

**BASIC FINANCIAL STATEMENTS
AND
AUDIT REPORT**

for the

CITY OF PAWHUSKA

FOR THE YEAR ENDED JUNE 30, 2012

AUDITED BY

Alan Chapman CPA

401 S. Water

TAHLEQUAH, OKLAHOMA

CITY OF PAWHUSKA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Pawhuska, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pawhuska, 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 of Pawhuska's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraphs, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

The basic financial statements referred to above do not include financial data of the Pawhuska Hospital Incorporated, which should be included in order to conform with the accounting principals generally accepted in the United States of America. If the omitted component unit had been included, the user's conclusion about the overall financial position of the City may have been affected.

The City has not maintained a record of general fixed assets, and accordingly, a statement of general fixed assets, as required by accounting principles generally accepted in the United States of America is not included in the financial statements. Also, detail records of property and equipment in the Enterprise Funds are not maintained, and no depreciation has been recorded in current and prior years. The amount that should be recorded in the general fixed asset account group is not know.

In my opinion, except for the matters mentioned in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the governmental activities, the business-type activities, and the aggregate discretely presented component units.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the City of Pawhuska, 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.

Independent Auditor's Report (continued)

In accordance with *Government Auditing Standards*, I have also issued my report dated October 10, 2012, on my consideration of the City of Pawhuska's internal control over financial reporting and my 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 my 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 my audit.

The City has not presented the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of the financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pawhuska, Oklahoma's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The budgetary comparison information on pages 22 through 24 and the notes on page 25 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. They have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole.

The supplemental information as listed in the accompanying table of contents is presented for the purpose of additional analysis and are not a required part of the financial statements of the Osage County Industrial Authority. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the fund type and account group within the combined financial statements and, in my opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole on the modified basis of accounting described in Note I.

October 10, 2012



Alan Chapman CPA

CITY OF PAWHUSKA, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 2,811,288	\$ 1,467,651	\$ 4,278,939	\$ 1,397
Investments	416,905		416,905	-
Escrow	-		-	52,752
Origination Fees	-		-	17,519
Accounts Receivable	96,112		96,112	-
Total Assets	<u>3,324,305</u>	<u>1,467,651</u>	<u>4,791,956</u>	<u>71,668</u>
LIABILITIES				
Bad Check Payable	(480)		(480)	-
Accounts Payable	12		12	-
Sales Tax Revenue Note	-		-	400,000
Total Liabilities	<u>(468)</u>	<u>-</u>	<u>(468)</u>	<u>400,000</u>
NET ASSETS				
Restricted		-	-	(329,729)
Unrestricted	3,324,773	1,467,651	4,792,424	1,397
Total Net Assets	<u>\$ 3,324,773</u>	<u>\$ 1,467,651</u>	<u>\$ 4,792,424</u>	<u>\$ (328,332)</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHLUSKA, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government:								
General Government	\$ 1,969,652	\$ 63,418	\$ -	\$ 847,313	\$ (1,058,921)	\$ -	\$ (1,058,921)	\$ -
Public Safety	1,135,632	65,387	-	-	(1,070,245)	-	(1,070,245)	-
Cemetery	193,366	22,808	-	-	(170,558)	-	(170,558)	-
Streets	222,381	-	-	-	(222,381)	-	(222,381)	-
Airport	3,780	2,680	-	-	(1,100)	-	(1,100)	-
Culture and Recreation	147,474	96,919	-	-	(50,555)	-	(50,555)	-
Total Governmental Activities	3,672,285	251,212	-	847,313	(2,573,760)	-	(2,573,760)	-
Business Type Activities:								
Electric	3,099,218	102,113	-	-	-	(2,997,105)	(2,997,105)	-
Water and Sewer	786,722	1,043,338	-	-	-	256,615	256,615	-
Solid Waste	658,592	463,702	-	-	-	(194,890)	(194,890)	-
Total Business-Type Activities	4,544,533	1,609,153	-	-	-	(2,935,380)	(2,935,380)	-
Total Primary Government	8,216,818	1,860,365	-	847,313	(2,573,760)	(2,935,380)	(5,509,140)	-
Component Units	168,899	4,152,852	-	-	-	-	3,983,953	-
General Revenues:								
Taxes:								
Tax Revenue					1,246,546	-	1,246,546	-
Franchise and Public Services Taxes					61,417	-	61,417	-
Intergovernmental Revenue					330,270	-	330,270	-
Investment Income					50,574	-	50,574	-
Miscellaneous					86,377	30,966	117,343	-
Transfers - Internal Activity					903,667	3,022,865	3,926,532	(3,926,532)
Total General Revenues and Transfers					2,678,851	3,053,831	5,732,682	(3,926,532)
Change in Net Assets					105,091	118,451	223,542	57,421
Net Assets - Beginning					3,219,682	1,349,200	4,568,882	427,080
Net Assets - Ending					\$ 3,324,773	\$ 1,467,651	\$ 4,792,424	\$ 484,501

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
 BALANCE SHEET - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 JUNE 30, 2012

	General Fund	1999 Sales Tax Improv Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 844,915	\$ 864,187	\$ 230,804	\$ 871,383	2,811,288
Investments	-	-	-	416,905	416,905
Accounts Receivable	56,355	21,028	-	18,729	96,112
Total Assets	<u>901,269</u>	<u>885,215</u>	<u>230,804</u>	<u>1,307,017</u>	<u>3,324,305</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Bad Checks Payable	(480)	-	-	-	(480)
Accounts Payable	-	-	-	12	12
Deposits Payable	-	-	-	-	-
Due to General Fund	-	-	-	-	-
Total Liabilities	<u>(480)</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>(468)</u>
Fund Balances:					
Unreserved	<u>901,749</u>	<u>885,215</u>	<u>230,804</u>	<u>1,307,005</u>	<u>3,324,773</u>
Total Fund Balances					
Total Liabilities and Fund Balances	<u>\$ 901,269</u>	<u>\$ 885,215</u>	<u>\$ 230,804</u>	<u>\$ 1,307,017</u>	<u>\$ 3,324,305</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	1999 Sales Tax Improv. Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 922,135	\$ 286,330	\$ -	\$ 99,497	\$ 1,307,963
Police Fines	40,533	-	-	-	40,533
Charges for Services	167,289	-	-	11,767	179,056
Licenses and Permits	6,750	-	-	24,877	31,627
Investment Income	-	7,332	-	43,242	50,574
Insurance Refunds	20,398	-	-	-	20,398
Billing Charge	225,706	-	-	-	225,706
Donations	25,000	-	-	689	25,689
Miscellaneous	34,475	-	-	31,504	65,979
Hospital Billing Fee	104,564	-	-	-	104,564
Grants	-	-	-	821,624	821,624
Total Revenues	1,546,850	293,662	-	1,033,200	2,873,712
Expenditures:					
General Government:					
Managerial	92,315	-	-	-	92,315
Municipal Court	41,976	-	-	-	41,976
City Clerk	120,859	-	-	-	120,859
Attorney	29,759	-	-	-	29,759
General	672,348	-	-	-	672,348
Economic Development	-	-	-	752,899	752,899
Public Safety:					
Police	545,500	-	-	-	545,500
Fire	328,317	-	-	4,861	333,178
Ambulance	256,954	-	-	-	256,954
Cemetery:					
Parks and Cemetery	189,769	-	-	3,597	193,366
Streets:					
Streets	204,748	-	-	17,633	222,381
Airport:					
Airport	3,780	-	-	-	3,780
Culture and Recreation:					
Library	114,412	-	-	22,770	137,182
Lakes	10,292	-	-	-	10,292
Capital Outlay	72,712	900	-	185,885	259,497
Total Expenditures	2,683,740	900	-	987,645	3,672,285
Excess (deficiency) of Revenues Over Expenditures	(1,136,890)	292,762	-	45,555	(798,573)
Other Financing Sources (Uses)					
Transfers In	915,667	-	24,000	24,000	963,667
Transfers Out	-	-	-	(60,000)	(60,000)
Total Other Financing Sources (Uses)	915,667	-	24,000	(36,000)	903,667
Net Change in Fund Balance	(221,224)	292,762	24,000	9,555	105,093
Fund Balances - Beginning	1,122,973	592,453	206,804	1,297,450	3,219,680
Fund Balances - Ending	\$ 901,749	\$ 885,215	\$ 230,804	\$ 1,307,005	\$ 3,324,773

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,467,651
Total Current Assets	<u>1,467,651</u>
Noncurrent Assets	
Land and construction in progress	-
Other capital assets, net of accumulated depreciation	-
Total Noncurrent Assets	<u>-</u>
Total Assets	<u>1,467,651</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	-
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES	
Total Noncurrent Liabilities	-
Total Liabilities	<u>-</u>
NET ASSETS	
Invested in capital assets, net of related debt	-
Restricted for debt reserve	-
Unrestricted	1,467,651
Total net Assets	<u>\$ 1,467,651</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
JUNE 30, 2012

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Charges for services:	
Electric Utility	\$ 280
Water and Sewer	986,277
Solid Waste	449,566
Penalties	173,030
Total Operating Revenues	<u>1,609,153</u>
OPERATING EXPENSES	
Electric Production	2,603,627
Electric Distribution	361,829
Water Production	386,219
Water Distribution	219,467
Disposal Plant	123,894
Sewer Collection	47,274
Solid Waste	400,936
Administration/General	401,287
Total Operating Expenses	<u>4,544,533</u>
OPERATING INCOME	<u>(2,935,380)</u>
NON OPERATING REVENUES (EXPENSES)	
Miscellaneous revenue	30,966
Total Non-Operating Revenues (Expenses)	<u>30,966</u>
Net Income (Loss) Before Transfers	(2,904,414)
TRANSFERS	
Transfers in	3,962,532
Transfers out	(939,667)
CHANGES IN NET ASSETS	<u>118,451</u>
TOTAL NET ASSETS - BEGINNING	<u>1,349,200</u>
TOTAL NET ASSETS - ENDING	<u>\$ 1,467,651</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,609,153
Other	30,966
Personel Services	(1,323,326)
Maintenance and Operations	(3,125,024)
Net Cash Provided by Operating Activities	<u>(2,808,231)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	(939,667)
Transfers from Other Funds	3,962,532
Net Cash Provided by Noncapital Financing Activities	<u>3,022,865</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(96,183)
Net Cash Used by Capital and Related Financing Activities	<u>(96,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Cash Provided by Investing Activities	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVELANTS	<u>118,451</u>
BALANCE - BEGINNING OF THE YEAR	<u>1,349,200</u>
BALANCE - END OF THE YEAR	<u>\$ 1,467,651</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Pawhuska, Oklahoma (oversight unit) conform to generally accepted accounting principles for state and local governments except for the following:

The City of Pawhuska does not maintain accounting records for general fixed assets; and therefore, a general fixed assets group is not included in the financial statements as required by accounting principles generally accepted in the United States of America.

NOTE B - THE REPORTING ENTITY

The City Council, an elected five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to the City of Pawhuska within the jurisdiction of the City. The City receives funding from local, state, and federal government sources; and must comply with the requirements of these funding source entities. However, the City of Pawhuska is not included in any governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the Council members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The City of Pawhuska provides various services, and consists of many different activities and smaller accounting entities. These include a community hospital, a police force, a firefighting and prevention force, a sewage treatment plant, a water treatment plant, a storm water drainage system, a traffic control system, street lighting, a street maintenance force (including construction, repair, and snow and ice removal), a parks and recreation system, a rubbish collection, and a staff to provide the necessary support to these service providers.

Criteria

The funds maintained by the City of Pawhuska do not include all activities or services provided to the citizens of the City by various public trusts or 501c(3) non-profits, that are considered to be "Separate Legal Entities." Such entities have been established to provide certain enterprise activities that otherwise would be provided by the City of Pawhuska. In evaluating how to define the City of Pawhuska for financial reporting purposes, management has considered all potential component units. The decision to include a potential component in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection governing authority, the designation of

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE B - THE REPORTING ENTITY (continued)

Criteria (continued)

management, the ability to significantly influence operation, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has excluded the following component unit for which the City has oversight responsibility.

Pawhuska Hospital Authority

The Pawhuska Hospital Authority is a 501c(3) non-profit created to provide medical facilities for the Pawhuska area. Audited financial statements for this component unit can be obtained at its general offices.

COMPONENT UNITS INCLUDED:

Pawhuska Public Works Authority

The Pawhuska Public Works Authority is a public trust created to assist the beneficiary, governmental agencies and private enterprises in making the most efficient use of their resources and powers in providing, expanding, improving, and operating and maintaining utility service. An operational and procedural agreement between the city of Pawhuska and the Pawhuska Public Works Authority provides that under a lease agreement between the two parties all funds of the Public Works Authority be transferred to the City.

Pawhuska Municipal Industrial Development Trust Authority

The Pawhuska Municipal Industrial Development Trust Authority is a public trust created on May 6, 1996, to promote and develop industry within and without the City of Pawhuska's territorial boundaries.

Pawhuska Municipal Trust Authority

The Pawhuska Municipal Trust Authority is a public trust created on October 1, 1986, to establish, provide, maintain, construct, set apart, promote, and conduct parks, play grounds, golf courses, recreational centers, social and community centers, and other recreational facilities within and near the territorial limits of the City of Pawhuska.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE C - BASIS OF PRESENTATION - FUND ACCOUNTING

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The City utilizes three fund categories and six fund types.

GOVERNMENTAL FUND CATEGORY

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state sales taxes and charges for services (i.e. refuse revenues). Expenditures include all costs associated with the daily operations of the City except for programs specially funded for building repairs and maintenance and construction.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources or grants (other than special assessments or expendable trusts) that are legally restricted to expenditures for special purposes.

Capital Project Fund - Capital Project Funds are used to account for the acquisition of capital facilities being financed from intergovernmental revenues or transfers from funds other than those recorded in proprietary funds.

PROPRIETARY FUND CATEGORY

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds). The City has one **enterprise fund** in this fiscal year, and does not have any internal service funds.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE C - BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

FIDUCIARY FUND CATEGORY

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the City is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the City holds on behalf of others as their agent and do not involve measurement of results of operations.

Expendable Trust Funds - These funds account for assets received and expended by the City as trustee in essentially the same manner as governmental funds. These funds include:

Cemetery Care - A trust established to account for the portion of cemetery lot sales designated for perpetual care and capital improvements of the cemetery.

Agency Funds - These funds are used to account for assets held by the City as a custodial trustee, and do not involve measurement of results of operations. These funds include the Municipal Court Bonds.

ACCOUNT GROUPS

Account groups are not funds, and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds.

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the City, which would be offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for capital leases, and vested amounts of compensated absences. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

General Fixed Asset Account Group - This account group is used to account for property, plant, and equipment. The City does not maintain a record of its generally fixed assets, and accordingly, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not included in the financial statements. Land, buildings, nonstructural improvements, and all other physical assets in all funds are considered expenditures in the year of acquisition, and are not recorded as assets for financial statement purposes. The City does not have the information necessary to include this group in the financial statements. GASB Statement No. #34 will require this information, and the City is working to meet the requirement in the near future.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE C - BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

MEMORANDUM ONLY - TOTAL COLUMN

The total column on the financial statements is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE D - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounting for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Tax payer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments; and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current period or soon enough thereafter to be used to pay obligations of the current period): taxes, services, investment earnings, and fines and forfeitures. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance.

Other revenues, including licenses and permits, charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are measurable, and are recorded when the related fund liability is incurred.

Reservations of Fund Equity

Fund balances are reserved for encumbrances as further explained in Note F.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE D - BASIS OF ACCOUNTING (continued)

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources has not been reported as an expenditure or a fund liability of the governmental fund that will pay it. Rights to receive sick pay benefits have not been reported in the general long-term debt account group. This practice differs from accounting principles generally accepted in the United States of America. In accordance with provisions of the Statement of Financial Accounting Standards No. #43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The amount of vacation and compensatory time susceptible to accrual in accordance with SFAS No. #43, has been reflected in the general long-term debt account group.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as revenues, expenditures or expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Accordingly, actual results could differ from those estimates.

NOTE E - BUDGETS AND BUDGETARY ACCOUNTING

Under state law, the Mayor submits an annual budget to the Council for consideration and approval no later than June 30. Such budget is based on expected cash expenditures by program within a fund and estimated cash receipts by source for all funds. The City prepares its budget on the same basis as the accounting records are maintained. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

* A proposed operating budget is submitted to the City Council for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE E - BUDGETS AND BUDGETARY ACCOUNTING (continued)

- * Public hearings are conducted to obtain taxpayer comments.
- * Prior to July 1, the budget is legally enacted by the City Council through passage of an ordinance.
- * Any revisions that alter the total expenditures of any department generally must be approved by the City Council. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original appropriations ordinance.
- * The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, Special Revenue, and Capital Improvement Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The only entries necessary to reconcile this statement with the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types would be the accrual entries for taxes receivable that are made at the end of each year to conform to the modified accrual method of accounting.

NOTE F - ENCUMBRANCES

Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed purchase orders in process are completed. Encumbrances accounting, under which purchase orders, contract, and other commitments for expenditure of monies are recorded in order to reserve the portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in the governmental funds. Unencumbered appropriations lapse at the end of the fiscal year. Encumbrances outstanding at year end are carried forward to the new fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes, and accordingly, the accompanying financial statements present comparisons of actual results to the budgets of governmental funds on the same basis of accounting that the financial statements are presented. The unencumbered balance of each appropriation lapse at year end reverts to the respective fund from which it was appropriated, and becomes available for future appropriations.

Requirements for All Budgeted Funds

For day to day management control, expenditures plus encumbrances may not exceed budget at the expenditure type level of each cost center. The Council may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. Council may, by ordinance, transfer amounts among programs within and between funds.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE G - ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Pooled cash and Investments a "pooled cash" concept is used in maintaining the cash and investment account in the accounting records. Under this method all cash is pooled for investment purposes, and each fund has an equity in the pooled amount.

Cash and Cash Equivalents

The City considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Inventories

Inventories for all funds generally consist of expendable supplies and items held for consumption which are expenses at the time of purchase.

Reporting and Accounting

Total columns presented in the Combined Financial Statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not represent financial position, results of operation, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Fund Balance

Fund Balance represents the fund not encumbered by purchase order, legal contracts, and outstanding warrants. Restricted fund balances are legally or financially restrained from current appropriations. Unrestricted fund balances can be used for current approved appropriations.

NOTE H - RETIREMENT PLANS

Employees and Plans

Each qualified employee is included in one of the three retirement plans in which the City of Pawhuska participates. These are the Oklahoma Municipal Retirement Fund, the Oklahoma Firefighters' Pension and Retirement System, and the Oklahoma Police Pension and Retirement System. The City does not maintain the accounting records, hold the investments, or administer the retirement funds. The retirement plans are statewide systems administered by the State of Oklahoma.

Summary of significant data for each of the retirement plans follows:

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE H - RETIREMENT PLANS (continued)

Oklahoma Municipal Retirement Fund

The plan covers qualified city employees and provides certain retirement, death, and disability benefits. The City contributes 6% of the total wages paid to covered employees. Contributions by the City of Pawhuska amounted to \$74,679.45, for the fiscal year ended June 30, 2012. Each covered employee contributes 3% of individual compensation. The plan provided for retirement benefits upon reaching normal retirement age. Employees become vested after ten (10) years of service.

Oklahoma Firefighters Pension and Retirement System

Members of the City's Fire Department participate in the Oklahoma Firefighters Pension and Retirement System, a system administered by the State of Oklahoma. In conformity with state law, the plan covers all full time firemen of the City of Pawhuska and provides certain retirement, death, and disability benefits. In conformity with the state law, the plan does not purport to be an actuarial funded plan; however, benefits are guaranteed by the State of Oklahoma. The contributions to the plan are established by the State, and the City is required to contribute 13% of total compensation paid to the firefighters. The firefighters contribute 8% of their compensation to the plan. Contributions by the City to the system for the fiscal year ended June 30, 2012, amounted to \$27,618.03 paid primarily by the general fund.

Oklahoma Police Pension and Retirement System

Members of the City's Police Department participate in the Oklahoma Police Pension and Retirement System, a system administered by the State of Oklahoma. The plan covers full-time police officers of the City, and provides retirement, death, and disability benefits. In conformity with state law, the plan does not purport to be an actuarial funded plan; however, benefits are guaranteed by the State of Oklahoma. The contributions to the plan are established by the State, and the City is required to contribute 13% of total compensation paid to the police officers. The police officers contribute 8% of their compensation to the plan. Contributions by the City to the system for the fiscal year ended June 30, 2012, amounted to \$27,636.47 , paid primarily by the General Fund.

NOTE I - REVENUE EXPENSE AND LIABILITIES

Compensated Absences

In accordance with the provisions of the Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits or vacation leave. Vested accumulated rights to receive sick pay or vacation leave would be reported in the general long-term debt account group.

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE I - REVENUE EXPENSE AND LIABILITIES (continued)

Compensated Absences (continued)

Vacation leave is granted to all regular employees. The maximum amount of vacation leave that may be accumulated in one calendar year is ten days. This liability reflects amounts attributable to employee services already rendered cumulative probably for payment and reasonably estimated.

Sick leave earned approximately ten days a year per employee and a maximum of 400 hours can be accumulated. Sick leave is nonvesting, and the City does not record a liability for the cost of these unused absences.

NOTE J - LONG TERM DEBT

State statutes prohibit the City from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval of the City voters. The general long term debt of the City consisted of a Note Payable

The following is a summary of the long-term debt transactions of the City for the year ended June 30, 2012:

	Bonds	
	Payable	Total
Balance, July 1, 2011	\$ 500,000.00	\$ 500,000.00
Additions	\$ 0.00	\$ 0.00
Retirements	\$ (100,000.00)	\$ (100,000.00)
Balance, June 30, 2012	<u>\$ 400,000.00</u>	<u>\$ 400,000.00</u>

Pawhuska Public Works Authority Sales Tax Revenue Note,
 Series 2005, original issue \$1,000,000.00 interest rate of
 4.15%, due in semi-annual installments of \$40,000.00 to
 \$60,000.00, final payment of \$60,000.00 due August 1, 2015

Amount
Outstanding
 \$400,000.00

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

Long Term Debt (continued)

The annual debt service requirements for retirements of note principal and payment of interest are as follows:

Year ending June 30	Principal	Interest	Total
2013	\$ 110,000.00	\$ 15,458.75	\$ 125,458.75
2014	\$ 110,000.00	\$ 10,893.75	\$ 120,893.75
2015	\$ 120,000.00	\$ 6,225.00	\$ 126,225.00
2016	\$ 60,000.00	\$ 1,245.00	\$ 61,245.00
Total	\$ 400,000.00	\$ 33,822.50	\$ 433,822.50

NOTE K - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE L - SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE

Grantor/Contract Program Title	<u>Award Amount</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
Library Grants	\$ 11,606	\$ 11,606	\$ 11,606
Fire Department Grants	10,363	10,363	10,363
CDBG #14319	49,655	49,655	-
Dept. Of Commerce, Economic Develop. Econ. Adj/Disaster Approp. Program	<u>750,000</u>	<u>725,000</u>	<u>750,000</u>
Totals	<u>\$ 821,624</u>	<u>\$ 796,624</u>	<u>\$ 771,969</u>

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE M - OMITTED COMPONENT UNIT

The general purpose financial statements do not include financial data of the Pawhuska Hospital, Incorporated, which should be included in order to conform with accounting principles generally accepted in the United States of America. Audited financial statements were not available at the date of this report.

NOTE N - INTERFUND TRANSFERS AND BALANCES

Transfers between funds of the primary government and between the primary government and discretely presented component units for the year ended June 30, 2012 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS:		
General Fund	\$ 915,667	\$ 0
Total Major Funds	<u>\$ 915,667</u>	<u>\$ 0</u>
ENTERPRISE FUNDS:		
Electric Utility Fund	\$ 3,962,532	\$ 691,667
Solid Waste Administration Fund	\$ 0	\$ 24,000
Water and Sewer Administration Fund	\$ 24,000	\$ 224,000
Total Major Funds	<u>\$ 3,986,532</u>	<u>\$ 939,667</u>
NONMAJOR FUNDS:		
Economic Development Fund	\$ 0	\$ 60,000
Permanent Improvement fund	\$ 24,000	\$ 0
Total Nonmajor Funds	<u>\$ 24,000</u>	<u>\$ 60,000</u>
COMPONENT UNITS:		
Pawhuska Public Works Fund	\$ 0	\$ 3,986,532
Pawhuska Municipal Trust Auth. Fund	\$ 60,000	\$ 0
Total Component Units	<u>\$ 60,000</u>	<u>\$ 3,986,532</u>
TOTAL	<u><u>\$ 4,986,199</u></u>	<u><u>\$ 4,986,199</u></u>

COMBINING FINANCIAL STATEMENTS

CITY OF PAWHUSKA, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:				
Resources (Inflows):				
Taxes:				
Sales tax	\$ 610,000	\$ 610,000	\$ 779,729	\$ 169,729
Franchise tax	75,000	75,000	61,417	(13,583)
Total Taxes	685,000	685,000	841,146	156,146
Intergovernmental:				
Alcoholic Beverage Tax	65,000	65,000	80,990	15,990
Utility Billing Charge	230,000	230,000	225,706	(4,294)
Hospital Surchafe Fee	112,000	112,000	104,564	(7,436)
Total Intergovernmental	407,000	407,000	411,260	4,260
Fines and Forfeitures:				
Police Fines	40,000	40,000	40,533	533
Parking Fines	-	-	-	-
Juvenile Court	-	-	-	-
Dog Pound	5,000	5,000	3,515	(1,485)
Total Fines and Forfeitures	45,000	45,000	44,048	(952)
Licenses and Permits	6,000	6,000	6,750	750
Charges for Services:				
Cemetery lot sales	5,000	5,000	9,900	4,900
Cemetery open/closings	12,000	12,000	11,325	(675)
Cemetery Monuments	1,500	1,500	1,585	85
Library	2,800	2,800	2,483	(317)
Swimming Pool	4,500	4,500	6,207	1,707
Health Center	15,000	15,000	17,220	2,220
Lake Fees	4,500	4,500	5,160	660
Community Center Rental	2,600	2,600	2,192	(408)
Ambulance	250,000	250,000	24,856	(225,144)
Airport	1,200	1,200	2,680	1,480
Total Charges for Services	299,100	299,100	83,607	(215,493)
Miscellaneous:				
Miscellaneous	10,000	10,000	28,220	18,220
Rental Income	64,000	64,000	80,166	16,166
Cash Short/Over	-	-	(166)	(166)
Donations	-	-	25,000	25,000
Grants	-	-	-	-
Return Check Charge	-	-	-	-
In Lieu of Taxes	4,000	4,000	6,421	2,421
Insurance Refunds	8,000	8,000	20,398	12,398
Total Miscellaneous	86,000	86,000	160,039	74,039
Other Financing Sources:				
Transfers From Other Funds	924,000	924,000	915,667	(8,333)
Total Other Financing Sources	924,000	924,000	915,667	(8,333)
Amounts Available for Appropriation	\$ 2,452,100	\$ 2,452,100	\$ 2,462,516	\$ 10,416

(Continued)

CITY OF PAWHUSKA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Final Budget Positive(Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
Clerk/Treasurer:				
Personal Services	115,800	115,800	114,572	(1,228)
Materials and Supplies	7,700	7,700	1,241	(6,459)
Other Services and Charges	2,800	2,800	5,046	2,246
Capital Outlay	-	-	-	-
Total Clerk/Treasurer	<u>126,300</u>	<u>126,300</u>	<u>120,859</u>	<u>(5,441)</u>
Attorney:				
Personal Services	30,600	31,100	28,893	(2,207)
Other Services and Charges	800	1,800	866	(934)
Total Attorney	<u>31,400</u>	<u>32,900</u>	<u>29,759</u>	<u>(3,141)</u>
Municipal Court:				
Personal Services	42,600	42,600	39,759	(2,841)
Materials and Supplies	1,400	1,400	1,418	18
Other Services and Charges	600	600	800	200
Total Municipal Court	<u>44,600</u>	<u>44,600</u>	<u>41,976</u>	<u>(2,624)</u>
Police:				
Personal Services	516,700	516,700	513,674	(3,026)
Materials and Supplies	6,200	6,200	6,399	199
Other Services and Charges	25,700	25,700	25,426	(274)
Capital Outlay	-	-	-	-
Total Police	<u>548,600</u>	<u>548,600</u>	<u>545,500</u>	<u>(3,100)</u>
Fire:				
Personal Services	316,100	316,100	315,912	(188)
Materials and Supplies	2,050	2,050	2,286	236
Other Services and Charges	12,750	12,750	10,118	(2,632)
Total Fire	<u>330,900</u>	<u>330,900</u>	<u>328,317</u>	<u>(2,583)</u>
Street:				
Personal Services	185,800	185,800	180,685	(5,115)
Materials and Supplies	2,500	2,500	2,857	357
Other Services and Charges	22,950	22,950	21,206	(1,744)
Capital Outlay	-	-	-	-
Total Street	<u>211,250</u>	<u>211,250</u>	<u>204,748</u>	<u>(6,502)</u>
Parks and Cemetery:				
Personal Services	184,000	184,000	174,365	(9,635)
Materials and Supplies	7,000	7,000	6,108	(892)
Other Services and Charges	10,700	10,700	9,296	(1,404)
Capital Outlay	-	-	-	-
Total Parks and Cemetery	<u>201,700</u>	<u>201,700</u>	<u>189,769</u>	<u>(11,931)</u>

(Continued)

CITY OF PAWHUSKA, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Final Budget Positive(Negative)
	Original	Final		
General Government:				
Personal Services	\$ 246,500	\$ 246,500	\$ 222,228	\$ (24,272)
Materials and Supplies	67,500	67,500	69,174	1,674
Other Services and Charges	416,250	416,250	380,946	(35,304)
Capital Outlay	75,000	75,000	72,712	(2,288)
Total General Government	<u>805,250</u>	<u>805,250</u>	<u>745,059</u>	<u>(60,191)</u>
Library:				
Personal Services	98,850	98,850	94,721	(4,129)
Materials and Supplies	12,350	12,350	11,495	(855)
Other Services and Charges	9,200	9,200	8,196	(1,004)
Total Library	<u>120,400</u>	<u>120,400</u>	<u>114,412</u>	<u>(5,988)</u>
Airport				
Personal Services	-	-	-	-
Materials and Supplies	-	-	-	-
Other Services and Charges	5,000	5,000	3,780	(1,220)
Capital Outlay	-	-	-	-
Total Airport	<u>5,000</u>	<u>5,000</u>	<u>3,780</u>	<u>(1,220)</u>
Lakes:				
Personal Services	-	-	-	-
Materials and Supplies	1,500	1,500	292	(1,208)
Other Services and Charges	12,800	12,800	10,000	(2,800)
Capital Outlay	-	-	-	-
Total Lakes	<u>14,300</u>	<u>14,300</u>	<u>10,292</u>	<u>(4,008)</u>
Ambulance:				
Personal Services	262,240	262,240	221,263	(40,977)
Materials and Supplies	5,250	5,250	23,641	18,391
Other Services and Charges	11,000	11,000	12,051	1,051
Capital Outlay	-	-	-	-
Total Lakes	<u>278,490</u>	<u>278,490</u>	<u>256,954</u>	<u>(21,536)</u>
Administrative:				
Personal Services	93,600	93,600	90,583	(3,017)
Materials and Supplies	100	100	155	55
Other Services and Charges	2,750	2,750	1,577	(1,173)
Total Administrative	<u>96,450</u>	<u>96,450</u>	<u>92,315</u>	<u>(4,135)</u>
Total Charges to Appropriations	<u>2,814,640</u>	<u>2,814,640</u>	<u>2,683,739</u>	<u>(130,901)</u>
Ending Budgetary Fund Balance	<u>\$ (362,540)</u>	<u>\$ (362,540)</u>	<u>\$ (221,223)</u>	<u>\$ 141,317</u>

CITY OF PAWHUSKA, OKLAHOMA
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

Budget Law

Under state law the Mayor submits an annual budget to the Council for consideration and approval no later than June 30. Such budget is based on expected cash expenditures by program within a fund and estimated cash receipts by source for all funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- A proposed operating budget is submitted to the City Council for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted by the City Council through passage of an ordinance.
- Any revisions that alter the total expenditures of any department, generally must be approved by the City Council. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original appropriations ordinance.
- The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund, Special Revenue, and Capital Improvement Fund Types are presented on the budgetary basis to provide a comparison of actual results with the budget. The only entries necessary to reconcile this statement with the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types would be the accrual entries for taxes receivable that are made at the end of each year to conform to the modified accrual method of accounting.

Basis of Accounting

The budget is prepared on the same modified cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions.

CITY OF PAWBUKSA, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

ASSETS	SPECIAL REVENUE FUNDS										CAPITAL PROJECTS FUNDS					Reserve for Contingencies		
	Street and Alley Fund	Library Fund	General Fund	Economic Development Fund	COMM 14114 Fund	BIWA 06-2012444 Fund	Arts and Culture Fund	Carl & Virginia Short Fund	Community Care Fund	Municipal Court Fund	Impose Fund	911A Fund	Capital Improvement Fund	Police Permanent Inv. Fund	Police Permanent Inv. Fund		Police Permanent Inv. Fund	Water and Sewer Reserve Fund
Cash and cash equivalents	\$ 47,199	\$ 6,134	\$ 31,213	\$ 194,713	\$ -	\$ -	\$ 2,279	\$ 80,098	\$ 71,454	\$ 12	\$ 1,500	\$ 6,401	\$ 102,219	\$ 7,219	\$ 13,362	\$ 1,862	\$ 191,319	\$ 471,303
Investments	190,500	85,269	85,269	8,278	-	-	190,528	88,423	-	-	-	12,200	15,739	-	-	-	-	416,865
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 237,699	\$ 191,403	\$ 116,482	\$ 203,000	\$ -	\$ -	\$ 202,807	\$ 160,347	\$ 172,844	\$ 12	\$ 1,500	\$ 6,401	\$ 117,958	\$ 7,219	\$ 13,362	\$ 1,862	\$ 191,319	\$ 858,977
LIABILITIES AND FUND BALANCES																		
LIABILITIES																		
Accounts payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCES																		
Unreserved, invested in capital projects funds	\$ 47,199	\$ 6,134	\$ 31,213	\$ 194,713	\$ -	\$ -	\$ 202,807	\$ 160,347	\$ 172,844	\$ 12	\$ 1,500	\$ 6,401	\$ 102,219	\$ 7,219	\$ 13,362	\$ 1,862	\$ 191,319	\$ 471,303
Total Liabilities and Fund Balances	\$ 237,699	\$ 191,403	\$ 116,482	\$ 203,000	\$ -	\$ -	\$ 202,807	\$ 160,347	\$ 172,844	\$ 12	\$ 1,500	\$ 6,401	\$ 117,958	\$ 7,219	\$ 13,362	\$ 1,862	\$ 191,319	\$ 858,977

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

Honorable Mayor and Members of the City Council
City of Pawhuska, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pawhuska, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Pawhuska, Oklahoma's basic financial statements and have issued my report thereon dated October 10, 2012. Except for the omission of the financial data of the Pawhuska Hospital Inc. and the omission of the general fixed assets in the government wide and business type activities, I conducted my 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 my audit, I considered City of Pawhuska, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pawhuska, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Pawhuska, Oklahoma's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Pawhuska, Oklahoma's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Pawhuska, Oklahoma's financial statements that is more than inconsequential will not be prevented or detected by the City of Pawhuska, Oklahoma's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Pawhuska, Oklahoma's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all

Compliance and Other Matters

deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether the City of Pawhuska, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of City of Pawhuska, Oklahoma, in a separate letter dated October 10, 2012.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to and should not be used by anyone other than these specified parties.

October 10, 2012



Alan Chapman, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council
City of Pawhuska, Oklahoma

Compliance

I have audited the compliance of the City of Pawhuska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2012. The City of Pawhuska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The City of Pawhuska's management. My responsibility is to express an opinion on The City of Pawhuska's compliance based on my audit.

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

In my opinion, The City of Pawhuska complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of The City of Pawhuska is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, I considered The

City of Pawhuska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of The City of Pawhuska's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses, as defined above. However, I noted other matters involving the internal control over financial reporting and its operation that I have reported to the City's management in a separate letter dated October 10, 2012.

This report is intended solely for the information of the City Council, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

October 10, 2012



Alan Chapman, CPA

CITY OF PAWHUSKA
SCHEDULE OF FEDERAL AWARDS EXPENSED
FOR THE YEAR ENDED JUNE 30, 2012

Grant, Federal Grant/Pass Through Grant/Program Title	Federal CFDA Number	Award Number	Balance at June 30, 2011	Receipts	Expenditures	Balance at June 30, 2012
U.S. DEPARTMENT OF COMMERCE						
<i>Direct Programs:</i>						
Econ. Assist./Disaster Approp. Program *	11.367	08-79-04464	\$ -	\$ 725,000.00	\$ 750,000.00	\$ 25,000.00
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Community Development Block Grant	14.000	14319	49,655.00	49,655.00	-	-
TOTAL FEDERAL ASSISTANCE			<u>\$ 49,655.00</u>	<u>\$ 774,655.00</u>	<u>\$ 750,000.00</u>	<u>\$ 25,000.00</u>

Note 1 - Basis of Accounting: is presented on a modified cash basis, a basis of accounting other than accounting principles generally accepted in the United States of America.

* - Major Program

**CITY OF PAWHUSKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: I have audited the financial statements of The City of Pawhuska, Pawhuska, Osage County, Oklahoma, as of and for the year ended June 30, 2012, and have issued my qualified report thereon dated October 10, 2012. In my opinion letter, my report was qualified because the City has not maintained a record of general fixed assets.

Internal Control Over Financial Reporting:

Material weaknesses identified?	NONE REPORTED
Reportable conditions identified not considered to be material weaknesses?	NONE REPORTED
Noncompliance material to financial statements noted?	NONE REPORTED

Federal Awards

Internal Control Over Major Programs:

Material weaknesses identified?	NONE REPORTED
Reportable conditions identified not considered to be material weaknesses?	NONE REPORTED

Type of Auditor's Report Issued on Compliance for Major Programs:

In conjunction with the audited combined financial statements of The City of Pawhuska, Pawhuska, Oklahoma, as of and for the year ended June 30, 2012, I have issued my unqualified report thereon dated October 10, 2012, on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	NONE REPORTED
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Identification of Major Programs:

EDA Grant (11.307)	\$ 750,000.00
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

The dollar threshold used to distinguish between type A and type B programs was \$300,000.00.

	<u>YES</u>	<u>NO</u>
Auditee qualified as low-risk auditee?		X

Section II - Financial Statement Findings:

No matters were reported.

Section III - Federal Award Findings and Questioned Costs:

No matters were reported and no questioned costs were identified.