

**CITY OF TONKAWA, OKLAHOMA
TONKAWA, OKLAHOMA**

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORTS**

**FOR THE YEAR ENDED
JUNE 30, 2012**

CITY OF TONKAWA, OKLAHOMA
TABLE OF CONTENTS
For the fiscal year ended JUNE 30, 2012

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	17 18
Statement of Net Assets – Proprietary Funds	
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Notes to Basic Financial Statements	21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33

Derrel S. White, CPA

P.O. Box 842
Woodward, OK 73802
(580) 256-6830

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tonkawa, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tonkawa, OK 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 City of Tonkawa, OK's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17 2012, on our consideration of the City of Tonkawa,OK'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Derrel, CPA". The signature is written in a cursive style.

Derrel S. White, CPA

Woodward, OK

December 17, 2012

Within this section, the City of Tonkawa's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2012. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2012, the assets of the City exceeded its liabilities by \$7,026,439 (net assets). Of this amount \$2,068,327 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors. This compared to the previous year when assets exceeded liabilities by \$5,785,286.
- The City's total net assets are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$4,665,404 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net assets of \$292,708.
 - (3) Unrestricted net assets of \$2,068,327 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$380,031 during the fiscal year from \$3,984,296 to \$3,604,265. The majority of this decrease is directly attributable to repayments made on outstanding debt.
- After transfers of \$326,683 from business-type activities to governmental activities, net assets of governmental activities increased \$136,563 or 4%, and net assets of business-type activities increased \$1,104,590 or 50%. Overall the health of the City improved when compared to prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$650,320 or 19.3% of total General Fund expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resources available and whether the City can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year and can be used to assess the City's operating results in its

entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including electricity, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Tonkawa Municipal Hospital Authority is a separate legal entity which operates independently and provides services direly to the citizens though the City remains accountable for their actions. As such, the Tonkawa Municipal Hospital Authority is reported separately from the primary government through included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in footnotes.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets at June 30, 2012 are \$7,026,439. This is a \$1,241,153 increase over June 30, 2011 net assets of \$5,785,286. The City reported positive balances in total net assets for both governmental and business-type activities, reporting \$3,708,962 and \$3,317,477, respectively. The City's overall financial position improved 21% during fiscal year 2012.

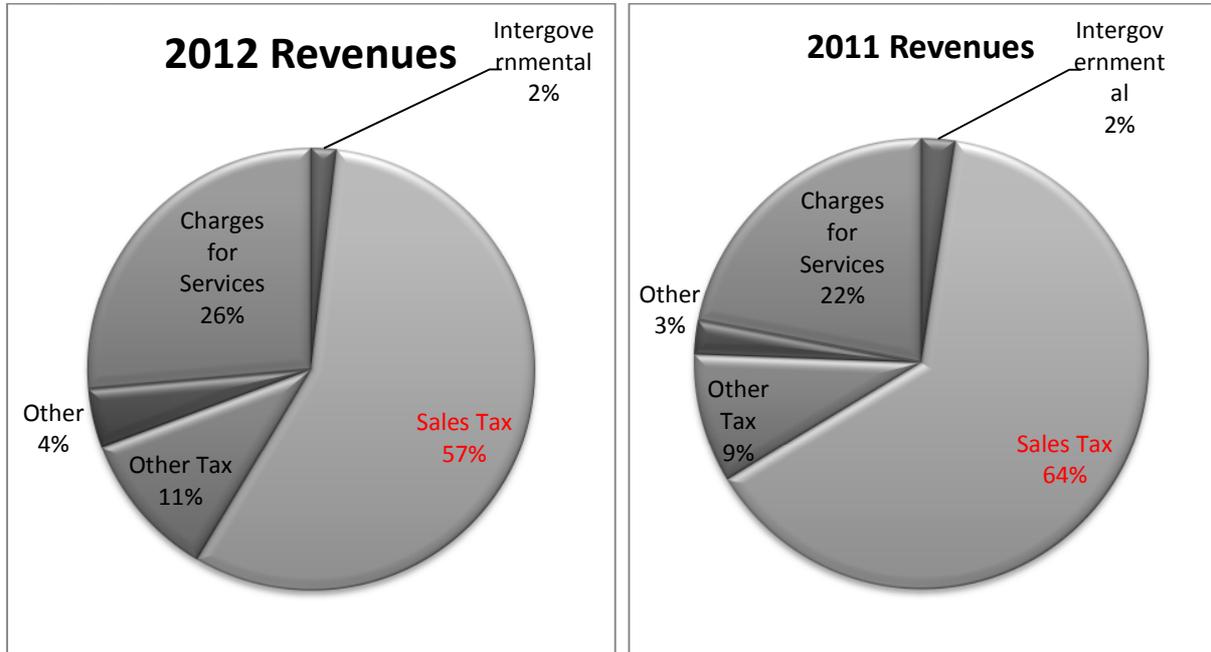
	Summary of Net Assets						\$ Change	% Change
	Governmental Activities		Business-Type Activities		Total			
	2012	2011	2012	2011	2012	2011		
Current assets	\$ 1,013,394	\$ 803,812	\$ 1,626,377	\$ 838,817	\$ 2,639,771	\$ 1,642,629	\$ 997,142	61%
Non-current assets	-	-	145,470	155,576	145,470	155,576	(10,106)	-6%
Capital assets, net	2,759,391	2,829,808	5,086,072	5,141,569	7,845,463	7,971,377	(125,914)	-2%
Total assets	3,772,785	3,633,620	6,857,919	6,135,962	10,630,704	9,769,582	861,122	9%
Current liabilities	19,354	12,359	582,762	576,520	602,116	588,879	13,237	2%
Non-current liabilities	44,469	48,862	2,957,680	3,346,555	3,002,149	3,395,417	(393,268)	-12%
Total liabilities	63,823	61,221	3,540,442	3,923,075	3,604,265	3,984,296	(380,031)	-10%
Net assets								
Invested in capital assets, net of related debt	2,759,391	2,829,808	1,906,013	1,574,751	4,665,404	4,404,559	260,845	6%
Restricted	292,708	324,759	-	-	292,708	324,759	(32,051)	-10%
Unrestricted	656,863	417,832	1,411,464	638,136	2,068,327	1,055,968	1,012,359	96%
Total net assets	\$ 3,708,962	\$ 3,572,399	\$ 3,317,477	\$ 2,212,887	\$ 7,026,439	\$ 5,785,286	\$ 1,241,153	21%

Summary of Changes in Net Assets

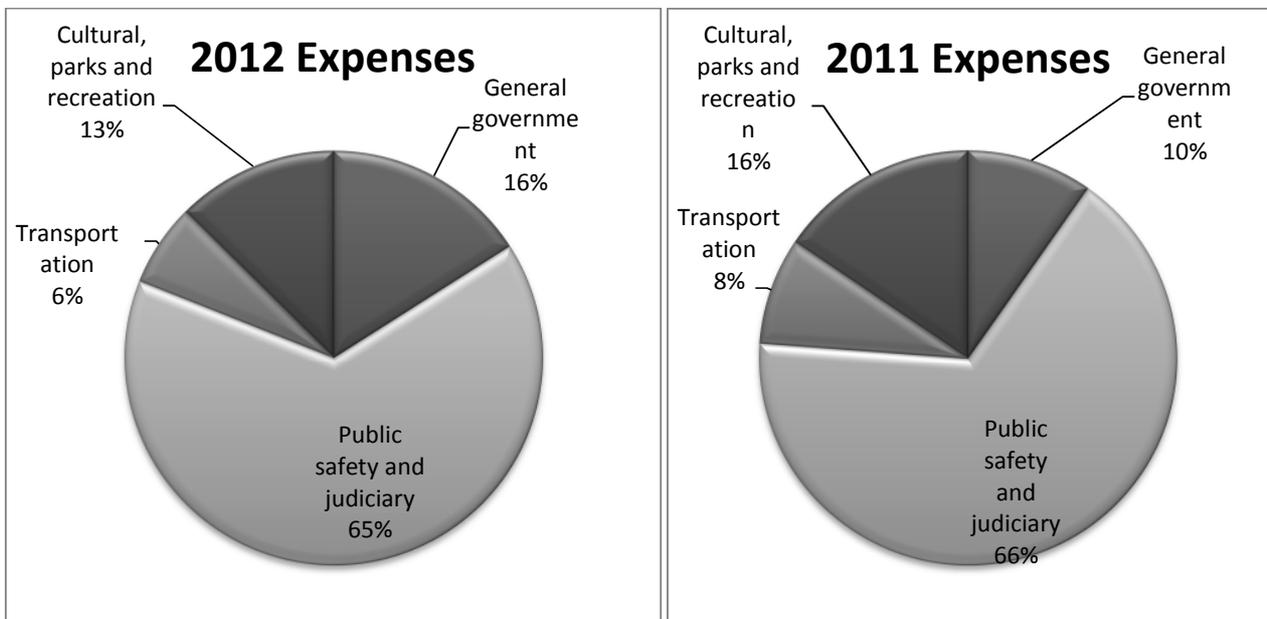
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
Revenues								
Program revenues	\$ 589,120	\$ 414,653	\$ 4,881,676	\$ 4,460,038	\$ 5,470,796	\$ 4,874,691	\$ 596,105	12%
Taxes and other general revenues	1,359,578	1,197,779	35,872	12,985	1,395,450	1,210,764	184,686	15%
Total revenues	1,948,698	1,612,432	4,917,548	4,473,023	6,866,246	6,085,455	780,791	27%
Expenses								
General government	340,884	170,048	-	-	340,884	170,048	170,836	100%
Public safety and judiciary	1,392,551	1,162,945	-	-	1,392,551	1,162,945	229,606	20%
Transportation	137,332	145,190	-	-	137,332	145,190	(7,858)	-5%
Cultural, parks, and recreation	268,051	271,641	-	-	268,051	271,641	(3,590)	-1%
Economic development	-	-	32,487	41,651	32,487	41,651	(9,164)	-22%
Electric	-	-	2,416,222	2,274,783	2,416,222	2,274,783	141,439	6%
Water	-	-	465,927	386,906	465,927	386,906	79,021	20%
Sewer	-	-	215,493	187,061	215,493	187,061	28,432	15%
Sanitation	-	-	187,705	190,221	187,705	190,221	(2,516)	-1%
Customer service	-	-	168,441	393,952	168,441	393,952	(225,511)	-57%
Total expenses	2,138,818	1,749,824	3,486,275	3,474,574	5,625,093	5,224,398	400,695	8%
Excess (deficiency) before transfers	\$ (190,120)	\$ (137,392)	\$ 1,431,273	\$ 998,449	\$ 1,241,153	\$ 861,057	\$ 380,096	44%
Transfers	326,683	305,078	(326,683)	(305,078)	-	-	-	0%
Increase (decrease) in net assets	\$ 136,563	\$ 167,686	\$ 1,104,590	\$ 693,371	\$ 1,241,153	\$ 861,057	\$ 380,096	44%

Revenues for the City increased 27% year over year. This increase in revenues is attributable to rebounding tax revenues and ambulance billings, as well as increase usage of customer utility services. Operating expenses also noted an overall increase over fiscal year 2011 of 8%. This increase is a function of the increase in the cost of police protection and utility services provided to the public.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.



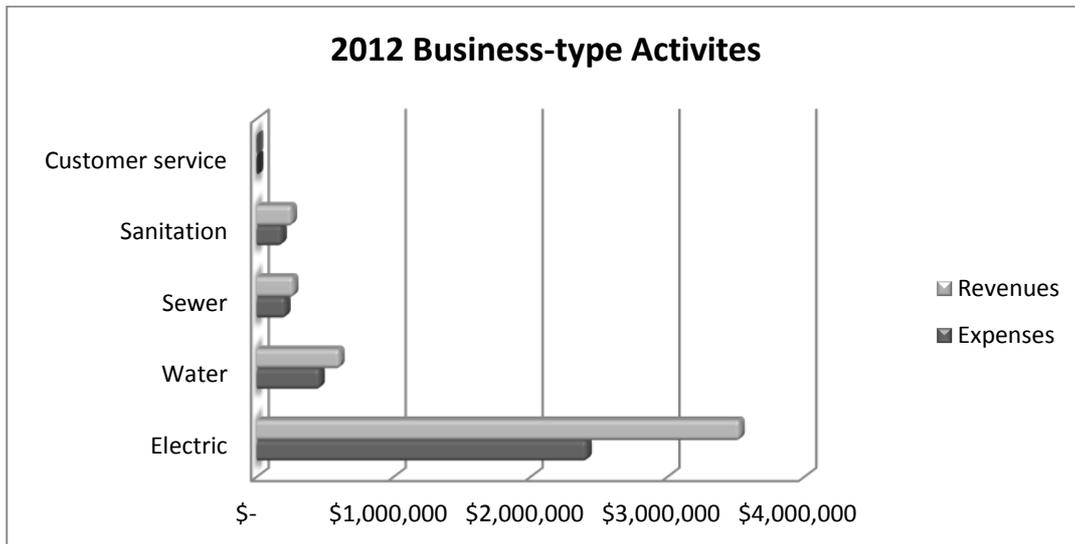
Taxes proved for 57% of the City's governmental revenues in fiscal year 2012 as compared to 64% in 2011. The increase in charges for services absorbed the difference in revenues earned, noting an increase of 4% of the total revenue provided by general government operations. Other revenue sources remained consistent year over year.



For the year ended June 30, 2012, total expenses for governmental activities were \$2,138,818 compared to \$1,749,824. Of this amount, public safety and judiciary with \$1,392,551, was the largest operating service department at 65% of the total cost of services for the City government, which is consistent with

prior year. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Tonkawa Municipal Authority. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2012, revenues from electric, water, sewer, and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2012 was \$2,095,045. Budget amendments were approved by Council during the fiscal year increasing the budget by \$60,625, for a final amended budget of \$2,155,670, prior to transfers. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$4,643,547 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ -	\$ -	\$ 14,176	\$ 18,289	\$ 14,176	\$ 18,289
Construction in process	-	19,572	-	-	0	19,572
Buildings	567,055	582,807	172,506	170,034	739,561	752,841
Machinery & equipment	145,042	133,060	67,572	79,811	212,614	212,871
Utility property & improvements	2,047,294	2,094,369	4,831,818	4,873,435	6,879,112	6,967,804
Totals	<u>\$ 2,759,391</u>	<u>\$ 2,829,808</u>	<u>\$ 5,086,072</u>	<u>\$ 5,141,569</u>	<u>\$ 7,845,463</u>	<u>\$ 7,971,377</u>

- In Governmental Activities, the most significant additions included a skid steer in the Street department, 2012 Chevy crew cab in the police department, and a Ford ranger for animal control
- In Business-type activities, capital additions included electrical improvements as well as water and sewer system improvements.

Long-Term Debt

At year-end, the City had \$3,325,529 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Business-type	
	2012	2011
Lease payable	-	-
Notes payable	1,950,529	2,090,566
Bonds payable	1,375,000	1,570,000
less current portion	<u>(397,404)</u>	<u>(341,979)</u>
Totals	<u>\$ 2,928,125</u>	<u>\$ 3,318,587</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

The national economic recession resulted in economic concerns and issues for the City. Overall tax revenues increased but showed inconsistency throughout the year. Because the City has effective processes in place to deal with the economic declines, the impact on the City has not been as detrimental as it has in other cities and other part of the country. Improvement in the economic position is cautiously projected.

Fees and Rates

Sales tax was budgeted at 90% of prior year collections. As noted above, the City expects to see improvement in the economy; however, a conservative approach was applied based upon the inconsistent revenues noted during FY12.

Operating and Capital Expenses

The City budget included a 3% raise for all full time employees. Fuel expenses noted an increase based upon consumption and increase in price.

Based upon projected revenues, the City has budgeted \$345,009 in capital improvements for the City to be completed during fiscal year 2013. Those improvements range from \$36,974 for the purchase of a four-wheel drive vehicle in the Police department, \$55,800 for a vac truck, \$105,000 in sewer line improvements, and \$122,485 in street paving projects among other infrastructure improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Tonkawa City Hall, 113 South 7th, Tonkawa, Oklahoma, 74653.

City of Tonkawa, Oklahoma
Statement of Net Assets
June 30, 2012

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 156,299	\$ 593,077	\$ 749,376
Investments	-	112,630	112,630
Accounts receivable (net)	119,393	275,900	395,293
Receivable from other governments	99,707	-	99,707
Total current assets	<u>375,399</u>	<u>981,607</u>	<u>1,357,006</u>
Restricted assets:			
Cash	617,995	507,360	1,125,355
Investments	20,000	137,410	157,410
Total restricted assets	<u>637,995</u>	<u>644,770</u>	<u>1,282,765</u>
Noncurrent Assets:			
Bond issuance costs, net	-	145,470	145,470
Land and construction in progress	-	15,000	15,000
Other capital assets (net of accumulated depreciation)	2,759,391	5,071,072	7,830,463
Total noncurrent assets	<u>2,759,391</u>	<u>5,231,542</u>	<u>7,990,933</u>
Total assets	<u>\$ 3,772,785</u>	<u>\$ 6,857,919</u>	<u>\$ 10,630,704</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 18,766	\$ 26,336	\$ 45,102
Accrued interest payable	-	11,623	11,623
Notes payable, current	-	189,404	189,404
Total current liabilities	<u>18,766</u>	<u>227,363</u>	<u>246,129</u>
Liabilities payable from restricted assets:			
Court bonds payable	588	-	588
Customer deposits payable	-	145,399	145,399
Bonds payable, current	-	210,000	210,000
Total liabilities payable from restricted assets	<u>588</u>	<u>355,399</u>	<u>355,987</u>
Noncurrent liabilities:			
Compensated absences	44,469	31,555	76,024
Notes payable, non-current	-	1,761,125	1,761,125
Bonds payable, non-current	-	1,165,000	1,165,000
Total noncurrent liabilities	<u>44,469</u>	<u>2,957,680</u>	<u>3,002,149</u>
Total liabilities	<u>63,823</u>	<u>3,540,442</u>	<u>3,604,265</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,759,391	1,906,013	4,665,404
Restricted	292,708	-	292,708
Unrestricted	656,863	1,411,464	2,068,327
Total net assets	<u>\$ 3,708,962</u>	<u>\$ 3,317,477</u>	<u>\$ 7,026,439</u>

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants & Contributions
Governmental activities:					
General government:					
General government	\$ 239,089	\$ 43,713	\$ 17,777	\$ -	\$ (177,599)
Administration	101,795	-	-	-	(101,795)
Total general government	<u>340,884</u>	<u>43,713</u>	<u>17,777</u>	<u>-</u>	<u>(279,394)</u>
Public safety and judiciary:					
Legal and courts	21,541	18,489	-	-	(3,052)
Code enforcement	18,110	-	-	-	(18,110)
Police	788,562	178,142	37,135	-	(573,285)
Fire	307,334	-	4,413	-	(302,921)
Ambulance	257,004	172,146	79,270	-	(5,588)
Total public safety and judiciary	<u>1,392,551</u>	<u>368,777</u>	<u>120,818</u>	<u>-</u>	<u>(902,956)</u>
Transportation:					
Streets	133,113	-	27,962	-	(105,151)
Airport	4,219	-	-	-	(4,219)
Total transportation	<u>137,332</u>	<u>-</u>	<u>27,962</u>	<u>-</u>	<u>(109,370)</u>
Cultural, parks and recreation:					
Parks	143,340	5,475	-	-	(137,865)
Library	124,711	-	4,598	-	(120,113)
Total cultural, parks and recreation	<u>268,051</u>	<u>5,475</u>	<u>4,598</u>	<u>-</u>	<u>(257,978)</u>
Total governmental activities	<u>2,138,818</u>	<u>417,965</u>	<u>171,155</u>	<u>-</u>	<u>(1,549,698)</u>
Business-type activities:					
Electric	2,416,222	3,533,348	-	-	1,117,126
Water	465,927	610,560	-	-	144,633
Sewer	215,493	273,199	-	-	57,706
Sanitation	187,705	261,868	-	-	74,163
Customer service	168,441	134,601	-	-	(33,840)
Economic development	32,487	-	68,100	-	35,613
Total business-type activities	<u>3,486,275</u>	<u>4,813,576</u>	<u>68,100</u>	<u>-</u>	<u>1,395,401</u>
Total primary government	<u>\$ 5,625,093</u>	<u>\$ 5,231,541</u>	<u>\$ 239,255</u>	<u>\$ -</u>	<u>\$ (154,297)</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2012

Changes in Net Assets:

(Continued)

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (1,549,698)	\$ 1,395,401	\$ (154,297)
General revenues:			
Taxes:			
Sales taxes	1,105,854	-	1,105,854
Use taxes	96,045	-	96,045
Franchise taxes	48,361	-	48,361
Cigarette taxes	15,816	-	15,816
Alcoholic beverage tax	12,179	-	12,179
Investment income	4,499	5,182	9,681
Gain on sale of assets	-	8,111	8,111
Miscellaneous	76,824	22,579	99,403
Transfers-Internal activity	326,683	(326,683)	-
Total general revenues and transfers	<u>1,686,261</u>	<u>(290,811)</u>	<u>1,395,450</u>
Change in net assets	136,563	1,104,590	1,241,153
Net assets-beginning	3,572,399	2,212,887	5,785,286
Net assets-ending	<u>\$ 3,708,962</u>	<u>\$ 3,317,477</u>	<u>\$ 7,026,439</u>

**City of Tonkawa, Oklahoma
Balance Sheet
June 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 450,574	\$ 320,678	\$ 3,042	\$ 774,294
Investments	-	-	20,000	20,000
Accounts receivable	60,506	-	-	60,506
Fines receivable, net of allowance	58,887	-	-	58,887
Receivable from other governments	99,707	-	-	99,707
Total assets	<u>\$ 669,674</u>	<u>\$ 320,678</u>	<u>\$ 23,042</u>	<u>\$ 1,013,394</u>
LIABILITIES				
Accounts payable	\$ 18,766	\$ -	\$ -	\$ 18,766
Court bonds payable	588	-	-	588
Total liabilities	<u>19,354</u>	<u>-</u>	<u>-</u>	<u>19,354</u>
FUND BALANCES				
Restricted	5,208	-	20,000	25,208
Committed	352,613	320,678	-	673,291
Assigned	42,459	-	3,042	45,501
Unassigned	250,040	-	-	250,040
Total fund balances	<u>650,320</u>	<u>320,678</u>	<u>23,042</u>	<u>994,040</u>
Total liabilities and fund balances	<u>\$ 669,674</u>	<u>\$ 320,678</u>	<u>\$ 23,042</u>	<u>\$ 1,013,394</u>
Total fund balance - total governmental funds				994,040
Amounts reported for governmental activities in the Statement of Net assets are different because:				
Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds				
	Capital assets		3,659,445	
	Less: Accumulated depreciation		<u>(900,054)</u>	2,759,391
Long-term liabilities are not due and payable in the current period and are not reported in the funds				
	Compensated absences			<u>(44,469)</u>
Net assets of governmental activities				<u>\$ 3,708,962</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2012

	General Fund	Capital Projects Capital Improvement Fund	Special Revenue Blinn Park Memorial Fund	Total Governmental Funds
REVENUES				
Sales taxes	\$ 1,105,854	\$ -	\$ -	\$ 1,105,854
Use taxes	96,045	-	-	96,045
Franchise taxes	48,361	-	-	48,361
E911 fees	37,135	-	-	37,135
Cigarette tax	15,816	-	-	15,816
Alcoholic Beverage Tax	12,179	-	-	12,179
Licenses and permits	9,754	-	-	9,754
Fines and forfeitures	196,631	-	-	196,631
Investment income	2,135	2,342	22	4,499
Charges for services	273,975	-	-	273,975
Rental income	33,959	-	-	33,959
Intergovernmental	35,089	-	-	35,089
Donations	7,944	-	-	7,944
Miscellaneous	71,457	-	-	71,457
Total revenues	<u>1,946,334</u>	<u>2,342</u>	<u>22</u>	<u>1,948,698</u>
EXPENDITURES				
General government:				
General government	215,675	-	-	215,675
Administration	101,795	-	-	101,795
Total general government	<u>317,470</u>	<u>-</u>	<u>-</u>	<u>317,470</u>
Public safety and judiciary:				
Legal and courts	21,541	-	-	21,541
Code enforcement	18,110	-	-	18,110
Police	754,043	-	-	754,043
Fire	290,821	-	-	290,821
Ambulance	250,049	-	-	250,049
Total public safety and judiciary	<u>1,334,564</u>	<u>-</u>	<u>-</u>	<u>1,334,564</u>
Transportation:				
Street	115,305	-	-	115,305
Airport	4,219	-	-	4,219
Total transportation	<u>119,524</u>	<u>-</u>	<u>-</u>	<u>119,524</u>
Cultural, parks and recreation:				
Parks	86,090	-	-	86,090
Library	124,711	-	-	124,711
Total cultural, parks and recreation	<u>210,801</u>	<u>-</u>	<u>-</u>	<u>210,801</u>
Capital outlay	40,604	49,831	-	90,435
Total expenditures	<u>2,022,963</u>	<u>49,831</u>	<u>-</u>	<u>2,072,794</u>
Excess (deficiency) of revenues over expenditures	<u>(76,629)</u>	<u>(47,489)</u>	<u>22</u>	<u>(124,096)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,601,625	121,465	-	1,723,090
Transfers out	(1,341,370)	(55,037)	-	(1,396,407)
Total other financing sources and uses	<u>260,255</u>	<u>66,428</u>	<u>-</u>	<u>326,683</u>
Net change in fund balances	183,626	18,939	22	202,587
Fund balances - beginning	466,694	301,739	23,020	791,453
Fund balances - ending	<u>\$ 650,320</u>	<u>\$ 320,678</u>	<u>\$ 23,042</u>	<u>\$ 994,040</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2012

(Continued)

Reconciliation of the change in fund balances - total governmental funds
to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds \$ 202,587

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

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital asset purchases capitalized	90,436
Depreciation expense	(162,810)

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

	Current Year	Prior Year	
Compensated absences	\$ 44,469	\$ 48,862	6,350
Change in Net Assets of Governmental Activities			\$ 136,563

City of Tonkawa, Oklahoma
General Fund
June 30, 2012
Budget and Actual (Non-GAAP Budgetary Basis)

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Tax revenue	\$ 978,597	\$ 233,037	\$ 1,211,634	\$ 1,229,894	\$ 18,260
Franchise taxes	34,961	9,755	44,716	48,361	3,645
Licenses and permits	5,000	4,360	9,360	9,754	394
Fines and forfeitures	100,000	56,611	156,611	233,766	77,155
Charges for services	145,000	49,309	194,309	273,975	79,666
Rental income	25,000	6,216	31,216	33,959	2,743
Intergovernmental	37,252	7,000	44,252	35,089	(9,163)
Interest income	2,500	-	2,500	2,135	-
Miscellaneous	127,884	(46,696)	81,188	79,401	(1,787)
Total revenues	<u>1,456,194</u>	<u>319,592</u>	<u>1,775,786</u>	<u>1,946,334</u>	<u>170,913</u>
EXPENDITURES					
Current:					
General government:					
General government	25,450	241,000	266,450	215,675	50,775
Administration	234,500	(234,500)	-	-	-
Total general government	<u>259,950</u>	<u>6,500</u>	<u>266,450</u>	<u>215,675</u>	<u>50,775</u>
Public safety and judiciary:					
Legal and courts	14,405	8,000	22,405	21,541	864
Code enforcement	50,740	-	50,740	18,110	32,630
Police	835,200	10,625	845,825	794,647	51,178
Fire	282,900	25,500	308,400	290,821	17,579
Ambulance	261,450	-	261,450	250,049	11,401
Total public safety and judiciary	<u>1,444,695</u>	<u>44,125</u>	<u>1,488,820</u>	<u>1,375,168</u>	<u>113,652</u>
Transportation:					
Street	111,400	15,000	126,400	115,305	11,095
Airport	9,000	-	9,000	4,219	4,781
Total transportation	<u>120,400</u>	<u>15,000</u>	<u>135,400</u>	<u>119,524</u>	<u>15,876</u>
Cultural, parks and recreation:					
Parks	128,250	(5,000)	123,250	86,090	37,160
Library	141,750	-	141,750	124,711	17,039
Total cultural, parks and recreation	<u>270,000</u>	<u>(5,000)</u>	<u>265,000</u>	<u>210,801</u>	<u>54,199</u>
Total expenditures	<u>2,095,045</u>	<u>60,625</u>	<u>2,155,670</u>	<u>1,921,168</u>	<u>234,502</u>
Revenue over (under) expenditures	(638,851)	258,967	(379,884)	25,166	(63,589)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	638,907	(258,967)	379,940	260,255	(119,685)
Net other financing sources (uses)	<u>638,907</u>	<u>(258,967)</u>	<u>379,940</u>	<u>260,255</u>	<u>(119,685)</u>
Revenues and other financing sources over (under) expenditures and other uses	56	-	56	285,421	(183,274)
Fund balance at beginning of year (Non-GAAP budgetary basis)	-	-	-	350,185	350,185
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 635,606</u>	<u>\$ 166,911</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue accruals				110,244	
Expenditure accruals				(95,530)	
Fund balance at end of year (GAAP basis)				<u>\$ 650,320</u>	

City of Tonkawa, Oklahoma
Statement of Net Assets
June 30, 2012

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 559,766	\$ 33,311	\$ 593,077
Investments	98,590	14,040	112,630
Due from other funds	-	-	-
Interest receivable	-	-	-
Accounts receivable (net)	275,900	-	275,900
Total current assets	<u>934,256</u>	<u>47,351</u>	<u>981,607</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	507,360	-	507,360
Investments	137,410	-	137,410
Total restricted assets	<u>644,770</u>	<u>-</u>	<u>644,770</u>
Noncurrent assets:			
Bond issuance cost (net)	145,470	-	145,470
Capital assets (net)	5,050,926	35,146	5,086,072
Total noncurrent assets	<u>5,196,396</u>	<u>35,146</u>	<u>5,231,542</u>
Total assets	<u>\$ 6,775,422</u>	<u>\$ 82,497</u>	<u>\$ 6,857,919</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 26,336	\$ -	\$ 26,336
Wages and benefits payable	-	-	-
Accrued interest payable	11,623	-	11,623
Other accrued liabilities	-	-	-
Compensated absences, current	31,555	-	31,555
Notes payable, current	189,404	-	189,404
Total current liabilities	<u>258,918</u>	<u>-</u>	<u>258,918</u>
Liabilities payable from restricted assets:			
Customer deposits payable	145,399	-	145,399
Bonds payable, current	210,000	-	210,000
Total liabilities payable from restricted assets	<u>355,399</u>	<u>-</u>	<u>355,399</u>
Noncurrent liabilities:			
Notes payable, non-current	1,761,125	-	1,761,125
Bonds payable, noncurrent	1,165,000	-	1,165,000
Total noncurrent liabilities	<u>2,926,125</u>	<u>-</u>	<u>2,926,125</u>
Total liabilities	<u>3,540,442</u>	<u>-</u>	<u>3,540,442</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,725,397	-	1,725,397
Unrestricted	<u>1,509,583</u>	<u>82,497</u>	<u>1,592,080</u>
Total net assets	<u>\$ 3,234,980</u>	<u>\$ 82,497</u>	<u>\$ 3,317,477</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
June 30, 2012

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Operating revenues:</u>			
Charges for services:			
Electric charges	\$ 3,533,348	\$ -	\$ 3,533,348
Water charges	610,560	-	610,560
Sewer charges	273,199	-	273,199
Sanitation charges	261,868	-	261,868
Penalties	82,058	-	82,058
Total charges for services	<u>4,761,033</u>	-	<u>4,761,033</u>
Lease and rental income	-	-	-
Donations	-	30,900	30,900
Miscellaneous	75,122	4,000	79,122
Total operating revenues	<u>4,836,155</u>	<u>34,900</u>	<u>4,871,055</u>
<u>Operating expenses:</u>			
Cost of goods sold	2,045,141	-	2,045,141
Personal services	552,987		552,987
Materials and supplies	181,839	115	181,954
Other services and charges	371,379	27,898	399,277
Bad debt expense	-	-	-
Depreciation and amortization	181,707	4,474	186,181
Total operating expenses	<u>3,333,053</u>	<u>32,487</u>	<u>3,365,540</u>
Net operating income	1,503,102	2,413	1,505,515
<u>Nonoperating revenue (expense):</u>			
Investment income	4,993	189	5,182
Interest expense	(120,735)	-	(120,735)
Grant income	-	33,200	33,200
Gain/(loss) on sale of assets	-	8,111	8,111
Total nonoperating revenue (expense)	<u>(115,742)</u>	<u>41,500</u>	<u>(74,242)</u>
Net Income before contributions and transfers	1,387,360	43,913	1,431,273
Transfers from other funds	1,396,407	-	1,396,407
Transfers to other funds	(1,723,090)	-	(1,723,090)
Change in net assets	1,060,677	43,913	1,104,590
Net assets-beginning of year	2,174,303	38,584	2,212,887
Net assets-end of year	<u>\$ 3,234,980</u>	<u>\$ 82,497</u>	<u>\$ 3,317,477</u>

City of Tonkawa, Oklahoma
Statement of Cash Flows
June 30, 2012

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Cash flows from operating activities:</u>			
Receipts from customers/contracts	\$ 4,570,752	\$ -	\$ 4,570,752
Payments to suppliers	(2,586,134)	(28,013)	(2,614,147)
Payments to employees	(549,400)	-	(549,400)
Other operating revenues	75,122	34,900	110,022
Net cash provided (used) by operating activities	1,510,340	6,887	1,517,227
<u>Cash flows from non-capital financing activities:</u>			
Transfers from other funds	1,396,407	-	1,396,407
Transfers to other funds	(1,723,090)	-	(1,723,090)
Net cash provided (used) by non-capital financing activities	(326,683)	-	(326,683)
<u>Cash flows from capital and related financing activities:</u>			
Purchase of capital assets	(93,285)	(26,467)	(119,752)
Gain on sale of assets	-	8,111	8,111
Principal paid on capital debt	(394,356)	-	(394,356)
Interest and fiscal charges paid on capital debt	(125,786)	-	(125,786)
Capital contributions/grants	-	33,200	33,200
Net cash provided (used) by capital and related financing activities	(613,427)	14,844	(598,583)
<u>Cash flows from investing activities:</u>			
(Purchase)/liquidation of investments, unrestricted	4,993	189	5,182
Net cash provided (used) by investing activities	4,993	189	5,182
Net increase (decrease) in cash and cash equivalents	575,223	21,920	597,143
Cash and cash equivalents, July 1, 2011	491,903	11,391	503,294
Cash & cash equivalents, June 30, 2012	<u>\$ 1,067,126</u>	<u>\$ 33,311</u>	<u>\$ 1,100,437</u>
Cash, including time deposits	\$ 559,766	\$ 33,311	\$ 593,077
Restricted cash, including time deposits	507,360	-	507,360
Total cash and cash equivalents, end of year	<u>\$ 1,067,126</u>	<u>\$ 33,311</u>	<u>\$ 1,100,437</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>			
Operating income (loss)	\$ 1,503,102	\$ 2,413	\$ 1,505,515
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	181,707	4,474	186,181
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(190,281)	-	(190,281)
Increase (decrease) in accounts payable	13,125	-	13,125
Increase (decrease) in wages & benefits payable	-	-	-
Increase (decrease) in other accrued liabilities	(900)	-	(900)
Increase (decrease) in compensated absences	3,587	-	3,587
Total adjustments	<u>7,238</u>	<u>4,474</u>	<u>11,712</u>
Net cash provided (used) by operating activities	\$ 1,510,340	\$ 6,887	\$ 1,517,227

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tonkawa, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2012.

A. Reporting Entity

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Capital Improvement Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax. Two-thirds of the tax is restricted for use for water, sewer, sanitation, and drainage. One-third of the tax is restricted for debt payments on the pool bond issue.

Blinn Park Fund

Established as a special revenue fund to account for operations at the City's Blinn Park.

Major Proprietary Funds

Tonkawa Municipal Authority

Accounts for the operating activities of the electric, water, sewer, and sanitation utilities of the City.

Tonkawa Development Authority

Accounts for the operating activities of the economic development of the City.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both 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. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Clerk and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

D. Policies Related to Assets, Liabilities, and Fund Equity

Cash and Investments

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

Accounts Receivable

Significant receivables include sales and use tax receivables and amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Restricted Assets

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service revenues, and customer meter deposits. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Interfund Balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

Capital Assets, Depreciation, and Amortization

They City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$5,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

- Buildings 10-25 years
- Other improvements 10-25 years
- Machinery, furniture & equipment 3-25 years
- Infrastructure 10-20 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are capitalized and amortized over the terms of the respective bond using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sourced of the current period. Issuance costs are reported as expenditures.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Fund Equity

Fund Balance

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

Net Assets

Both proprietary fund financial statements and government-wide financial statements report net assets. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net assets.

Invested in capital assets, net of related debt

The amount restricted 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.

Restricted net assets

Amounts reported as restricted consist of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

General Revenues

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

Sales Tax

The City levied a 4.5% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to the use. The unrestricted portion (3%) is recorded as sales tax revenue within the General Fund; the remaining 1.5% is restricted and transferred to the Capital Improvement fund, allocated 1% for water, sewer, sanitation, and drainage improvements and 0.5% for debt service on the 2008 bond issue.

(2) ASSETS AND LIABILITIES

A. Assets

Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Investments

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

<u>Types of Investments</u>	<u>Primary Government</u>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 270,040	\$ 270,040	N/A	104
Total investments	<u>270,040</u>	<u>270,040</u>		
 Total primary government investments	 <u>\$ 270,040</u>	 <u>\$ 270,040</u>		

RECONCILIATION TO STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ -	\$ 112,630	\$ 112,630
Investments, restricted	20,000	137,410	157,410
Total investments	<u>\$ 20,000</u>	<u>\$ 250,040</u>	<u>\$ 270,040</u>

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

Receivables and Uncollectable Amounts

Receivable from other governments

Governmental activities report sales and use taxes receivable of \$99,707 comprised of amount received after year-end for current year taxes on sales. Sales and Use Tax are considered fully collectible.

Accounts Receivable

Governmental activities report fines and forfeitures and ambulance receivables totaling \$58,887 and \$60,506, respectively. An allowance of \$29,237 is recorded based upon management experience.

Proprietary activities report accounts receivable of \$275,900 comprised of amounts due from citizens for utility services provided. The City has recorded an allowance of \$14,551 based upon historical management knowledge and experience.

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at June 30, 2011 *	Additions	Deletions	Balance at June 30, 2012
<i><u>Governmental Activities</u></i>				
Construction in process	\$ 19,572	\$ -	\$ 19,572	\$ -
Buildings & structures	641,912	-	-	641,912
Machinery, furniture, & equipment	589,475	110,007	-	699,482
Infrastructure & improvements	2,318,051	-	-	2,318,051
Total	3,569,010	110,007	19,572	3,659,445
Less accumulated depreciation	739,202	160,852	-	900,054
Governmental fixed assets, net	\$ 2,829,808	\$ (50,845)	\$ (19,572)	\$ 2,759,391
<i><u>Business-type Activities</u></i>				
Land	\$ 18,056	\$ -	\$ 3,889	\$ 14,167
Construction in process	-	10,000	-	10,000
Buildings & structures	263,910	-	-	263,910
Machinery, furniture, & equipment	85,910	1,250	-	87,160
Infrastructure & improvements	6,210,483	113,153	-	6,323,636
Total	6,578,359	124,403	3,889	6,698,873
Less accumulated depreciation	1,436,790	176,011	-	1,612,801
Business-type fixed assets, net	\$ 5,141,569	\$ (51,608)	\$ (3,889)	\$ 5,086,072
Total primary government	\$ 7,971,377	\$ (102,453)	\$ (23,461)	\$ 7,845,463

The beginning balance of the business-type activities is restated to include the capital assets of the Tonkawa Development Authority as of June 30, 2011. Total assets increased \$14,406; accumulated depreciation increased \$1,117 for a net change of \$13,289.

Depreciation Expense

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 23,414	Electric	\$ 15,535
Public safety & judiciary	55,425	Water	136,558
Transportation	17,808	Sewer	2,404
Cultural, parks & recreation	57,250	Customer service	17,040
Ambulance	6,955	Economic development	4,474
Total depreciation expense	\$ 160,852	Total depreciation expense	\$ 176,011

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

B. Liabilities

Notes and Bonds Payable

Business-Type Activities

Notes Payable:

On October 10, 2002, TMA entered into an agreement with Farmers Exchange Bank for a loan in the amount of \$125,050 at a fixed interest rate of 6%, maturing October 2012. The loan was used to fund the purchase of a substation.	\$ 4,072
On December 13, 2006, TMA entered into an agreement with Farmers Exchange Bank for a loan in the amount of \$69,984 at a fixed interest rate of 5.5%, maturing October 2013. The loan was used to fund the purchase of a bucket truck.	16,218
On October 10, 2002, TMA entered into an agreement with First National Bank of Oklahoma for a loan in the amount of \$125,000 at a fixed interest rate of 7%, maturing October 2012. The loan was used to fund the purchase of a substation.	4,458
\$530,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002 Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-02-0008, dated June 7, 2002, due in semi-annual installments over 20 years plus interest of 2.5% and an administrative fee of 0.5%, on March 15 and September 15. Note was used to fund sewer system improvements and secured by pledged sales tax and utility system revenues.	313,340
\$350,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 1995 Small Community SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-94-007, dated September 1, 1995, due in semi-annual installments over 20 years plus interest of 3%, plus and administrative fee of 0.5%, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues and an additional \$1.70 sewage fee.	99,525
\$1,070,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002A Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-007CW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues.	647,207
\$1,440,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002B Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-003DW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the clean water system. Loan is secured by pledged sales tax and utility system revenues.	865,709
	\$ 1,950,529

Bonds Payable:

On April 12, 2006, TMA issued \$1,205,000 in refunding bonds, Tonkawa Municipal Authority Sales Tax Revenue Note, Series 2006 for the purpose of water system improvements. The notes mature April 1, 2019 and carry an interest rates of 4.425% per annum. The notes require monthly payments into a debt service account from which annual debt service payments are made.	\$ 735,000
On October 7, 2008, TMA issued \$1,075,000 in revenue bonds, series 2008 for the purpose of improving the City swimming facilities. The notes mature June 1, 2017 and carry an interest rates of 4.95% per annum. The notes require monthly payments into a debt service account from which semi-annual debt service payments are made. The Note is secured by electric, water, sewer, and sanitation system ("system") revenues and 1% restricted sales tax revenues.	640,000
	\$ 1,375,000

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2011</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Business-type activities:					
<i>Notes Payable</i>					
Farmers Exchange (substation)	\$ 21,219	\$ -	\$ 17,147	\$ 4,072	\$ 4,072
Farmers Exchange (bucket truck)	28,005	-	11,787	16,218	10,923
First National Bank	21,938	-	17,480	4,458	4,458
OWRB - 2002	338,284	-	24,944	313,340	26,167
OWRB - 1995	119,584	-	20,059	99,525	20,589
OWRB - 2002A	694,455	-	47,248	647,207	52,467
OWRB - 2002B	928,909	-	63,200	865,709	70,728
Total notes payable	<u>\$ 2,152,394</u>	<u>\$ -</u>	<u>\$ 201,865</u>	<u>\$ 1,950,529</u>	<u>\$ 189,404</u>
<i>Bonds Payable</i>					
Series 2006	820,000	-	85,000	735,000	90,000
Series 2008	750,000	-	110,000	640,000	120,000
Total business-type activities	<u>\$ 1,570,000</u>	<u>\$ -</u>	<u>\$ 195,000</u>	<u>\$ 1,375,000</u>	<u>\$ 210,000</u>
Total primary government	<u>\$ 3,722,394</u>	<u>\$ -</u>	<u>\$ 396,865</u>	<u>\$ 3,325,529</u>	<u>\$ 399,404</u>

Annual Debt Service Requirements

<u>Year Ending June 30</u>	<u>Notes Payable</u>		<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 189,404	\$ 42,972	\$ 210,000	\$ 56,212
2014	179,939	38,324	215,000	46,299
2015	169,584	31,006	230,000	35,690
2016	165,294	23,650	235,000	24,849
2017	168,218	20,725	250,000	13,313
2018-2022	887,281	75,434	235,000	7,966
2023-2024	190,809	10,376	-	-
Totals	<u>\$ 1,950,529</u>	<u>\$ 242,487</u>	<u>\$ 1,375,000</u>	<u>\$ 184,329</u>

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

C. Interfund Balances

	Transfers In	Transfers Out
GENERAL FUND		
Tonkawa Municipal Authority	\$ 1,601,625	\$ 1,341,370
Total General Fund	1,601,625	1,341,370
CAPITAL IMPROVEMENT FUND		
Utility Authority	121,465	55,037
Total Capital Improvement Fund	121,465	55,037
TONKAWA MUNICIPAL AUTHORITY		
General Fund	1,341,370	1,601,625
Capital Improvement Fund	55,037	121,465
Total Tonkawa Municipal Authority	1,396,407	1,723,090
GRAND TOTAL	\$ 3,119,497	\$ 3,119,497

(3) FUND NET ASSETS AND FUND BALANCE

Fund Balance Reserved for Restricted Purposes

The General Fund reported \$292,708 reserved for restricted purposes for capital projects in the City and maintenance of Blinn Park which were created by City ordinance.

(4) REVENUES AND EXPENSES

Interfund Transfers

Refer to Note (2)C. Interfund Balances

(5) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

Name of Plan	Type of Plan
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Contribution Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

A. Oklahoma Municipal Retirement Fund

Plan Description

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 3.5% of their covered compensation. The City contributes 10.48% of covered compensation. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRF. All gains and/or losses are credited directly to each participant. Benefits vest after 10 years of service with normal retirement at age 65 and early retirement at age 55 with 10 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The following is a summary of eligibility, contribution methods and benefits provisions:

Provision	OMRF Plan
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighter, and other employees who are covered under another approved system.
b. Contributions Requirement	Yes
- Actuarially Determined	10.65% of covered payroll
- Employer Rate	3.5% of covered payroll
- Employee Rate	
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 10 years of service. - Early Retirement after age 55 with 10 years or more of service. - Disability retirement upon disability with 10 years of service. - Termination before retirement age return of employee contributions with interest - Termination after vesting accrued benefit at normal retirement age
e. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 3% of final average compensation multiplied by the number of year of credited service
f. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage, non-married participants 50% of the accrued benefit is payable for 5 years
- Prior to 10 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

Funding Status and Progress

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/12	2,146,584	2,523,243	376,659	85.1%	776,665	48.5%

a. Date of last Actuarial Valuation	March 2012
b. Significant Actuarial Assumptions Used:	
1. Rate of Return on Investments	7.5%
2. Projected Salary Increase	4.0% - 7.42%
3. Retirement Age	Normal and Early Rates
4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial cost method
c. Actuarial cost method	Entry age normal cost method
d. Amortization method	Level % of payroll

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

e. Fiscal Year 2012 Contributions Made	
Total Contributions	\$107,992
Employee Contributions	\$26,872
Employer Contributions	\$81,120

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

B. Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	<u>Oklahoma Firefighter's Pension and Retirement System</u>	<u>Oklahoma Police Pension and Retirement System</u>
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	8% of covered payroll	8% of covered payroll
City's contribution rate	13% per year, per firefighter	13% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contribution are required by Oklahoma State Statute. Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems; Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 7316-7335.

(6) COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

B. Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Derrel S. White, CPA

P.O. Box 842
Woodward, OK 73802
(580) 256-6830

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

To the City Council
City of Tonkawa, Oklahoma

We 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 City of Tonkawa, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Tonkawa, Oklahoma's basic financial statements and have issued our report thereon dated December 17, 2012. Our opinion on the financial statements as a whole and the each major fund and the aggregate remaining funds was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Tonkawa, OK's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Tonkawa, OK's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tonkawa, OK's internal control over financial reporting.

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

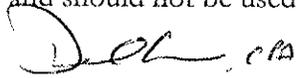
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tonkawa, OK'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*.

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



Derrel S. White, CPA

Woodward, OK

December 17, 2012