presented CU PVAA</u>
Interest	\$ 226	\$ 804	\$ 1,030	\$ -
Police Fines	571,778	-	571,778	-
Accounts	-	249,458	249,458	20,048
Unbilled Accounts	-	46,420	46,420	-
Taxes	<u>788,924</u>	<u>-</u>	<u>788,924</u>	<u>-</u>
Gross Receivables	1,360,928	296,682	1,657,610	20,048
Less: Allowance for Uncollectibles	<u>(397,526)</u>	<u>(8,765)</u>	<u>(406,291)</u>	<u>(1,208)</u>
Net Total Receivables	<u>\$ 963,402</u>	<u>\$ 287,917</u>	<u>\$ 1,251,319</u>	<u>\$ 18,840</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

2.D. Capital Assets

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

<u>Primary Government</u>	<u>Balance</u>			<u>Balance</u>
	<u>6/30/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/12</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 721,981	\$ -	\$ -	\$ 721,981
Construction in progress	<u>348,859</u>	<u>450,391</u>	<u>179,496</u>	<u>619,754</u>
Total capital assets, not being depreciated	<u>1,070,840</u>	<u>450,391</u>	<u>179,496</u>	<u>1,341,735</u>
Capital assets, being depreciated:				
Buildings	12,703,615	7,033	-	12,710,648
Improvements	3,797,135	284,773	-	4,081,908
Machinery, furniture and equipment	4,445,008	561,948	-	5,006,956
Infrastructure	<u>237,579</u>	<u>-</u>	<u>-</u>	<u>237,579</u>
Total capital assets, being depreciated	<u>21,183,337</u>	<u>853,754</u>	<u>-</u>	<u>22,037,091</u>
Less accumulated depreciation for:				
Buildings	1,401,943	304,456	-	1,706,399
Improvements	1,045,615	282,866	-	1,328,481
Machinery, furniture and equipment	3,141,464	324,013	-	3,465,477
Infrastructure	<u>48,557</u>	<u>7,966</u>	<u>-</u>	<u>56,523</u>
Total accumulated depreciation	<u>5,637,579</u>	<u>919,301</u>	<u>-</u>	<u>6,556,880</u>
Total capital assets, being depreciated, net	<u>15,545,758</u>	<u>(65,547)</u>	<u>-</u>	<u>15,480,211</u>
Governmental activities capital assets, net	<u>\$16,616,598</u>	<u>\$ 384,844</u>	<u>\$ 179,496</u>	<u>\$16,821,946</u>
Business-Type Activities:				
	<u>Restated</u>			<u>Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/12</u>
	<u>6/30/11</u>			
Capital assets, not being depreciated:				
Land	\$ 344,526	\$ -	\$ -	\$ 344,526
Construction in progress	<u>11,465,840</u>	<u>-</u>	<u>11,465,840</u>	<u>-</u>
Total capital assets, not being depreciated	<u>11,810,366</u>	<u>-</u>	<u>11,465,840</u>	<u>344,526</u>
Capital assets, being depreciated:				
Buildings	290,305	-	-	290,305
Improvements	2,665,296	11,465,840	-	14,131,136
Machinery, furniture and equipment	2,637,384	227,399	119,500	2,745,283
Utility property	<u>34,253,540</u>	<u>3,795</u>	<u>-</u>	<u>34,257,335</u>
Total capital assets, being depreciated	<u>39,846,525</u>	<u>11,697,034</u>	<u>119,500</u>	<u>51,424,059</u>
Less accumulated depreciation for:				
Buildings	98,234	12,496	-	110,730
Improvements	746,830	83,393	-	830,223
Machinery, furniture and equipment	2,105,205	160,359	72,696	2,192,868
Utility property	<u>22,660,899</u>	<u>489,423</u>	<u>-</u>	<u>23,150,322</u>
Total accumulated depreciation	<u>25,611,168</u>	<u>745,671</u>	<u>-</u>	<u>26,284,143</u>
Total capital assets, being depreciated, net	<u>14,235,357</u>	<u>10,951,363</u>	<u>-</u>	<u>25,139,916</u>
Business-type activities capital assets, net	<u>\$26,045,723</u>	<u>\$10,951,363</u>	<u>\$11,465,840</u>	<u>\$25,484,442</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Discretely Presented Component Unit

	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/12</u>
Pauls Valley Airport Authority:				
Capital assets, not being depreciated:				
Land	\$ 94,942	\$ -	\$ -	\$ 94,942
Construction in progress	<u>70,212</u>	<u>379,612</u>	<u>439,824</u>	<u>10,000</u>
Total capital assets, not being depreciated	<u>165,154</u>	<u>379,612</u>	<u>439,824</u>	<u>94,942</u>
Capital assets, being depreciated:				
Buildings	520,090	-	-	520,090
Improvements	4,915,630	439,824	-	5,355,454
Machinery, furniture and equipment	<u>265,436</u>	<u>-</u>	<u>-</u>	<u>265,436</u>
Total capital assets, being depreciated	<u>5,701,156</u>	<u>439,824</u>	<u>-</u>	<u>6,140,980</u>
Less accumulated depreciation for:				
Buildings	262,034	35,885	-	297,919
Improvements	1,871,027	147,947	-	2,018,974
Machinery, furniture and equipment	<u>228,799</u>	<u>8,725</u>	<u>-</u>	<u>237,524</u>
Total accumulated depreciation	<u>2,361,860</u>	<u>192,557</u>	<u>-</u>	<u>2,554,417</u>
Total capital assets, being depreciated, net	<u>3,339,296</u>	<u>247,267</u>	<u>-</u>	<u>3,586,563</u>
Governmental activities capital assets, net	<u>\$ 3,504,450</u>	<u>\$ 626,879</u>	<u>\$ 439,824</u>	<u>\$ 3,691,505</u>

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

Governmental Activities:

General Government	\$ 82,670
Public Safety	200,532
Culture, Parks and Recreation	396,370
Streets	225,646
Cemetery	<u>14,083</u>
Total depreciation expense - governmental activities	<u>\$ 919,301</u>

Business-Type Activities:

Water	\$ 330,691
Sewer	170,411
Sanitation	152,443
Administration	11,090
Water Distribution	30,673
Lake	<u>50,363</u>
Total depreciation expense - business-type activities	<u>\$ 745,671</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

2.E. Long-Term Debt

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2012, the long-term debt payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$462,337 lease obligation with Oshkosh Capital for an aerial ladder truck, payable in annual installments of \$58,752, final payment due August 2014 with interest at 4.69%	160,931
\$146,188 lease obligation with Oshkosh Capital for a tanker truck, payable in annual installments of \$18,689, final payment due October 2014 with interest at 4.69%	51,191
\$41,808 lease obligation with National City for a reelmaster mower, payable in monthly installments of \$702, final payment due April 2015 with interest at 5.50%	21,120
\$111,029 lease obligation with Ford Capital for three Police Tahoes, payable in annual installments of \$39,186, final payment due February 2014 with interest at 6.0%	71,843
\$176,623 lease obligation with Pauls Valley National Bank for a fire rescue truck payable in monthly installments of \$3,213, final payment due June 2017 with interest at 3.567%.	<u>176,623</u>
Total Capital Lease Obligations	<u>\$ 481,708</u>
Current portion	142,706
Non-current portion	<u>339,203</u>
Total Capital Lease Obligations	<u>\$ 481,709</u>

Business-Type Activities – As of June 30, 2012, long-term debt payable from proprietary fund resources consisted of the following:

Capital Lease Obligations:

\$193,529 lease obligation with PVNB for a 2012 Peterbuilt payable in monthly installments of \$5,714, final payment due August 2014 with interest at 4.0%	142,086
\$175,800 lease obligation with Caterpillar Financial for a Caterpillar 930H, payable in monthly installments of \$2,474, final payment due March 2015 with interest at 3.90%	122,128
\$91,270 lease obligation with Welch State Bank for a Caterpillar backhoe, payable in monthly installments of \$1,148, final payment due March 2017	

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

with interest at 5.339%	<u>57,068</u>
Total Capital Lease Obligations	<u>\$ 321,282</u>
Current portion	100,320
Non-current portion	<u>220,962</u>
Total Capital Lease Obligations	<u>\$ 321,282</u>

Notes Payable:

\$900,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues, payable in semi-annual installments, final payment due March 2025 with interest at 2.60%, all funds had not been drawn as of June 30, 2010	671,917
\$10,325,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2030 with interest at 3.29%, all funds had not been drawn as of June 30, 2010	<u>7,528,198</u>
Total Notes Payable	<u>\$ 8,200,115</u>
Current portion	325,691
Non-current portion	<u>7,874,424</u>
Total Notes Payable	<u>\$ 8,200,115</u>

Contract Payable:

\$1,051,600 face amount, noninterest bearing contract payable to Garvin County RWD#4 for certain water infrastructure, payable monthly as a reduction of the sellers account receivable utility account, final payment due March 2019 with imputed interest at 4.18%, (less unamortized discount based on imputed interest rate - \$172,086), See also contingent liability note.	697,744
Current portion	91,386
Non-current portion	<u>606,358</u>
Total Contract Payable	<u>\$ 697,744</u>

The assets acquired through capital leases are as follows:

Governmental Activities:	
Machinery, furniture and equipment	\$ 979,866
Buildings	1,665,172
Less: accumulated depreciation	<u>(598,489)</u>
Total	<u>\$ 2,046,549</u>
 Business-Type Activities:	
Machinery, furniture and equipment	\$ 460,596
Less: accumulated depreciation	<u>(142,351)</u>
Total	<u>\$ 318,245</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

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

	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/12</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital Lease Obligations	\$ 334,536	\$ 287,652	\$ 140,480	\$ 481,709	\$ 142,506
Compensated Absences	<u>138,208</u>	<u>12,432</u>	<u>-</u>	<u>169,260</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 472,744</u>	<u>\$ 12,432</u>	<u>\$ 649,803</u>	<u>\$ 650,969</u>	<u>\$ 142,506</u>
Business-Type Activities:					
Capital Lease Obligations	\$ 256,191	\$ 193,529	\$ 128,573	\$ 321,147	\$ 100,319
Notes Payable	8,925,078	-	724,964	8,200,115	325,691
Contract Payable	786,005	3,795	92,055	697,744	91,386
Compensated Absences	<u>54,221</u>	<u>24,246</u>	<u>-</u>	<u>78,467</u>	<u>-</u>
Total Long-term Liabilities	<u>\$10,021,495</u>	<u>\$ 221,570</u>	<u>\$ 945,592</u>	<u>\$ 9,297,473</u>	<u>\$ 517,396</u>

Annual debt service requirements to maturity are as follows:

Governmental Activities:	<u>Capital Lease Obligation</u>						
	<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>				
	2013	\$ 142,506	\$ 21,100				
	2014	149,431	14,181				
	2015	115,403	6,917				
	2016	36,532	2,026				
	2017	<u>37,836</u>	<u>723</u>				
	Total	<u>\$ 481,709</u>	<u>\$ 44,955</u>				
Business-Type Activities:	<u>Capital Lease Obligation</u>		<u>Notes Payable</u>		<u>Contract Payable</u>		
	<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2013	\$ 100,320	\$ 11,712	\$ 325,691	\$ 308,600	\$ 91,386	\$ 27,430
	2014	104,552	7,483	341,822	296,383	95,282	23,534
	2015	93,903	3,633	352,988	283,563	99,342	19,474
	2016	12,838	938	364,145	270,373	103,575	15,241
	2017	9,669	232	380,432	256,579	107,988	10,828
	2018-2022	-	-	2,132,166	1,057,280	200,171	7,759
	2023-2027	-	-	2,554,673	626,087	-	-
	2028-2032	-	-	<u>1,885,000</u>	<u>145,631</u>	-	-
	Total	<u>\$ 321,282</u>	<u>\$ 23,998</u>	<u>\$ 8,336,917</u>	<u>\$3,244,496</u>	<u>\$ 697,744</u>	<u>\$ 104,266</u>
		Amount remaining to be drawn		<u>(136,802)</u>			
				<u>\$ 8,200,115</u>			

Interest expense was charged to functions as follows in the Statement of Activities:

Business-Type Activities:	
Water	\$ 324,443
Sewer	21,847
Sanitation	<u>11,121</u>
Total	<u>\$ 357,411</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Utility Revenues Pledged

The City has pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay \$900,000 in a promissory note to OWRB-Series 2004 CWSRF Bonds and \$10,325,000 in a promissory note to OWRB-Series 2008 DWSRF Bonds, the Series 2008 note has not been fully drawn down as of June 30, 2012. Proceeds from the 2004 note provided financing for sewer system improvements and the 2008 note for water system improvements. The notes are payable from water, sewer, and sanitation customer net revenues and future sales tax revenue (discussed below) and are payable through 2027 and 2031, respectively. The total principal and interest payable for the remainder of the life of these notes are \$11,444,611. Total customer net revenues for the current year were \$522,744. Debt service payments of \$1,052,917 for the current fiscal year were 201.42% of the net water, sewer and sanitation utility revenues.

Sales Tax Revenues Pledged

The City has pledged one half of one cent sales tax revenues to repay \$10.325 million in a promissory note to OWRB issued January 2008. This note has not been fully drawn down as of June 30, 2012. Proceeds from the note provided financing for water system improvements. The note is payable from future sales tax revenue and net utility revenue (discussed above). The total principal and interest remaining to be paid on the note is \$11,444,611, payable through September 2031. Pledged sales tax received in the current year was \$550,573. Debt Service payments of \$1,052,917 for the current fiscal year were 191.2% of pledged sales taxes.

Debt Service Coverage Requirement:

The OWRB debt agreement requires that Net Revenue Available for Debt Service must equal 1.25 times annual debt service requirements in each fiscal year. Actual coverage was as follows:

	OWRB Series 2008 <u>DWSRF</u>	OWRB Series 2004 <u>CWSRF</u>	OWRB Series 2008 <u>DWSRF</u>	OWRB Series 2004 <u>CWSRF</u>
Net Revenue Available for Debt Service:				
Operating Revenues	\$ 3,016,956	\$ 3,016,956	\$ 3,016,956	\$ 3,016,956
Less lake revenue	<u>(42,211)</u>	<u>(42,211)</u>	<u>(42,211)</u>	<u>(42,211)</u>
Total Operating Revenue	2,974,745	2,974,745	2,974,745	2,974,745
Operating Expenses	3,331,933	3,331,933	3,331,933	3,331,933
Less lake expenses	(122,155)	(122,155)	(122,155)	(122,155)
Less administration expenses-lake	(6,927)	(6,927)	(6,927)	(6,927)
Less depreciation and amortization	<u>(750,850)</u>	<u>(750,850)</u>	<u>(750,850)</u>	<u>(750,850)</u>
Total Operating Expenses	2,452,001	2,452,001	2,452,001	2,452,001
Sales tax transfer required	594,111	594,111	594,111	594,111
Sales tax transfer additionally received	<u>594,111</u>	<u>-</u>	<u>594,111</u>	<u>-</u>
Net Revenues Available for Debt Service	<u>\$ 1,710,967</u>	<u>\$ 522,744</u>	<u>\$ 1,710,967</u>	<u>\$ 522,744</u>
Debt Service Requirements:				
Annual debt service payments – OWRB Series 2004	62,163	62,163	62,163	62,163
Annual debt service payments – OWRB Series 2008	990,754	990,754		
Debt Srv Requirements after Accelerated Principal Pmts:				
Maximum Annual payments – OWRB Series 2008	<u>-</u>	<u>-</u>	<u>584,923</u>	<u>584,923</u>
Total Debt Service Requirements	<u>\$ 1,052,917</u>	<u>\$ 1,052,917</u>	<u>\$ 647,086</u>	<u>\$ 647,086</u>
Coverage	<u>163%</u>	<u>50%</u>	<u>265%</u>	<u>81%</u>
Coverage without additional ½ sales tax	<u>106%</u>		<u>175%</u>	
Coverage Requirement	<u>125%</u>	<u>125%</u>	<u>125%</u>	<u>125%</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Note: Operating revenues and expenses include only the following leased systems: water, sewer, and sanitation. Debt service coverage is adequate for the current year (see column 1 and 2) despite the accelerated principal payments. There are no future accelerated principal payments. In the future the coverage appears to be adequate by including the ½ cent sales tax pledged by the OWRB Series 2008 note. The 2004 debt coverage is inadequate, but the 2008 sales tax pledging requirement enables the City to comply.

2.F. Landfill Closure and Post Closure Requirements

A \$66,568 accrued liability has been recognized in Pauls Valley Municipal Authority to represent the total estimated amount owed by the Authority for closure and post closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 11.19% of the estimated capacity of the landfill. It is estimated that an additional \$594,820 will be recognized as closure and post closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in April 2087. The estimated remaining landfill life is 76 years.

2.G. Interfund Receivables, Payables, and Transfers

Reconciliation to Statement of Net Assets:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Activities	\$ 0	\$ 0	\$ 0
Business-Type Activities	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Transfers between funds and legal entities are comprised of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
One Cent Sales Tax Fund	General Fund	\$ 288,522	Operating subsidy
General Fund	Police Special Fund	4,864	Transfer of court fine revenue
Animal Control	General Fund	674	Close out account
PVMA	General Fund	104,642	Debt Service
PVMA	General Fund	352,714	Operating subsidy
PVMA	General Fund	145,763	Purchase capital assets
General Fund	PVMA	1,188,223	Sales tax transfer
General Fund	PVMA	90,000	To fund capital purchases
General Fund	PV Airport Authority	21,600	Operating subsidy
General Fund	911 Account Fund	34,582	Operating subsidy
Streetscape fund	PVMA	29	Close out account
Streetscape fund	General Fund	965	Close out account
One Cent Sales Tax Fund	Community Center Fd	80,004	Per grant agreement
One Cent Sales Tax Fund	Airport Projects	68,485	For project expenses
One Cent Sales Tax Fund	PVMA	436,000	Debt payments
Marianne Ewert Fund	Rose Garden Fund	107	Transfer of interest income
Marianne Ewert Fund	Wacker Park Fund	107	Transfer of interest income
		<u>\$ 2,844,482</u>	

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 541,828	\$ (1,903,366)	\$ (1,361,538)
Enterprise Funds	<u>1,714,252</u>	<u>(352,714)</u>	<u>1,361,538</u>
Total	<u>\$ 2,256,080</u>	<u>\$ (2,256,080)</u>	<u>\$ -</u>

Reconciliation to Statement of Activities – governmental and business-type activities:

Net transfers	\$ 1,361,538
Capital assets paid for governmental funds	(145,763)
Payment of governmental debt by business-type activities	<u>(104,642)</u>
Transfers – Internal Activity	<u>\$ 1,111,133</u>

Reconciliation to Statement of Activities – primary government and component units:

Transfers from general fund to component unit-PVAA at the fund level	\$ 21,600
Record assets from Airport Project Fund to PVAA	<u>379,613</u>
Payments from primary government	<u>\$ 401,213</u>

2.H. Fund Equity/Net Assets

Prior Period Adjustment - Adjustments were made to beginning net assets and/or fund balances to reflect the cumulative effect of changes in accounting principles, correction of errors, and /or changes in accounting estimates as follows:

	<u>Discretely Presented PVAA</u>	<u>Governmental Activities</u>
Beginning net assets (as previously reported)	\$ 3,684,719	\$ 18,651,447
Prior period adjustments for corrections of errors:		
Reclass to Airport Project Fund	(18,379)	18,379
	<u>-</u>	<u>-</u>
Beginning net assets, restated	<u>\$ 3,666,340</u>	<u>\$ 18,669,826</u>
	<u>Proprietary PVMA</u>	
Beginning net assets (as previously reported)	\$ 17,133,112	
Prior period adjustments for corrections of errors:		
Record asset acquired in prior period	7,052	
Beginning net assets, restated	<u>\$ 17,140,164</u>	

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Governmental Fund Balances – Fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54 is as follows:

	General	Other	
	Fund	Governmental	
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
<i>Fund Balance:</i>			
Nonspendable:			
Nonexpendable Perm. Endowment-Parks	-	50,000	50,000
Prepaid expenses	36,791		36,791
Long-term receivable	38,500	-	38,500
Restricted for:			
Cemetery	-	8,693	8,693
Senior Citizens	-		
Library	-	246,948	246,948
TIF District	-	385,863	385,863
Economic Dev	-	322,808	322,808
Community Center	-	450,683	450,683
Assigned to:			
Police	-	33,711	33,711
Animal Control	-	-	-
Parks and Recreation	65,352	31	65,383
TIF District		168	168
Economic Dev	-	4,142	4,142
Library	-	56,949	56,949
911	-	6,172	6,172
Cemetery	-	49,362	49,362
Senior Citizens	-	2,597	2,597
Airport	-	85,786	85,786
Community Center	-	10,035	10,035
Other Purposes	713,789	-	713,789
Unassigned	679,731		679,731
<i>Total Fund Balance</i>	<i>1,534,163</i>	<i>1,713,940</i>	<i>3,248,103</i>

Net Assets Restricted by Enabling Legislation - The government wide statement of net assets reports \$1,425,151 of restricted net assets, of which \$717,364 is restricted by enabling legislation.

Enabling Legislation:	
Cemetery Care Fund	\$ 8,693
TIF Fund	385,863
Tourism/Motel Tax Fund	<u>322,808</u>
Total	<u>\$ 717,364</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Note 3 - Other Notes

3.A. Risk Management

The City and its public trusts are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Airport General Liability – Covered through purchase of commercial insurance.
- Workers’ Compensation – Workers’ compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.
- Employee’s Group Medical – Covered through purchase of commercial insurance.

The City’s risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claim reserves and other purposes for the benefit of the city. Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City, and such claims have not exceeded the coverage over the past three years.

3.B. Contingencies

Federal and State Award Programs - The City of Pauls Valley participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. 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.

Litigation - The City is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court-assessed judgement rendered against the City. This provision is not applicable to authorities or public trusts. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgements, the City feels that any settlement or judgement not covered by insurance would not have a material adverse effect on the financial condition of the City.

Commitments-Construction – At June 30, 2012, the City had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
BOSA Roof	\$ 88,639	\$ 88,639	General Fund
BOSA Lockers	10,713	10,713	General Fund
Reynolds Pool Architect	352,656	52,000	One-cent Sales Tax

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

After yearend the City obligated to the construction of the Reynolds Center Pool in an amount of approximately \$3,600,000

Contingent Liability – The City of Pauls Valley has a contract with Garvin County Rural Water District No. 4 for the purchase of certain water infrastructure. See Note 2.E. Contract Payable for consideration for sale of infrastructure. Additional consideration for industrial/commercial customers has not been determined as of June 30, 2012. This amount when determined shall be added to the contract payable and capital assets for water infrastructure.

Pauls Valley Municipal Hospital Authority – The hospital authority is a component of the City but has not had an audit performed in the last three years. Therefore, the hospital authority is not included in these financial statements. The hospital authority is going through bankruptcy, but the City is not liable for any of the hospital debts. However, the Pauls Valley Municipal Authority is borrowing \$1.5 million to assist in the operation of the hospital. Near the end of the 2012-13 fiscal year the hospital authority was been replaced with the same members as the City Council.

3.C. Pension Plans

The City of Pauls Valley participates in four pension or retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan
4. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan

Firefighters’ Retirement Plan – Pursuant to the requirements of Title 11, section 22-102, the City of Pauls Valley participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter’s Pension and Retirement System (OFPRS) on behalf of both paid and volunteer firefighters. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2012. Participating members are required to contribute 8%. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Schedule of Retirement Plan Contributions – OFPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$38,168	100%
2010	\$39,711	100%
2011	\$40,002	100%
2012	\$42,430	100%

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

Policemen’s Retirement Plan - The City of Pauls Valley participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS) on behalf of paid officers. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2012. Participating members are required to contribute 8%. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS issues a publicly available financial report that includes financial statements. That report may be obtained by writing to OPPRS, 1001 NW 63rd Street, Suite 605, Oklahoma City, OK 73116-7335.

Schedule of Retirement Plan Contributions – OPPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$50,886	100%
2010	\$55,267	100%
2011	\$52,717	100%
2012	\$57,084	100%

State On Behalf Payments – For the fiscal year June 30, 2012, the State of Oklahoma contributed estimated payments on behalf of City employees to the Oklahoma Firefighter Pension and Retirement System for \$86,900 and the Oklahoma Police Pension and Retirement System for \$49,600. State contributions are funded by allocations of the state’s insurance premium tax. The City is not legally responsible for these contributions.

Municipal Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the “Plan”) in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The defined contribution plan is available to all full-time employees not participating in another plan. Employees are eligible to participate three months from the date of employment. Employees are required to contribute at least 1% but no more than 4% of compensation. Employer contributions shall equal 100% of the total mandatory contributions by employees. City contributions for each employee begin vesting after two years of service and are fully vested after six years. If an employee terminates before becoming fully vested, the employer’s contributions are forfeited and may be used to reduce the City’s current period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

For the year ended June 30, 2012, employee contributions were \$52,801 and the employer contributions were \$47,415.

City Manager Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the “Plan”) in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The city manager is required to contribute to the Plan

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2012

3.5% of compensation. The City Council determines the City's contribution rate each year. However, the maximum contribution amount from employee and employer is limited to \$46,000. City contributions for the city manager begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council. For the year ended June 30, 2012, employee contributions were \$2,865 and the employer contributions were \$6,894.

UNAUDITED REQUIRED

SUPPLEMENTARY INFORMATION

CITY OF PAULS VALLEY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
General Fund
For the Year Ending June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ -	\$ -	\$ 428,123	\$ (428,123)
Resources (Inflows):				
Taxes	4,040,000	4,379,669	4,378,359	1,310
Intergovernmental	219,000	225,500	198,583	26,917
Charges for Services	742,500	531,600	616,883	(85,283)
Fines and Forfeitures	140,000	140,000	162,774	(22,774)
Licenses and Permits	26,000	26,000	23,873	2,127
Investment Income	3,000	3,000	460	2,540
Miscellaneous	85,000	50,000	60,091	(10,091)
Transfers In	276,163	427,042	427,042	-
Total Resources (Inflows)	<u>5,531,663</u>	<u>5,782,811</u>	<u>5,868,065</u>	<u>(85,254)</u>
Amounts available for appropriations	<u>5,531,663</u>	<u>5,782,811</u>	<u>6,296,188</u>	<u>(513,377)</u>
Charges to Appropriations (Outflows):				
Transfers	1,105,000	1,208,223	1,208,087	136
Administration	703,257	688,257	677,336	10,921
Police	976,310	1,041,310	1,036,597	4,713
Fire	552,485	590,485	583,965	6,520
Street	578,599	578,599	572,111	6,488
Shop	80,825	48,525	45,388	3,137
Park	164,094	189,094	182,635	6,459
Cemetery	152,408	199,909	194,737	5,172
Golf	338,599	356,599	352,057	4,542
Library	119,205	119,905	119,103	802
Senior Center	51,215	60,715	59,299	1,416
Airport	62,794	52,794	45,637	7,157
Aquatic	169,860	204,860	200,941	3,919
Recreation	323,660	406,260	404,445	1,815
Animal Control	108,665	117,665	115,824	1,841
Total Charges to Appropriations	<u>5,486,976</u>	<u>5,863,200</u>	<u>5,798,162</u>	<u>65,038</u>
Ending Budgetary Fund Balance	<u>\$ 44,687</u>	<u>\$ (80,389)</u>	<u>\$ 498,026</u>	<u>\$ (578,415)</u>
Reconciliation of Budget to GAAP				
Accruals			256,996	
Fund Balance - GAAP			<u>\$ 755,022</u>	

See Disclaimer in Independent Auditor's Report.

CITY OF PAULS VALLEY, OKLAHOMA
Notes to Budgetary Comparison Schedules
For the year Ended June 30, 2012

1. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with 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 (personal services, materials and supplies, other services, capital outlay, debt service 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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue												Total Nonmajor Governmental Funds
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Cemetery Care	PV Airport Projects	NSW Library Trust	Street Scape	Community Center	TIF	Tourism Motel Tax	
Assets													
Cash and Cash Equivalents	\$ 32,777	\$ 8,908	\$ 2,597	\$ 4,529	\$ 50,031	\$ 49,147	\$ 85,786	\$ 154,216	\$ -	\$ 87,145	\$ 363,155	\$ 300,770	\$ 1,139,061
Restricted Cash and Cash Equiv	-	-	-	83,215	-	-	-	-	-	380,034	-	-	463,249
Investments	-	-	-	-	-	-	-	150,387	-	-	-	-	150,387
Receivables:													
Interest	-	-	-	-	-	-	-	226	-	-	-	-	226
Taxes	-	-	-	1,643	-	-	-	-	-	22,876	24,430	-	48,949
Prepays	-	-	-	-	-	-	-	-	3,696	-	-	-	3,696
Due from Other Funds	934	-	-	-	-	-	-	-	-	-	-	-	934
<i>Total Assets</i>	<u>33,711</u>	<u>8,908</u>	<u>2,597</u>	<u>89,387</u>	<u>50,031</u>	<u>49,147</u>	<u>85,786</u>	<u>304,829</u>	<u>-</u>	<u>470,875</u>	<u>386,031</u>	<u>325,200</u>	<u>1,806,502</u>
Liabilities													
Accounts Payable	-	-	-	-	-	-	-	-	-	10,157	-	(1,750)	8,407
Due to Other Funds	-	-	-	-	-	-	-	934	-	-	-	-	934
AT&T 911 Fee Advances	-	-	-	83,215	-	-	-	-	-	-	-	-	83,215
<i>Total Liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>934</u>	<u>-</u>	<u>10,157</u>	<u>-</u>	<u>(1,750)</u>	<u>92,556</u>
Fund Balances													
Nonspendable	-	-	-	-	50,000	-	-	-	-	-	-	-	50,000
Restricted	-	8,693	-	-	-	-	-	246,947	-	450,683	385,863	322,808	1,414,994
Committed	-	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	33,711	215	2,597	6,172	31	49,147	85,786	56,948	-	10,035	168	4,142	248,952
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Total Fund Balances</i>	<u>33,711</u>	<u>8,908</u>	<u>2,597</u>	<u>6,172</u>	<u>50,031</u>	<u>49,147</u>	<u>85,786</u>	<u>303,895</u>	<u>-</u>	<u>460,718</u>	<u>386,031</u>	<u>326,950</u>	<u>1,713,946</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 33,711</u>	<u>\$ 8,908</u>	<u>\$ 2,597</u>	<u>\$ 89,387</u>	<u>\$ 50,031</u>	<u>\$ 49,147</u>	<u>\$ 85,786</u>	<u>\$ 304,829</u>	<u>\$ -</u>	<u>470,875</u>	<u>\$ 386,031</u>	<u>\$ 325,200</u>	<u>\$ 1,806,502</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue											Total Nonmajor Governmental Funds	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Cemetery Care	PV Airport Projects	NSW Library Trust	Street Scape	Community Center	TIF		Tourism Motel Tax
Revenues													
Taxes	\$ -	\$ -	\$ -	\$ 26,490	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,031	\$ 222,634	\$ 400,155	
Intergovernmental	16,560	-	2,859	-	-	-	380,628	7,195	-	-	-	407,242	
Charges for Services	-	-	-	10,536	-	5,722	-	-	-	-	-	16,258	
Fines and Forfeitures	25	-	-	-	-	-	-	-	-	-	-	25	
Investment Income	173	14	-	7	182	166	131	1,554	2,428	-	664	5,319	
Miscellaneous	14,476	1,400	53	-	-	-	-	92,908	123,626	-	-	232,463	
<i>Total Revenues</i>	<u>31,234</u>	<u>1,414</u>	<u>2,912</u>	<u>37,033</u>	<u>182</u>	<u>5,888</u>	<u>380,759</u>	<u>101,657</u>	<u>126,054</u>	<u>151,031</u>	<u>223,298</u>	<u>1,061,462</u>	
Expenditures													
Current:													
Police	4,898	-	-	-	-	-	-	-	-	-	-	4,898	
Emergency 911	-	-	-	53,121	-	-	-	-	-	-	-	53,121	
Library	-	-	-	-	-	-	-	7,830	-	-	-	7,830	
Senior Citizens	-	-	7,033	-	-	-	-	-	-	-	-	7,033	
Recreation	-	-	-	-	-	-	-	-	3,600	-	-	3,600	
Streets	-	-	-	-	-	-	-	-	-	-	-	-	
Economic Development	-	-	-	-	-	-	-	-	-	-	130,990	130,990	
Airport	-	-	-	-	-	-	2,224	-	-	-	-	2,224	
Capital Outlay	40,222	-	3,098	-	-	-	-	-	43,493	-	-	86,813	
Debt Service	-	-	-	-	-	2,924	-	-	-	-	-	2,924	
<i>Total Expenditures</i>	<u>45,120</u>	<u>-</u>	<u>10,131</u>	<u>53,121</u>	<u>-</u>	<u>2,924</u>	<u>2,224</u>	<u>7,830</u>	<u>47,093</u>	<u>-</u>	<u>130,990</u>	<u>299,433</u>	
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>(13,886)</u>	<u>1,414</u>	<u>(7,219)</u>	<u>(16,088)</u>	<u>182</u>	<u>2,964</u>	<u>378,535</u>	<u>93,827</u>	<u>-</u>	<u>78,961</u>	<u>151,031</u>	<u>92,308</u>	<u>762,029</u>
Other Financing Sources													
Transfers In	4,864	-	-	34,582	-	-	68,485	-	80,004	-	-	187,935	
Transfers Out	-	-	-	-	(213)	-	-	(995)	-	-	-	(1,208)	
Transfers to Component Unit	-	-	-	-	-	-	(379,613)	-	-	-	-	(379,613)	
<i>Total Other Financing Sources</i>	<u>4,864</u>	<u>-</u>	<u>-</u>	<u>34,582</u>	<u>(213)</u>	<u>-</u>	<u>(311,128)</u>	<u>-</u>	<u>80,004</u>	<u>-</u>	<u>-</u>	<u>(192,886)</u>	
Net Change in Fund Balances	(9,022)	1,414	(7,219)	18,494	(31)	2,964	67,407	93,827	(995)	158,965	151,031	92,308	569,143
Fund Balances - Beginning	42,733	7,494	9,816	(12,322)	50,062	46,183	18,379	210,068	995	301,753	235,000	234,642	1,144,803
Fund Balances - Ending	<u>\$ 33,711</u>	<u>\$ 8,908</u>	<u>\$ 2,597</u>	<u>\$ 6,172</u>	<u>\$ 50,031</u>	<u>\$ 49,147</u>	<u>\$ 85,786</u>	<u>\$ 303,895</u>	<u>\$ -</u>	<u>\$ 460,718</u>	<u>\$ 386,031</u>	<u>\$ 326,950</u>	<u>\$ 1,713,946</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
General Fund Accounts
June 30, 2012

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>One Cent Fund Account</u>	<u>Animal Control Fund Account</u>	<u>Total General Fund</u>
Assets							
Cash and cash equivalents	\$ 159,463	\$ 4,688	\$ 52,587	\$ 8,077	\$ 465,822	\$ -	\$ 690,637
Accounts receivable, net	86,300	-	-	-	87,953	-	174,253
Taxes receivable	579,960	-	-	-	160,015	-	739,975
Due from other funds	-	-	-	-	-	-	-
Prepaid expenses	36,791	-	-	-	-	-	36,791
Advance to component unit	38,500	-	-	-	-	-	38,500
<i>Total Assets</i>	<u>901,014</u>	<u>4,688</u>	<u>52,587</u>	<u>8,077</u>	<u>713,790</u>	<u>-</u>	<u>1,680,156</u>
Liabilities							
Accounts payable	62,248	-	-	-	-	-	62,248
Accrued liabilities	17,463	-	-	-	-	-	17,463
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	66,281	-	-	-	-	-	66,281
<i>Total Liabilities</i>	<u>145,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,992</u>
Fund Balances							
Nonspendable	75,291	-	-	-	-	-	75,291
Restricted	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-
Assigned	-	4,688	52,587	8,077	713,790	-	779,142
Unassigned	679,731	-	-	-	-	-	679,731
<i>Total Fund Balances</i>	<u>755,022</u>	<u>4,688</u>	<u>52,587</u>	<u>8,077</u>	<u>713,790</u>	<u>-</u>	<u>1,534,164</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 901,014</u>	<u>\$ 4,688</u>	<u>\$ 52,587</u>	<u>\$ 8,077</u>	<u>\$ 713,790</u>	<u>\$ -</u>	<u>\$ 1,680,156</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund Accounts
For the Year Ended June 30, 2012

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>One Cent Fund Account</u>	<u>Animal Control Fund Account</u>	<u>Eliminate Interaccount Balances</u>	<u>Total General Fund</u>
Revenues								
Taxes	\$ 4,400,036	\$ -	\$ -	\$ -	\$ 1,198,690	\$ -	\$ -	\$ 5,598,726
Intergovernmental	333,787	-	-	-	-	-	-	333,787
Charges for services	619,633	-	-	-	-	-	-	619,633
Fines and forfeitures	166,436	-	-	-	-	-	-	166,436
Licenses and permits	23,873	-	-	1,270	-	-	-	25,143
Investment income	460	7	80	12	1,219	-	-	1,778
Miscellaneous	60,116	-	7,670	455	-	-	-	68,241
<i>Total Revenues</i>	<u>5,604,341</u>	<u>7</u>	<u>7,750</u>	<u>1,737</u>	<u>1,199,909</u>	<u>-</u>	<u>-</u>	<u>6,813,744</u>
Expenditures								
Current:								
Administration	557,607	-	-	-	339,778	-	-	897,385
Police	1,027,213	-	-	-	-	-	-	1,027,213
Fire	651,282	-	-	-	-	-	-	651,282
Streets	565,365	-	-	-	-	-	-	565,365
Shop	45,101	-	-	-	-	-	-	45,101
Park	166,635	-	-	1,000	-	-	-	167,635
Cemetery	187,314	-	-	-	-	-	-	187,314
Golf	281,365	-	-	-	-	-	-	281,365
Library	117,590	-	-	-	-	-	-	117,590
Senior center	59,265	-	-	-	-	-	-	59,265
Airport	24,030	-	-	-	-	-	-	24,030
Aquatic	198,976	-	-	-	-	-	-	198,976
Recreation	401,331	-	-	-	-	-	-	401,331
Animal control	110,009	-	-	-	-	-	-	110,009
Capital outlay	573,766	-	-	-	-	-	-	573,766
Debt service	152,255	-	-	-	-	-	-	152,255
<i>Total Expenditures</i>	<u>5,119,104</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>339,778</u>	<u>-</u>	<u>-</u>	<u>5,459,882</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>485,236</u>	<u>7</u>	<u>7,750</u>	<u>737</u>	<u>860,131</u>	<u>-</u>	<u>-</u>	<u>1,353,861</u>
Other Financing Sources (Uses)								
Transfers in	642,875	107	107	-	-	-	(289,196)	353,893
Transfers out	(1,317,669)	-	-	-	(873,011)	(674)	289,196	(1,902,158)
Capital lease proceeds	287,652	-	-	-	-	-	-	287,652
Contributed income	250,405	-	-	-	-	-	-	250,405
Transfers to component unit	(21,600)	-	-	-	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(158,337)</u>	<u>107</u>	<u>107</u>	<u>-</u>	<u>(873,011)</u>	<u>(674)</u>	<u>-</u>	<u>(1,031,808)</u>
Net Change in Fund Balances	326,899	114	7,857	737	(12,880)	(674)	-	322,053
Fund Balances - beginning	428,123	4,574	44,730	7,340	726,669	674	-	1,212,110
Fund Balances - ending	\$ <u>755,022</u>	\$ <u>4,688</u>	\$ <u>52,587</u>	\$ <u>8,077</u>	\$ <u>713,789</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,534,163</u>

CITY OF PAULS VALLEY, OKLAHOMA
Schedule of Federal and State Awards
For the Year Ending June 30, 2012

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:					
FEMA HM Project 1678	\$ 23,400	\$ -	\$ 23,400	\$	\$ 23,400
Dept of Justice 2009-SB-B9-3265	31,467	14,907	16,560	14,907	16,560
FAA 3-40-0076-010-2011	380,628		380,628		380,628
	<u>435,495</u>	<u>14,907</u>	<u>420,588</u>	<u>14,907</u>	<u>420,588</u>
Total Federal Awards	<u>435,495</u>	<u>14,907</u>	<u>420,588</u>	<u>14,907</u>	<u>420,588</u>
State Awards:					
ODEM	\$ 2,181	\$ -	\$ 2,181	\$	\$ 2,181
SODA CENA 11-03	106		106		106
SODA CENA 12-01	1,103		1,103		1,103
Dept. Libraries FY12 State Aid	7,195		7,195		7,195
Dept. of Agriculture- Fire Operations	4,413		4,413		4,413
	<u>14,998</u>	<u>-</u>	<u>14,998</u>	<u>-</u>	<u>14,998</u>
Total State Awards	<u>14,998</u>	<u>-</u>	<u>14,998</u>	<u>-</u>	<u>14,998</u>

INTERNAL CONTROL AND COMPLIANCE

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

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2013. We did not express an opinion on the aggregate discretely presented component unit because the financial statements do not include data for the City's legally separate component unit, Pauls Valley Hospital Authority. Except as discussed in the preceding sentence, 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 the City'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 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.

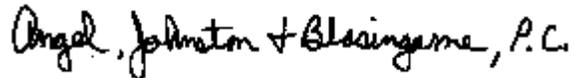
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 11-1 and 11-3. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item: 11-2.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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



Chickasha, Oklahoma
June 25, 2013

**CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

Deficiencies of Internal Control, Compliance and Other Matters

- 11-1. Criteria – Revenue collections for the pool and recreation center should follow certain procedures: logging revenues by categories, correctly identifying all adjustments, and printing daily summaries of cash collected.

Condition – The recreation center did not print any daily computerized cash summaries. The daily computerized cash reports were not reconciled to the actual cash collected and deposited. Also the Daily fees need to be separated from the membership payments to facilitate the cash collections.

Cause – The recreation center had not established comprehensive procedures to reconcile all the collection activity of the center.

Effect – A lack of proper controls could lead to the financial statements being over/under stated.

Recommendation – Daily reconciliation of cash collections to daily printed reports of activity for the center. These reports should be reviewed on a weekly or monthly basis by a supervisor for accuracy. Also the reports need to separate daily fees from memberships.

Management response – Management agrees.

- 11-2. Criteria – All liabilities and assets should be reflected in the City's financial statements.

Condition – According to the water line purchase contract with the Rural Water District a portion of the purchase price is based on the net income from these customers for the five years preceding the purchase. But this amount has not been established.

Cause – The Rural Water District is to provide this information to the City but has not as of June 30, 2012.

Effect – The complete cost and debt related to the acquisition has not been recorded.

Recommendation – The City should work with the Rural Water District to finalize the purchase price.

Management response – Management agrees.

CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

- 11-3. Criteria – Oklahoma Statutes has competitive bidding requirements when construction contracts are greater than \$50,000. One requirement in this law is a certificate of completion attested by an engineer or architect prior to final payment.

Condition – On the BOSA roof replacement there was no certificate of completion received prior to final payment.

Cause – A lack of controls concerning whether projects are under the scope of the Public Competitive Bidding Act and the process of bidding projects.

Effect – Noncompliance with Oklahoma State law.

Recommendation – The City should establish set procedures related to the Oklahoma State Statutes on the public Competitive Bidding Act.

Management response – Management agrees.

**CITY OF PAULS VALLEY, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2012**

Deficiencies of Internal Control, Compliance and Other Matters

- 11-1. Criteria – Police fine adjustments should be logged, approved by a supervisor and retained for future use.

Condition – Adjustment forms could not be located for the court clerk who left the position in March 2011. All adjustments for the new clerk appeared to be accounted for, logged and approved appropriately.

Disposition – This has been corrected.

- 11-2. Criteria – Revenue collections for the pool and recreation center should follow certain procedures: logging revenues by categories, correctly identifying all adjustments, and printing daily summaries of cash collected.

Condition – The pool and recreation center were missing some monthly details while reviewing their files. The recreation center did not print any daily cash summaries. The pool's daily cash reports were not listing the beginning and ending cash and comparing it to the actual cash collected which does not result in a true reconciliation.

Disposition – This has been improved but in the current year we had a recommendation in this area.

- 11-3. Criteria – Unused cash withdrawn through a purchase order should be re-deposited to the fund that it came from.

Condition – Purchase orders are submitted for cash to pay umpires and that cash is kept in a money bag. Money not used to pay umpires after games are finished is not being deposited back to the fund that it came from.

Disposition – This was not noted as a problem in the current year.

- 11-4. Criteria – Transfers from the AT&T escrow account should be recognized as revenue each month based on documentation received from AT&T.

Condition – Transfers from the AT&T escrow account to the 911 cash account were not made timely for the months of March, April and May 2011.

Disposition – This has been corrected.

**CITY OF PAULS VALLEY, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2012**

- 11-5. Criteria – Oklahoma Statutes require each purchase order to have proper supporting documentation attached.

Condition – The City is paying umpires by writing a check to cash. The purchase order that allows the cash to be taken out of the bank has no supporting documentation other than the weeks for which the cash is used. The umpires sign a form when they receive cash money, but this documentation is kept separate from the purchase order and amounts paid are not verified before issuing a new purchase order.

Disposition – This was not noted as an issue in the current year.

- 11-6. Criteria – Oklahoma Statutes require competitive bids to be solicited from the public for construction contracts greater than \$50,000 through publication of bid requirements in a county-wide newspaper at least 20 days prior to bid opening.

Condition – Notice of bids were not published in a county-wide newspaper for construction projects exceeding the competitive bidding threshold. Instead, possible contractors were contacted via email with bid specifications and offered the opportunity to bid on the project.

Disposition – This was not noted as an issue in the current year. However, we did have a recommendation related to competitive bidding in the current year.

- 11-7. Criteria – Oklahoma Statutes Title 11, Section 17:211A states, “No expenditures may be incurred or made by any officer or employee which exceeds the fund balance of any fund.”

Condition – The 911 Account Fund incurred a fund balance deficit of \$12,322 for the year ended June 30, 2011.

Disposition – This was not noted in the current year.

- 11-8. Criteria – OWRB notes payable require net water, sewer and sanitation revenues plus sales tax pledged (Series 2008) must equal at least 1.25 times annual debt service requirements in each fiscal year.

Condition – Debt service coverage is not adequate for the current year because of accelerated principal payments. The accelerated principal payments will last for the next one-half year, after that the coverage is adequate using the half cent sales tax pledged by the OWRB Series 2008 note.

Disposition – This was not noted as an issue in the current year.

- 11-9. Criteria – The landfill financial assurance requirements contained in Oklahoma state regulations OAC 252:515-27-82(h) require the City’s ratio of annual debt service to total expenditures be less than or equal to 0.20.

Condition – The City’s ratio of annual debt service to total expenditures for the fiscal year was 0.25.

Disposition – This was not noted in the current year.