

TOWN OF QUAPAW
Ottawa County, Oklahoma
Independent Auditor's Report and
Financial Statements
For the Year Ended June 30, 2011

TOWN OF QUAPAW
Ottawa County, Oklahoma
For the Year Ended June 30, 2011

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WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Trustees
Town of Quapaw
Quapaw, Ottawa County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quapaw, Ottawa County, Oklahoma, as of and for the year ended June 30, 2011, and the related notes to the financial statements; which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Kansas, State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quapaw as of June 30, 2011, and the respective changes in financial position, and, where applicable, its net assets and cash flows 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 30, 2013, on our consideration of the Town of Kansas, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Quapaw, Ottawa County, Oklahoma's financial statements as a whole. 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 financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Wingard, Ragsdale & Langley, CPAs, PLLC".

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
JUNE 30, 2013

TOWN OF QUAPAW
Statement of Net Assets – Government-Wide
For the Year Ended June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 16,922	\$ 4,103	\$ 21,025
Cash held by third parties	9,847	-	9,847
Investments	34,926	118,051	152,977
Receivables	-	30,278	30,278
Due from other governmental agencies	26,326	-	26,326
Other assets	2,863	5,726	8,589
Total Current Assets	90,884	158,158	249,042
Current Restricted Assets:			
Cash	-	38,959	38,959
Investments	-	36,359	36,359
OMAG loss fund	-	24,334	24,334
Total Current Restricted Assets	-	99,652	99,652
Non-Current Assets:			
Capital assets, net of accumulated depreciation	449,594	4,428,756	4,878,350
Total Non-Current Assets	449,594	4,428,756	4,878,350
Total ASSETS	540,478	4,686,566	5,227,044
LIABILITIES			
Current Liabilities			
Bank overdraft	7,176	652	7,828
Accounts payable	9,197	15,598	24,795
Accrued interest	443	5,693	6,136
Payroll taxes payable	1,682	1,021	2,703
Current portion of long-term debt	34,991	35,180	70,171
Total Current Liabilities	53,489	58,144	111,633
Long-term liabilities			
Utility deposits	-	16,567	16,567
Notes payable	-	1,848,996	1,848,996
Total Long-Term Liabilities	-	1,865,563	1,865,563
Total LIABILITIES	53,489	1,923,707	1,977,196
NET ASSETS			
Invested in capital assets, net of related debt	414,603	2,544,579	2,959,182
Restricted for:			
Capital Projects	-	2,713	2,713
Unrestricted	72,386	215,567	287,953
Total Net Assets	\$ 486,989	\$ 2,762,859	\$ 3,249,848

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Activities – Government-Wide
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Capital Grants	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General Government	\$ 257,290	\$ 53,350	\$ -	\$ (203,940)	\$ -	\$ (203,940)
Fire	67,564	30,773	-	(36,791)	-	(36,791)
Streets	38,021	-	-	(38,021)	-	(38,021)
Total governmental activities	<u>362,875</u>	<u>84,123</u>	<u>-</u>	<u>(278,752)</u>	<u>-</u>	<u>(278,752)</u>
Business-type activities:						
Water Utilities	<u>497,663</u>	<u>361,566</u>	<u>30,543</u>		<u>(105,554)</u>	<u>(105,554)</u>
Total business-type activities	<u>497,663</u>	<u>361,566</u>	<u>30,543</u>		<u>(105,554)</u>	<u>(105,554)</u>
General Revenues:						
Taxes:						
Franchise taxes				26,130	-	26,130
Public service taxes				156,638	-	156,638
Unrestricted investment earnings				571	2,509	3,080
Realized gain (loss)				(293)	(839)	(1,132)
Miscellaneous				29,172	-	29,172
Transfers				<u>(48,215)</u>	<u>48,215</u>	<u>-</u>
Total general revenues and transfers				<u>164,003</u>	<u>49,885</u>	<u>213,888</u>
Change in net assets				(114,749)	(55,669)	(170,418)
Net assets - beginning, adjusted				<u>601,738</u>	<u>2,818,528</u>	<u>3,420,266</u>
Net assets - ending				<u>\$ 486,989</u>	<u>\$ 2,762,859</u>	<u>\$ 3,249,848</u>

See accompanying notes and independent auditor's report

TOWN OF QUAPAW
**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Government-Wide Statement of Activities
For the Year Ended June 30, 2011**

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Government Wide
Statement of Activities

Net change in fund balances - total governmental funds \$ (95,829)

Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental funds report outlays for capital assets as expenditures
because such outlays use current financial resources. In contrast,
the Statement of Activities reports only a portion of the outlay as
expense. The outlay is allocated over the assets' estimated useful
lives as depreciation expense for the period. (54,382)

The issuance of long-term debt (e.g., loans, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources of
governmental funds. This amount is the net effect of these differences in
the treatment of long-term debt and related items. 35,065

Some expenses reported in the statement of activities do not require the
use of current financial resources and these are not reported as expenditures
in governmental funds:

Accrued interest difference not reflected on Governmental funds 397

Change in net assets of governmental activities \$ (114,749)

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Balance Sheet - Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Fire Dept Fund	EPA Fund	Other Governmental Funds	Total
<u>ASSETS</u>					
Cash	\$ -	\$ 16,156	\$ 739	\$ 27	\$ 16,922
Cash held by others	-	9,847	-	-	9,847
Investments	-	-	34,926	-	34,926
Prepaid expense	2,863	-	-	-	2,863
Receivable from other governments	23,923	-	-	2,403	26,326
Due from other funds	-	-	40,000	-	40,000
Total assets	<u>\$ 26,786</u>	<u>\$ 26,003</u>	<u>\$ 75,665</u>	<u>\$ 2,430</u>	<u>\$ 130,884</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Bank overdraft	\$ 7,176	\$ -	\$ -	\$ 1,142	\$ 8,318
Accounts payable	8,055	-	-	-	8,055
Payroll taxes payable	1,682	-	-	-	1,682
Due to EPA fund	40,000	-	-	-	40,000
Total liabilities	<u>56,913</u>	<u>-</u>	<u>-</u>	<u>1,142</u>	<u>58,055</u>
Fund balances:					
Restricted	-	9,847			9,847
Assigned	-	16,156	75,665	1,288	93,109
Unassigned	(30,127)	-	-	-	(30,127)
Total fund balances	<u>(30,127)</u>	<u>26,003</u>	<u>75,665</u>	<u>1,288</u>	<u>72,829</u>
Total liabilities and fund balances	<u>\$ 26,786</u>	<u>\$ 26,003</u>	<u>\$ 75,665</u>	<u>\$ 2,430</u>	<u>130,884</u>
Total fund balance, governmental funds					\$ 72,829
Amounts reported for government activities in the Statement of Net Assets are different because:					
Capital assets, net of depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental activities of the Statement of Net Assets.					
					449,594
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet					
					(443)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.					
					(34,991)
Net Assets of Governmental Activities in the Statement of Net Assets					
					\$ 486,989

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Year Ended June 30, 2011

	General Fund	Fire Dept. Fund	EPA Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	123,530	24,266	-	8,841	156,637
Franchise fees	26,130	-	-	-	26,130
Fines and fees	48,075	-	-	-	48,075
Permits and fees	1,775	30,773	-	-	32,548
Rents	3,500	-	-	-	3,500
Miscellaneous	22,355	6,815	-	-	29,170
Interest	-	90	482	-	572
Total revenues	<u>225,365</u>	<u>61,944</u>	<u>482</u>	<u>8,841</u>	<u>296,632</u>
EXPENDITURES:					
Maintenance and operations	96,980	33,353	-	16,126	146,459
Personal services	143,707	700	9	-	144,416
Capital outlay	15,268	-			15,268
Debt Service:					
Principal	-	35,065	-	-	35,065
Interest and other charges	-	2,745	-	-	2,745
Total expenditures	<u>255,955</u>	<u>71,863</u>	<u>9</u>	<u>16,126</u>	<u>343,953</u>
Excess (deficiency) of revenues over (under) expenditures	(30,590)	(9,919)	473	(7,285)	(47,321)
OTHER FINANCING SOURCES AND (USES):					
Realized loss	-	-	(293)	-	(293)
Loan proceeds	-	-			-
Transfers in	9,260	2,700	-	7,325	19,285
Transfers out	-	-	(67,500)	-	(67,500)
Total other financing sources and (uses)	<u>9,260</u>	<u>2,700</u>	<u>(67,793)</u>	<u>7,325</u>	<u>(48,508)</u>
Net change in fund balance	(21,330)	(7,219)	(67,320)	40	(95,829)
Fund balances, beginning	<u>(8,797)</u>	<u>33,222</u>	<u>142,985</u>	<u>1,248</u>	<u>168,658</u>
Fund balances, ending	<u>\$ (30,127)</u>	<u>\$ 26,003</u>	<u>\$ 75,665</u>	<u>\$ 1,288</u>	<u>\$ 72,829</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Net Assets - Proprietary Fund
For the Year Ended June 30, 2011

	Quapaw Public Works Authority
ASSETS	
Current Unrestricted Assets:	
Cash	\$ 4,103
Investments	118,051
Accounts receivable (net of allowance)	30,278
Prepaid expense	5,726
Current Restricted Assets:	
Cash	38,959
Investments	36,359
OMAG loss fund	<u>24,334</u>
Total Current Assets	<u>257,810</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>4,428,756</u>
Total ASSETS	<u>4,686,566</u>
LIABILITIES	
Current Liabilities:	
Bank overdraft	652
Accounts payable	15,598
Accrued interest	5,693
Payroll taxes payable	1,021
Current portion long-term debt	<u>35,180</u>
Total Current Liabilities	<u>58,144</u>
Noncurrent Liabilities:	
Utility deposits	16,567
Long-term debt, less current portion	<u>1,848,996</u>
Total Long-term Liabilities	<u>1,865,563</u>
Total Liabilities	<u>1,923,707</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,544,579
Restricted for capital projects	2,713
Unrestricted net assets	<u>215,567</u>
Total Net Assets	<u>\$ 2,762,859</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Revenues, Expenses and
Changes in Fund Net Assets - Proprietary Fund
For the Year Ended June 30, 2011

	Quapaw Public Works Authority
OPERATING REVENUES:	
Water sales to industries	\$ 35,284
Water, sewer and sanitation sales to public	326,282
Total operating revenue	<u>361,566</u>
OPERATING EXPENSES:	
Salaries	74,673
Utilities	59,394
Insurance	38,184
Maintenance and repairs	26,990
Sanitation services	42,281
Payroll taxes	6,020
Testing / Lab Fees	3,815
Office expenses	2,315
Fuel	7,368
Professional fees	30,457
Telephone	5,227
Supplies	9,562
Dues	5,306
Depreciation	101,636
Miscellaneous	2,227
Total operating expenses	<u>415,455</u>
Operating income (loss)	(53,889)
OTHER FINANCING SOURCES (USES):	
Grant Income	30,543
Interest income	2,509
Gain (Loss) on Investments	(839)
Transfers from other funds	48,215
Interest expense	(82,208)
Total other financing sources (uses)	<u>(1,780)</u>
Change in net assets	(55,669)
Total net assets - beginning	<u>2,818,528</u>
Total net assets - ending	<u><u>\$ 2,762,859</u></u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2011

	Quapaw Public Works Authority
Cash Flows from Operating Activities:	
Receipts from customers	\$ 358,311
Payments to suppliers and employees	<u>(317,217)</u>
Net cash provided by operating activities	<u>41,094</u>
Cash Flows from Noncapital Financing Activities:	
Interfund Transfers in	<u>48,215</u>
Net cash provided by noncapital financing activities	<u>48,215</u>
Cash Flows from Capital and Related Financing Activities:	
Principal paid on capital debt	(34,638)
Grants received	30,543
Purchase of capital assets	(223,633)
Interest paid on capital debt	<u>(82,313)</u>
Net cash (used) by capital and related financing activities	<u>(310,041)</u>
Cash Flows from Investing Activities:	
OMAG escrow (increase) decrease	(423)
Increase in investments	(4,203)
Interest and dividends	<u>2,509</u>
Net cash (used) by investing activities	<u>(2,117)</u>
Net decrease in cash and cash equivalents	(222,849)
Cash and cash equivalents, beginning of year	<u>265,259</u>
Cash and cash equivalents, end of year	<u><u>\$ 42,410</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ (53,889)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	101,636
Change in assets and liabilities:	
(Increase) decrease receivables, net	3,649
(Increase) decrease prepaid expenses	(1,664)
Increase (decrease) accounts payable	(1,783)
Increase (decrease) in accrued liabilities	49
Increase (decrease) utility deposit	<u>(6,904)</u>
Net cash provided by operating activities	<u><u>\$ 41,094</u></u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit 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 of governing authority, the designation of management, the ability to significantly influence operations, 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 Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion and exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The *Town of Quapaw* and component units consist of all fund accounts of the oversight unit, the *Town of Quapaw*, referred to as "the Town", and the Quapaw Public Works Authority, referred to as "the Authority", a component unit.

The Authority was created April 12, 1977, for the primary purpose of supplying water to Eagle-Picher Industries, Inc. The Authority originally leased from the Town the water system identified as Well No. 4. On April 2, 1985, the voters of the *Town of Quapaw*, by special election, authorized the leasing of all the water system and sewer system of the *Town of Quapaw* to the Authority. The lease became effective April 3, 1985. The Town is the beneficiary of the Authority.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

B. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

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

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

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

C. **Fund Accounting**

The Town uses funds and account groups to report 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 town functions or activities.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

C. Fund Accounting (continued)

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 two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types".

Governmental Funds - The General Fund accounts for receipts and expenditures for activities that are not otherwise accounted for in the Fire Dept. Fund, EPA Fund, and other Governmental Funds. The Fire Dept. Fund accounts for the receipts and associated expenditures of memberships, grants and donations designated for fire department operations and expenditures. The EPA Fund accounts for receipt of EPA Superfund designated for expenditures relating to the repairs of damaged Town roads.

Proprietary Fund - Quapaw Public Works Authority accounts for the receipts and expenditures of the utility services.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

D. Fixed Assets

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

Government-Wide Statements

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

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. All current year infrastructure additions have been recorded at actual cost. The Town is not required to account for infrastructure assets acquired prior to July 1, 2003. Governmental fund infrastructure assets have not been recorded for the period prior to July 1, 2003.

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

Buildings	15-50 years
Other Improvements	5-100 years
Machinery and Equipment	10-40 years
Office Machinery and Equipment	2-15 years
Vehicles	5-15 years
Infrastructure	25-50 years

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

D. Fixed Assets (continued)

Fund Financial Statements

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

E. Assets, Liabilities and Net Assets or Equity

Cash and Investments - For the purposes of these financial statements, “cash and cash equivalents” includes all demands and savings accounts, and certificates of deposits or short-term investments with an original maturity of three months. Investments consist of certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

The Town Treasurer has the responsibility for daily cash management activities and determines the amount of funds to be invested and length of time. The Board of Trustees, by investment resolution, grants final approval for investment of all Town funds. Additional cash and investment disclosures are presented in Note 2.

Inventories and Prepaids - The value of consumable inventories at June 30, 2011 is not material to the financial statements. Acquisitions are considered expenditures at the time of purchase and are not recorded as assets for financial statement purposes. Prepaids use the consumption method of reporting.

Receivables - In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include various tax revenues.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Assets or Equity (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, and other similar intergovernmental revenues since they are both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the proprietary fund receivables.

Restricted Assets - Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to promissory note reserve accounts, utility meter deposits, and capital projects funds for improvements to the water and sewer system.

Compensated Absences - The Town is not able to reasonably estimate the accrual for compensated absences. Therefore, the balance has not been recorded.

Long-term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Assets or Equity (continued)

Equity Classifications

Government-Wide Statements- Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

It is the Town’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.

Fund Statements- In the governmental fund financial statements, fund balances are classified as follows:

- a. Nonspendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- b. Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- c. Committed – amounts that can be spent only for specific purposes determined by a formal action of government’s highest level of decision-making authority.
- d. Assigned – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- e. Unassigned – amounts that are available for any purpose; these amounts can be reported only in the Town’s General Fund.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Assets or Equity (continued)

Equity Classifications (continued)

All other inter-fund 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 inter-fund transfers are reported as operating transfers.

- F. 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. Actual results could differ from those estimates.

Note 2 - Deposits, Investments and Collateral

The Town's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2011. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's or Authority's name; or collateralized with no written or approved collateral agreement.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 2 - Deposits, Investments and Collateral (continued)

Type of Deposits	Total Bank Balance	Category 1	Category 2	Category 3	Total Carrying Value
Town	62,449	62,449	-	-	\$ 61,695
PWA	264,232	264,232	-	1,489	221,806
	<u>326,681</u>	<u>326,681</u>			<u>283,501</u>
Reconciliation to Government-wide Statement of Net Assets					
Unrestricted cash including time deposits					30,872
Unrestricted investments					152,977
Restricted cash, including time deposits					38,959
Restricted investments					60,693
					<u>\$ 283,501</u>

Note 3 - Restricted Cash

Under terms of the Rural Development loan agreements (Note 6), the Authority is required to maintain reserve funds until the loan is repaid or is reduced below this balance.

Debt Service Fund:	
Cash	\$ 28,793
Investments	<u>27,245</u>
Total restricted for debt service funds	56,038
Loan resolution requirements	<u>85,404</u>
Funds under requirements	<u>\$ (29,366)</u>

The Public Works Authority is holding customers' meter deposits in the amount of \$16,567 and has assets reserved to refund these deposits, as required by statute.

Cash	\$ 7,452
Investments	<u>9,115</u>
Total restricted utility funds	16,567
Utility deposit liability	<u>16,567</u>
Funds under requirements	<u>\$ -</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 3 - Restricted Cash - (continued)

OMAG Funds

The Oklahoma Municipal Assurance Group (OMAG) provides workers' compensation coverage to the Town through participation in the State Insurance Fund. The Town has a right to the return of any funds set aside for claims that have not been paid out as benefits after three years. The Town has elected to invest these funds in an escrow account with OMAG, which is restricted. The Interest Fund holds the accumulation of the amount earned on the accounts with OMAG. This amount is credited against next year's premium. Balance as of year ended June 30, 2011 is \$24,334.

Note 4 - Accounts Receivable

The Authority's accounts receivable as of June 30, 2011 is \$30,278 representing amounts billed but unpaid for services rendered to customers.

Note 5 - Property and Equipment

5.A. Capital Asset Activity - Governmental

Capital asset activity for governmental activities for the year ended June 30, 2011 was as follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Land	\$ 17,620	\$ -	\$ -	\$ 17,620
Infrastructure	328,401	-	-	328,401
Buildings	186,294	-	-	186,294
Equipment and furniture	505,511	23,511	(17,350)	511,672
Total	1,037,826	23,511	(17,350)	1,043,987
Accumulated depreciation	(533,850)	(69,650)	9,107	(594,393)
Total	<u>\$ 503,976</u>	<u>\$ (46,139)</u>	<u>\$ (8,243)</u>	<u>\$ 449,594</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 5 - Property and Equipment (continued)

5.B. Capital Asset Activity – Business-Type

Capital asset activity for business-type activities for the year ended June 30, 2011 was as follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Land	\$ 47,500	\$ -	\$ -	\$ 47,500
Buildings	7,338	-	-	7,338
Water system	2,405,785	-	-	2,405,785
Sewer system	1,205,088	-	-	1,205,088
Equipment and furniture	132,568	-	-	132,568
Construction in Process	2,292,567	223,633	-	2,516,200
Total	6,090,846	223,633	-	6,314,479
Accumulated depreciation	(1,784,087)	(101,636)	-	(1,885,723)
Net book value	<u>\$ 4,306,759</u>	<u>\$ 121,997</u>	<u>\$ -</u>	<u>\$ 4,428,756</u>

The Authority's and the Service's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life, which is forty years for the buildings, water and sewer system; five years for the equipment and furniture. Expenditures for major renewals and betterments which extend the useful life of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

5.C. Depreciation Charges

Depreciation expense by functional category for the governmental funds was as follows:

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ 16,594
Fire Department	31,162
Streets	21,894
	<u>\$ 69,650</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 6 - Long-term Debt

The Town's long-term debt at June 30, 2011 consists of the following:

Kislak National Bank note with an interest rate of 5.2% per annum, annual installments of \$17,063, including interest, until January 2012, secured by a fire truck. \$ 15,139

Capital lease agreement with Welch State Bank paid from specific taxes collected by Ottawa County who pays these obligations on the town's behalf. Current interest rate is 5.4% annum. 19,852

Total governmental activities current debt 34,991

The Authority's long-term debt at June 30, 2011 consists of the following:

Rural Development note with an interest rate of 5% per annum and monthly installments of \$1,577, including interest, until December, 2029; secured by the water system. \$ 226,218

Rural Development note with an interest rate of 4.5% per annum and monthly installments of \$1,617, including interest, until December, 2039; secured by water system, and revenues from the system. 306,919

Rural Development note with an interest rate of 4.5% per annum and monthly installments of \$3,923, including interest, until April, 2039; secured by water and sewer improvements. 734,383

Rural Development note with an interest rate of 4.125% per annum and annual installments of \$2,216, including interest, until June, 2036; secured by water and sewer improvements. 505,170

Rural Development note with an interest rate of 2.75% per annum and annual installments of approximately \$4,800, including interest, until June 2011; secured by water and sewer improvements. 111,486

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 6 - Long-term Debt (continued)

Total long-term debt	<u>1,884,176</u>
Less: current portion long-term debt	<u>-35,180</u>
Total business-type activities long-term debt, less current portion	<u>\$ 1,848,996</u>

The Town's maturities of debt are as follows:

Governmental Activities			
Year Ended	Principal	Interest	
June 30			
2012	\$ 34,911	\$ 1,992	
2013	-	-	
2014	-	-	
2015	-	-	
2016	-	-	
Thereafter	-	-	
	<u>\$ 34,911</u>	<u>\$ 1,992</u>	

Business Type Activities			
Year Ended	Principal		Interest
June 30			
2012	\$	35,180	\$ 81,615
2013		37,040	79,756
2014		38,728	78,068
2015		40,492	76,304
2016		42,135	74,661
Thereafter		1,690,601	1,046,418
	\$	1,884,176	\$ 1,436,822

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(continued)

Note 7 - Budget Policy

The Town operates under the Oklahoma Estimate of Needs (Title 68) budget law. A budget is legally adopted by the Board of Trustees for the General Fund and Special Revenue Funds of the Town. The Budget is prepared using the cash basis and budget laws of the State of Oklahoma. The financial statements are prepared using the modified accrual basis of accounting that complies with generally accepted accounting principles in the United States of America. There are timing differences related to encumbrances between the financial statements presentation and the budget that are reconciled. The Board of Trustees can legally amend the Budget once it has been approved by filling a supplemental appropriation with the county excise board, state auditor and inspector and town clerk. Budget transfers between funds have to be approved by the Board of Trustees. As of June 30, 2011, the Town is unable to report the fiscal year 2011 budget as required by Oklahoma Statutes.

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Town Council
Town of Quapaw

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quapaw, State of Oklahoma, as of and for the year ended June 30, 2011, and the related notes to the financial statements, which collectively comprise Town of Quapaw, State of Oklahoma's basic financial statements and have issued our report thereon dated June 30, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2009-2 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency #2009-3 described in the accompany schedule of findings and questioned costs to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Quapaw, State of Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

TOWN OF QUAPAW, STATE OF OKLAHOMA'S RESPONSE TO FINDINGS

Town of Quapaw, State of Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Quapaw, State of Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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



WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
JUNE 30, 2013

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

Town of Quapaw Schedule of Findings and Responses June 30, 2011

The following items represent deficiencies as described in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* for the Town of Quapaw's audit as of June 30, 2011. The following items represent items reported in the previous reporting period and remain unresolved.

2009-2

Failure to comply with statutes governing budget activities.

During the current year, it was discovered the Town did not file the budgetary "Estimate of Needs" as required by Oklahoma Statutes. Failure to comply with the statutes can result in legal action taken against the Town. Because this is a fundamental requirement in the basic operations of a municipality in Oklahoma, management and the Board should take immediate action to resolve this deficiency, and develop a method of tracking other items of importance.

Response

We agree with this finding and will take action to put a control in place to avoid future occurrences.

2009-3

Failure to meet debt requirements.

Under the terms of the Rural Development loan agreement, the Authority is required to transfer ten percent of the monthly payments from the operating account to a reserve account each month until one hundred twenty times the ten percent of the monthly payments are accumulated, or \$85,404. At June 30, 2010 and again at June 20, 2011, this requirement was not met.

Response

The Public Works Authority has not had an excess of money and will continue to transfer the money as agreed.