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CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PAULS VALLEY

June 30, 2013

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Adverse Opinion on the Pauls Valley Hospital Authority and Qualified Opinion on the Business-Type Activities

Management has not included the Pauls Valley Hospital Authority in the City's financial statements. Accounting principles generally accepted in the United States of America require the Pauls Valley Hospital Authority to be presented as a major enterprise fund and information about the Pauls Valley Hospital Authority to be a part of the business-type activities, thus increasing the activity's assets, liabilities, revenues and expenses, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the omitted major

Adverse Opinion

In our opinion because of the significance of the matter described in the “Basis for Adverse Opinion on the Pauls Valley Hospital Authority and Qualified Opinion on Business-Type Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the Pauls Valley Hospital Authority of the City of Pauls Valley as of June 30, 2013, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the “Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units” paragraph the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Pauls Valley, Oklahoma, as of June 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund other than the Pauls Valley Hospital Authority, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

The City of Pauls Valley has omitted the Management’s Discussion and Analysis 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate economic or history context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pauls Valley’s financial statements as a whole. The combining and individual nonmajor fund financial statements, the combining general fund statements and the schedule of federal and state awards 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, the combining general fund

statements and the schedule of federal and state awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the combining general fund statements and the schedule of federal and state awards information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pauls Valley Hospital Authority Going Concern

As noted in the paragraph "Basis for Adverse Opinion on the Pauls Valley Hospital Authority and Qualified Opinion on the Business-Type Activities" the Pauls Valley Hospital Authority financial information is not included in the City's financial statements. In addition as described in note 3. B. the Hospital has filed a voluntary petition for debt restructuring under Chapter 9 of the Federal Bankruptcy Code and was authorized to continue managing the Hospital as a debtor subject to the control and supervision of the bankruptcy court. Those conditions raise substantial doubt about the Hospital's ability to continue as a going concern.

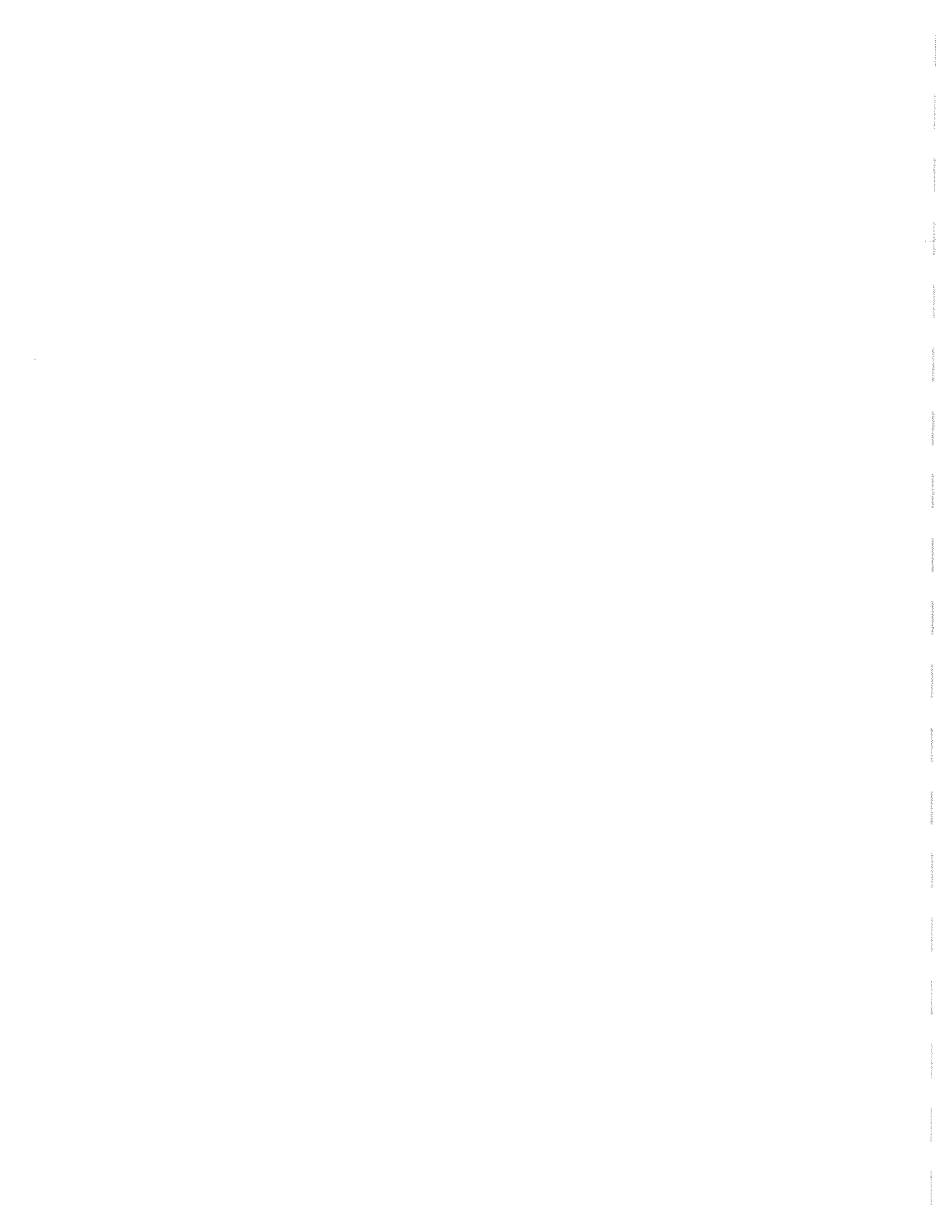
Other Reporting Required by *Government Audit Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Angel, Johnston & Blessingame, P.C.

Chickasha, Oklahoma

June 10, 2014



BASIC FINANCIAL STATEMENTS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Activities
For the Year Ending June 30, 2013

Functions/Programs Primary Government:	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component Unit Pauls Valley Airport Authority	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
\$ 1,040,995	\$ 39,205	\$ 30,449	\$ -	\$ (971,341)	\$ -	\$ (971,341)	\$ -	
2,210,223	135,016	6,884	-	(2,068,323)	-	(2,068,323)	-	
1,703,551	691,693	10,056	50,000	(951,802)	-	(951,802)	-	
732,335				(732,335)	-	(732,335)	-	
180,094				(180,094)	-	(180,094)	-	
22,312				(22,312)	-	(22,312)	-	
97,359				(97,359)	-	(97,359)	-	
127,561			127,458	(103)	-	(103)	-	
<u>6,114,430</u>	<u>865,914</u>	<u>47,389</u>	<u>177,458</u>	<u>(5,023,669)</u>	-	<u>(5,023,669)</u>	-	
2,412,166	1,266,984	-	-	-	(1,145,182)	(1,145,182)	-	
480,821	366,484	-	-	-	(114,337)	(114,337)	-	
1,038,246	1,224,949	-	-	-	186,703	186,703	-	
234,486					(234,486)	(234,486)	-	
1,636,234					(1,636,234)	(1,636,234)	-	
164,459	65,171	-	-	-	(99,288)	(99,288)	-	
677,556	2,923,388	-	-	-	(677,556)	(677,556)	-	
<u>6,643,968</u>	<u>2,923,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,720,380)</u>	<u>(3,720,380)</u>	<u>-</u>	
12,758,398	3,789,502	47,389	177,458	(5,023,669)	(3,720,380)	(8,744,049)	-	
512,825	272,412	-	-	-	-	-	(240,413)	
<u>512,825</u>	<u>272,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(240,413)</u>	
General Revenues:								
Taxes:								
Sales and Use Taxes				5,587,984	-	5,587,984	-	
Franchise Taxes				344,546	-	344,546	-	
Hotel/Motel Taxes				352,029	-	352,029	-	
E-911 Taxes				25,818	-	25,818	-	
Advalorem Taxes				241,853	-	241,853	-	
Intergovernmental Revenue				315,142	-	315,142	-	
Investment Income				11,820	7,593	19,413	163	
Miscellaneous				105,832	51,869	157,701	-	
Payments from Primary Government				(223,875)	-	(223,875)	-	
Transfers - Internal Activity				(1,187,124)	1,187,124	-	223,875	
<u>Total General Revenues and Transfers</u>				<u>5,574,025</u>	<u>1,246,586</u>	<u>6,820,611</u>	<u>224,038</u>	
Change in Net Position				550,356	(2,473,794)	(1,923,438)	(16,375)	
Net Position - Beginning - Restated				19,475,566	17,640,070	37,115,636	3,889,797	
Net Position - Ending				\$ 20,025,922	\$ 15,166,276	\$ 35,192,198	\$ 3,873,421	

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS



CITY OF PAULS VALLEY, OKLAHOMA
Balance Sheet
Governmental Funds
6/30/2013

	<u>General</u>	<u>One Cent Fund</u>	<u>Non-major + Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,074,220	\$ 1,132,276	\$ 1,442,588	\$ 3,649,084
Investments			151,633	151,633
Receivables:				
Interest	-		182	182
Accounts	59,729			59,729
Taxes	620,047	167,657	37,774	825,478
Due from other funds	9,180			9,180
Prepaid expenses	39,069		15,360	54,429
Advance to component unit	36,100			36,100
	<u>1,838,345</u>	<u>1,299,933</u>	<u>1,647,537</u>	<u>4,785,815</u>
<i>Total Assets</i>				
Liabilities				
Accounts payable	718,474		60,205	778,679
Accrued liabilities	71,413			71,413
Due to other funds	-		9,180	9,180
AT&T 911 fee advances	-		67,744	67,744
	<u>789,887</u>	<u>-</u>	<u>137,129</u>	<u>927,016</u>
<i>Total Liabilities</i>				
Deferred Inflow of Resources				
Police fines unavailable	29,161			29,161
	<u>29,161</u>	<u>-</u>	<u>-</u>	<u>29,161</u>
<i>Total Deferred Inflow of Resources</i>				
Fund Balances				
Nonspendable	75,169		65,360	140,529
Restricted	851,515	1,254,996	1,273,598	3,380,109
Committed				-
Assigned	75,549	-	172,727	248,276
Unassigned	17,063	44,937	(1,277)	60,723
	<u>1,019,296</u>	<u>1,299,933</u>	<u>1,510,408</u>	<u>3,829,637</u>
<i>Total Fund Balances</i>				
<i>Total Liabilities, Deferred Inflow of Resources and Fund Balances</i>	<u>\$ 1,838,344</u>	<u>\$ 1,299,933</u>	<u>\$ 1,647,537</u>	<u>\$ 4,785,814</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2013

	General	One Cent Fund	Non-major Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 4,663,777	\$ 1,268,754	\$ 619,699	\$ 6,552,230
Intergovernmental	400,075		139,914	539,989
Charges for services	675,331	-	16,362	691,693
Fines and forfeitures	172,136	-	-	172,136
Licenses and permits	39,205	-	-	39,205
Investment income	6,038	1,817	3,965	11,820
Expense Reimbursement	-	-	-	-
Miscellaneous	86,368		40,404	126,772
<i>Total Revenues</i>	<u>6,042,930</u>	<u>1,270,571</u>	<u>820,344</u>	<u>8,133,845</u>
Expenditures				
Current:				
Administration	654,956	196,099		851,055
Police	1,112,652	-	4,897	1,117,549
Fire	678,714	-	-	678,714
Emergency 911		-	53,495	53,495
Special Ambulance Service		-	-	-
Streets	533,816	-	-	533,816
Shop	83,882	-	-	83,882
Park	165,396	-	-	165,396
Cemetery	168,561	-	-	168,561
Golf	303,166	-	-	303,166
Library	121,958	-	55,801	177,759
Senior center	63,643	-	-	63,643
Airport	22,312	-	-	22,312
Aquatic	382,884	-	-	382,884
Recreation	321,644	-	7,680	329,324
Animal control	122,067	-	-	122,067
Economic development		-	172,154	172,154
Capital outlay	3,710,289	-	59,486	3,769,775
Debt service	317,540	19,123	-	336,663
<i>Total Expenditures</i>	<u>8,763,480</u>	<u>215,222</u>	<u>353,513</u>	<u>9,332,215</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,720,550)</u>	<u>1,055,349</u>	<u>466,831</u>	<u>(1,198,370)</u>
Other Financing Sources (Uses)				
Proceeds from leases/loans	3,288,253			3,288,253
Transfers in	959,359	-	15,356	974,715
Transfers out	(1,422,541)	(469,206)	(380,154)	(2,271,901)
Contribution Income/(Expense)	116,000	-	(5,939)	110,061
Transfers to component unit	(21,600)	-	(299,634)	(321,234)
<i>Total Other Financing Sources (Uses)</i>	<u>2,919,471</u>	<u>(469,206)</u>	<u>(670,371)</u>	<u>1,779,894</u>
Net Change in Fund Balances	198,921	586,143	(203,540)	581,524
Fund Balances - Beginning	<u>820,375</u>	<u>713,789</u>	<u>1,713,947</u>	<u>3,248,111</u>
Fund Balances - Ending	<u>\$ 1,019,296</u>	<u>\$ 1,299,932</u>	<u>\$ 1,510,407</u>	<u>\$ 3,829,635</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds
June 30, 2013

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$	3,829,637
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		19,800,855
Certain non-current assets are not available to pay current fund liabilities and, therefore, are deferred in the funds:		
Police fines receivable, net of allowance for doubtful accounts		29,161
Long-term liabilities are not due and payable from current period and, therefore are not reported in the funds:		
Long term debt obligations		(3,458,547)
Accrued compensated absences		(175,183)

Net assets of governmental activities	\$	20,025,923

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	581,524
Amounts reported for governmental activities on the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized in governmental funds		4,042,099
Loss on disposal of assets		(20,940)
Depreciation expense		(953,996)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in deferred inflows		(37,120)
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Long term debt payments		229,488
Note payable proceeds		(3,200,000)
Lease proceeds		(88,253)
Change in accrued interest		3,477
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in accrued compensated absences		(5,924)

Change in net assets of governmental activities	\$	550,355

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS

PROPRIETARY FUNDS

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,375,247	\$ 36,992	\$ 1,412,240
Investments	373,952	-	373,952
Accrued interest receivable	593	-	593
Accounts receivable, net	159,764	-	159,764
Inventory	-	-	-
Due from other funds	-	-	-
Prepaid expenses	30,873	-	30,873
<i>Total Current Assets</i>	<u>1,940,430</u>	<u>36,992</u>	<u>1,977,422</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	279,147	-	279,147
Restricted investments	132,024	-	132,024
Other Non-current Assets	-	-	-
Land and construction in progress	344,526	-	344,526
Other capital assets, net of accumulated depreciation	23,429,340	-	23,429,340
Note issue costs, net of accumulated amortization	-	-	-
<i>Total Noncurrent Assets</i>	<u>24,185,037</u>	<u>-</u>	<u>24,185,037</u>
<i>Total Assets</i>	<u>26,125,467</u>	<u>36,992</u>	<u>26,162,459</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	60,856	-	60,856
Accrued liabilities	27,427	-	27,427
Accrued interest payable	98,225	-	98,225
Due to other funds	-	-	-
Due to depositors	125,914	-	125,914
Landfill closure and postclosure liability	76,407	-	76,407
Construction escrow in lieu of retainage	-	-	-
Capital lease obligations payable	58,155	-	58,155
Contract payable	96,552	-	96,552
Notes payable	434,657	-	434,657
Accrued compensated absences	88,296	-	88,296
<i>Total Current Liabilities</i>	<u>1,066,489</u>	<u>-</u>	<u>1,066,489</u>
Noncurrent Liabilities:			
Capital lease obligations payable	177,559	-	177,559
Contract payable	517,707	-	517,707
Notes payable	9,234,427	-	9,234,427
<i>Total Noncurrent Liabilities</i>	<u>9,929,693</u>	<u>-</u>	<u>9,929,693</u>
<i>Total Liabilities</i>	<u>10,996,182</u>	<u>-</u>	<u>10,996,182</u>
<u>Net Position</u>			
Invested in capital assets, net of related debt	13,254,684	-	13,254,684
Restricted	-	-	-
Unrestricted	1,874,600	36,992	1,911,592
<i>Total Net Position</i>	<u>\$ 15,129,284</u>	<u>\$ 36,992</u>	<u>\$ 15,166,276</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ending June 30, 2013

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
Operating Revenues			
Charges for Services:			
Water revenue	\$ 1,249,253	\$ -	\$ 1,249,253
Sewer revenue	361,246	-	361,246
Sanitation revenue	1,199,927	7,693	1,207,620
Hospital revenue			-
Penalties	40,299	-	40,299
Lake revenue	65,171	-	65,171
<i>Total Operating Revenues</i>	<u>2,915,895</u>	<u>7,693</u>	<u>2,923,588</u>
Operating Expenses			
Water operations	627,143	-	627,143
Sewer operations	297,927	-	297,927
Sanitation operations	912,748	94	912,842
Administration	666,383	-	666,383
Water Distribution	203,813		203,813
Lake operations	114,466	-	114,466
Hospital operation			-
Amortization expense	-	-	-
Depreciation expense	1,844,819	-	1,844,819
<i>Total Operating Expenses</i>	<u>4,667,299</u>	<u>94</u>	<u>4,667,393</u>
<i>Operating Income (Loss)</i>	<u>(1,751,404)</u>	<u>7,599</u>	<u>(1,743,805)</u>
Nonoperating Revenues (Expenses)			
Investment income	7,551	42	7,593
Interest expense and fiscal charges	(351,008)	-	(351,008)
Insurance Proceeds	3,854		3,854
Penalties			-
Ambulance Subsidy			-
Hospital Subsidy	(83,079)		(83,079)
Miscellaneous revenue	48,015	-	48,015
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(374,667)</u>	<u>42</u>	<u>(374,625)</u>
Net Income (Loss) Before Contributions and Transfers	(2,126,071)	7,641	(2,118,429)
Capital contributions	5,939	-	5,939
Contribution expense	(116,000)	-	(116,000)
Transfers in	1,407,185	-	1,407,185
Transfers out	(1,652,488)	-	(1,652,488)
<i>Change in Net Position</i>	(2,481,435)	7,641	(2,473,793)
<i>Net Position - Beginning - Restated</i>	<u>17,610,719</u>	<u>29,351</u>	<u>17,640,070</u>
<i>Net Position - Ending</i>	<u>\$ 15,129,284</u>	<u>\$ 36,992</u>	<u>\$ 15,166,276</u>

See accompanying notes to basic financial statements.

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Cash Flows
Proprietary Funds
For the Year Ending June 30, 2013

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
Cash Flows From Operating Activities			
Receipts from customers	\$ 3,043,716	\$ 7,693	\$ 3,051,409
Vendors and others paid	(2,787,224)	(94)	(2,787,318)
Other receipts (payments)	3,795	-	3,795
<i>Net Cash Provided by Operating Activities</i>	<u>260,287</u>	<u>7,599</u>	<u>267,886</u>
Cash Flows From Noncapital Financing Activities			
Miscellaneous revenues	48,146	-	48,146
Ambulance Subsidy			-
Hospital Subsidy	(83,079)		(83,079)
Transfers from other funds	3,258,114	-	3,258,114
Transfers to other funds	(3,613,479)	-	(3,613,479)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>(390,298)</u>	<u>-</u>	<u>(390,298)</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	(134,243)	-	(134,243)
Proceeds from issuances	3,854		3,854
Proceeds from debt	1,820,870	-	1,820,870
Principal paid on long-term debt	(520,954)	-	(520,954)
Interest & fiscal charges paid on long-term debt	(344,411)	-	(344,411)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>825,117</u>	<u>-</u>	<u>825,117</u>
Cash Flows From Investing Activities			
Interest received	7,762	42	7,804
Collection on notes and other receivables			-
Decrease in investments	147,730	-	147,730
<i>Net Cash Provided by Investing Activities</i>	<u>155,492</u>	<u>42</u>	<u>155,534</u>
<i>Net Increase in Cash and Cash Equivalents</i>	850,598	7,641	858,239
<i>Balance - Beginning of the Year</i>	<u>803,796</u>	<u>29,350</u>	<u>833,146</u>
<i>Balance - End of the Year</i>	<u>1,654,394</u>	<u>36,991</u>	<u>1,691,385</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(1,751,405)	7,599	(1,743,806)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	1,844,819	-	1,844,819
Changes in assets and liabilities:			
Receivables	127,350	-	127,350
Due from other funds	-		-
Prepaid expenses and inventory	3,767	-	3,767
Accounts payable and accrued expenses	31,961	-	31,961
Due to depositors	3,795	-	3,795
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 260,287</u>	<u>\$ 7,599</u>	<u>\$ 267,886</u>

See accompanying notes to basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Pauls Valley), its blended and discretely presented component units. This report includes all activities for which the City of Pauls Valley's City Council is fiscally responsible. In determining the financial reporting entity includes all component units for which the City is financially accountable.

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

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

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

The City provides typical municipal services such as public safety, street maintenance, culture, parks and recreation.

Blended Component Unit:

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

Pauls Valley 522 District - it is authorized to assess three mills of ad valorem tax to be used to provide ambulance service to the City of Pauls Valley. The District contracts with the Pauls Valley Hospital Authority to provide this service.

Omitted Blended Component Unit:

Pauls Valley Hospital Authority – that operates the City Hospital activities (PVHA).

Discretely Presented Component Units:

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

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

The PVMA, the EMS 522 District and the PVHA are included as a blended component unit due to the financial control and shared board members with the City of Pauls Valley. The PVHA is the past was discretely presented but in May of 2013 the City Council members became the PVHA board members.

The PVAA has a separate board that manages the airport operations. However, due to the relationship described above it is discretely presented.

The Hospital financial information is unaudited at this point. They are having financial difficulties that have caused them to seek the protection of legal financial reorganization. The financial effect of this reorganization may cause a further write down of the assets of the PVHA.

Inactive Component Unit:

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

1.B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, fees, licenses and permits, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

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

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

The City reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes the Rose Garden Fund, Wacker Park Fund, Beautification Fund, and Animal Control Fund.
- One Cent Fund – account for one cent sales tax that is 50% for street replacement, 25% for parks and 25% for general government.

Aggregated Non-Major Governmental Funds:

Special Revenue Funds:

- Police Special Fund – accounts for a portion of court fine revenue and miscellaneous donations to be expended for police related expenditures.
- Cemetery Beautification Fund – accounts for miscellaneous donations and monument setting fees to be expended for the beautification of cemeteries.
- Senior Citizens Fund – accounts for revenues, grants and expenditures of the senior citizens' program.
- 911 Account Fund – accounts for E-911 revenues legally restricted for E-911 services.
- Marianne Ewert Bequest Fund – accounts for investment income and principal restricted for park capital improvements.
- Nora Sparks Warren Library Trust Fund – accounts for investment income and donations for library expenditures.
- Tourism/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for the promotion of tourism.
- Community Center Fund – accounts for donations and grants to be expended for the community center.
- Special Ambulance Fund – accounts for the 522 District's property taxes collected for the purpose of operating an ambulance service. The service is contracted for through the hospital.

Capital Projects Funds:

- Cemetery Care Fund – accounts for 25% of all cemetery revenues of which 12.5% is legally restricted for cemetery capital improvements.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

- PV Airport Projects Fund – accounts for grant revenues and expenditures related to airport improvement projects
- TIF Fund – accounts for revenues of ad valorem tax increments generated in the increment district boundaries to be expended for expenses of the Pauls Valley Economic Development Project Plan.

Proprietary Funds

Major Enterprise Fund:

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

Non-Major Enterprise Fund:

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1.D. Assets, Liabilities and Fund Equity

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

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

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

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits, debt service and construction proceeds.

Capital Assets - The accounting for capital 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.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

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

Capital lease acquired assets are depreciated in the same manner as other capital assets.

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

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

Governmental funds report only the matured compensated absences payable to currently terminating employees.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the governmental funds long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

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

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

In the governmental fund financial statements fund equity is classified as fund balance. The fund balance is further classified as follows:

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

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

1.E. Fund Balance Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City's 911 account had a \$1,277 negative fund balances for the year ended June 30, 2013.

1.F. Sales Tax Revenue

Sales Tax - The City presently levies a four-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. By enabling legislation 3.25% is available for general government, .50% is restricted for street replacement and maintenance and .25% is restricted for park and recreation facilities and programs. Three cents is recorded in the General Fund and the remaining one-cent is recorded in the One Cent Sales Tax Fund. The restricted portion of the sales tax is tracked through the One Cent Sales Tax Fund. The City is also required by contract to transfer one cent of its General Fund three-cent sales tax to the PVMA for debt retirement of the 2008 OWRB note and a lease-purchase agreement with Pauls Valley National Bank.

1.G. Tax Incremental Financing (TIF)

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

1.H. Use of Estimates

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

1.I. Operating Revenues and Expenses

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

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

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

Governmental Funds – By Character: Current (further classified by function), debt service and capital outlay.
Proprietary Fund – By operating and non-operating.

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

1.J. Internal and Interfund Balances and Transfers

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

1.G. New Accounting Pronouncements

The City has implemented the following accounting standards during the fiscal year ended June 30, 2013:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 61- The Financial Reporting Entity: Omnibus – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – A few sentences were removed from "Section B – Proprietary Funds" note disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

Governmental Accounting Standards Board Statement No. 63 –Financial Reporting of deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The only change required from the early implementation of this statement are changing the words "Net Assets" in the City's financial report to "Net Position".

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities – The debt issuance cost previously capitalized was removed as an asset. See Note 2.H.

1.H. Property Tax Revenue

Property Tax - Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters. At present time the City levies no property tax to fund annual debt service requirements. However, Pauls Valley has organized an EMS District and it levies 3.00 mills for property taxes to fund the annual operations.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
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The property tax levy request is submitted to the county excise board for approval. The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1; the county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

Note 2 – Detailed Notes on all Funds

2.A. Deposits and Investments Risk

At June 30, 2013, the primary government reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>
Deposits:	
Demand deposits	\$ 4,898,002
Time deposits	657,610
Cavanal Hill US Treasury	143,023
First United Money Market Funds	466,732
Total Deposits	<u>\$ 6,165,367</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 4,568,203
Investments	525,586
Restricted Cash and cash equivalents	772,268
Restricted Investments	132,024
Outstanding Checks	167,289
Total Cash and Investments	<u>\$ 6,165,367</u>

Custodial Credit Risk - Deposits – Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City’s deposits may not be returned to it. The City does have a written deposit policy for custodial credit risk that requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2013, the City was exposed to custodial credit risk of \$50,023.35 for the Pauls Valley Municipal Authority. The City of Pauls Valley accounts were fully collateralized.

Investment Credit Risk – The City does have a written investment policy that limits its investment choices according to the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposits or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district; and government money market funds regulated by the SEC.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

As of June 30, 2013, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Investment Interest Rate Risk – The City does have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase. All certificates of deposit have maturities of one year or less.

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

Discretely Presented Component Unit:

Pauls Valley Airport Authority

Custodial Credit Risk - Deposits – As of June 30, 2013, the Authority was not exposed to custodial credit risk as defined above.

2.B. Restricted Assets

Amounts reported as restricted assets in the proprietary fund Statement of Net Position are comprised of amounts due to depositors related to utility deposits. The restricted assets as of June 30, 2013 were as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Hospital Loan Fund	\$ 91,483	\$ -
Bank of OK MM – Water Plant Note	143,023	
Utility Deposits	44,640	132,024
Total Restricted Assets	<u>\$ 279,147</u>	<u>\$ 132,024</u>

2.C. Receivables

Accounts receivable consist of customer utilities services provided, both billed and unbilled, due at year-end, reported net of allowance for uncollectible amounts, in the enterprise fund and taxes and police fines in the governmental funds. Interest receivable on investments is also recorded. Receivables as of June 30, 2013, including the applicable allowances for uncollectible accounts are as follows:

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Receivables:	Governmental	Business-Type	Total	Presented CU
	Activities	Activities		PVAA
Interest	\$ 182	\$ 593	\$ 775	\$ -
Police Fines	470,382	-	470,382	-
Accounts	-	149,413	149,413	25,690
Unbilled Accounts	-	44,115	44,115	
Taxes	825,478	-	825,478	
Gross Receivables	1,296,042	194,121	1,490,163	25,690
Less: Allowance for Uncollectibles	(410,653)	(33,765)	(406,291)	(1,208)
Net Total Receivables	\$ 885,389	\$ 160,356	\$ 1,083,872	\$ 24,482

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

2.D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<u>Primary Government</u>	Balance 06/30/12	Additions	Disposals	Balance 06/30/13
Government Activities:				
Capital assets, not being depreciated:				
Land	\$ 721,981			\$ 721,981
Construction in Progress	619,754	3,706,903	(339,365)	\$ 3,987,292
Total capital assets, not being depreciated	<u>1,341,735</u>	<u>3,706,903</u>	<u>(339,365)</u>	<u>4,709,273</u>
Capital assets, being depreciated:				
Buildings	12,710,648	7,521		12,718,169
Improvements	4,081,908	456,332		4,538,240
Machinery, furniture and equipment	5,006,956	210,708	(41,881)	5,175,783
Infrastructure	237,579			237,579
Total capital assets, being depreciated	<u>22,037,091</u>	<u>674,561</u>	<u>(41,881)</u>	<u>22,669,771</u>
Less accumulated depreciation for:				
Buildings	1,706,399	303,906		2,010,305
Improvements	1,328,481	277,717		1,606,198
Machinery, furniture and equipment	3,465,477	364,407	(20,941)	3,808,944
Infrastructure	56,523	7,965		64,488
Total accumulated depreciation	<u>6,556,880</u>	<u>953,996</u>	<u>(20,941)</u>	<u>7,489,936</u>
Total capital assets, being depreciated, net	<u>15,480,211</u>	<u>(279,435)</u>	<u>(20,940)</u>	<u>15,179,835</u>
Governmental activities capital assets, net	<u>\$ 16,821,946</u>	<u>\$ 3,427,468</u>	<u>\$ (360,306)</u>	<u>\$ 19,889,108</u>

CITY OF PAULS VALLEY, OKLAHOMA
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For the Year Ended June 30, 2013

Business-Type Activities:	Balance			Balance
	06/30/12	Additions	Disposals	06/30/13
Capital assets, not being depreciated:				
Land	\$ 344,526	\$ -	\$ -	\$ 344,526
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	344,526	-	-	344,526
Capital assets, being depreciated:				
Buildings	290,305	5,939		296,244
Improvements	14,131,136	13,369		14,144,505
Machinery, furniture and equipment	2,745,283	112,224		2,857,507
Utility property	34,257,335	2,710		34,260,045
Total capital assets, being depreciated	51,424,059	134,243	-	51,558,302
Less accumulated depreciation for:				
Buildings	110,730	12,595		123,325
Improvements	830,223	1,227,361		2,057,584
Machinery, furniture and equipment	2,192,868	118,434		2,311,302
Utility Property	23,150,322	486,430		23,636,752
Total accumulated depreciation	26,284,143	1,844,819	-	28,128,962
Total capital assets, being depreciated, net	25,139,916	(1,710,577)	-	23,429,339
Business-type activities capital assets, net	\$ 25,484,442	\$ (1,710,577)	\$ -	\$ 23,773,865

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

<u>Discretely Presented Component Unit</u>				
	Balance 06/30/12	Additions	Disposals	Balance 06/30/13
Pauls Valley Airport Authority:				
Capital assets, not being depreciated:				
Land	\$ 94,942			\$ 94,942
Construction in Progress	10,000	218,275		228,275
Total capital assets, not being depreciated	104,942	218,275	-	\$ 323,217
Capital assets, being depreciated:				
Buildings	520,090	-		520,090
Improvements	5,355,454	-		5,355,454
Machinery, furniture and equipment	265,436	-		265,436
Total capital assets, being depreciated	6,140,980	-	-	6,140,980
Less accumulated depreciation for:				
Buildings	297,919	34,981		332,900
Improvements	2,018,974	191,930		2,210,904
Machinery, furniture and equipment	237,524	5,275		242,799
Total accumulated depreciation	2,554,417	232,185	-	2,786,602
Total capital assets, being depreciated, net	3,586,563	(232,185)	-	3,354,378
Governmental activities capital assets, net	\$ 3,691,505	\$ (13,910)	\$ -	\$ 3,677,595

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

Governmental Activities:	
General Government	\$ 100,494
Public Safety	216,823
Culture, Parks and Recreation	412,424
Streets	212,735
Cemetery	<u>11,520</u>
Total depreciation expense - governmental activities	<u>\$ 953,996</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Business-Type Activities:	
Water	\$ 1,474,831
Sewer	162,554
Sanitation	115,593
Administration	11,175
Water Distribution	30,673
Lake	<u>49,993</u>
Total depreciation expense - business-type activities	<u>\$ 1,844,819</u>

2.E. Long-Term Debt

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2013, the long-term debt payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$462,337 lease obligation with Oshkosh Capital for an aerial ladder truck, payable in annual installments of \$58,752, final payment due August 2014 with interest at 4.69%	109,726
\$146,188 lease obligation with Oshkosh Capital for a tanker truck, payable in annual installments of \$18,689, final payment due October 2014 with interest at 4.69%	34,903
\$41,808 lease obligation with National City for a reelmaster mower, payable in monthly installments of \$702, final payment due April 2015 with interest at 6.669%	13,883
\$88,253 lease obligation with Caterpillar Financial for a Caterpillar 420EL, payable in monthly installments of \$1,593.63, final payment due June 2017 with interest at 3.20%	71,700
\$111,029 lease obligation with Ford Capital for three Police Tahoes, payable in annual installments of \$39,186, final payment due February 2014 with interest at 6.0%	36,968
\$176,623 lease obligation with Pauls Valley National Bank for a fire rescue truck payable in monthly installments of \$3,213, final payment due June 2017 with interest at 3.3%.	<u>143,467</u>
Total Capital Lease Obligations	<u>\$ 410,647</u>
Current portion	166,766
Non-current portion	<u>243,881</u>
Total Capital Lease Obligations	<u>\$ 410,647</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Notes Payable:

\$3,200,000 notes payable to First United Bank, payable in monthly installments, final payment due October 2032 with interest at 3.85%	3,129,826
Current portion	110,678
Non-current portion	<u>3,019,148</u>
Total Notes Payable	<u>\$ 3,129,826</u>

Business-Type Activities – As of June 30, 2013, long-term debt payable from proprietary fund resources consisted of the following:

Capital Lease Obligations:

\$101,110 lease obligation with Caterpillar Financial for a Caterpillar D4K2XL, payable in monthly installments of \$1,904.60, final payment due January 2016 with interest at 3.20%	92,841
\$175,800 lease obligation with Caterpillar Financial for a Caterpillar 930H, payable in monthly installments of \$2,474, final payment due March 2015 with interest at 3.90%	96,777
\$91,270 lease obligation with Welch State Bank for a Caterpillar backhoe, payable in monthly installments of \$1,148, final payment due March 2017 with interest at 5.339%	<u>46,096</u>
Total Capital Lease Obligations	<u>\$ 235,714</u>
Current portion	58,155
Non-current portion	<u>177,559</u>
Total Capital Lease Obligations	<u>\$ 235,714</u>

Notes Payable:

\$3,150,000 notes payable to First United Bank, secured by Sales Tax revenues, payable in Monthly installments, final payment due June 2033 with interest at 4.25%, all funds had not been drawn as of June 30, 2013	1,717,050
\$193,529 note obligation with PPNB for a 2012 Peterbuilt payable in monthly installments of \$5,714, final payment due August 2014 with interest at 4.0%	77,967
\$900,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues, payable in semi-annual installments, final payment due March 2025 with interest at 3.10%	636,226

CITY OF PAULS VALLEY, OKLAHOMA
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\$10,325,000 notes payable to Oklahoma Water Resources Board, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2030 with interest at 3.79%, all funds had not been drawn as of June 30, 2010

7,237,841
Total Notes Payable \$ 9,669,084

Current portion 434,657
Non-current portion 9,234,427
Total Notes Payable \$ 9,669,084

Contract Payable:

\$1,051,600 face amount, noninterest bearing contract payable to Garvin County RWD#4 for certain water infrastructure, payable monthly as a reduction of the sellers account receivable utility account, final payment due March 2019 with imputed interest at 4.18%, (less unamortized discount based on imputed interest rate - \$172,086), See also contingent liability note.

614,260
Current portion 96,552
Non-current portion 517,708
Total Contract Payable \$ 614,260

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>6/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/13</u>	<u>One Year</u>
Governmental Activities:					
Capital Lease Obligations	\$ 481,709	\$ 88,253	\$ 159,314	\$ 410,647	\$ 166,766
Note Payable	-	3,200,000	70,174	3,129,826	110,678
Compensated Absences	<u>169,260</u>	<u>5,923</u>	-	<u>175,183</u>	-
Total Long-term Liabilities	<u>\$ 650,969</u>	<u>\$ 3,294,176</u>	<u>\$ 229,488</u>	<u>\$ 3,715,656</u>	<u>\$ 277,444</u>
Business-Type Activities:					
Capital Lease Obligations	\$ 179,196	\$ 101,110	\$ 44,591	\$ 235,714	\$ 58,155
Notes Payable	8,342,201	1,717,050	390,167	9,669,084	434,657
Contract Payable	697,744	2,710	86,195	614,260	96,552
Compensated Absences	<u>78,467</u>	<u>9,829</u>	-	<u>88,296</u>	-
Total Long-term Liabilities	<u>\$ 9,297,608</u>	<u>\$ 1,830,699</u>	<u>\$ 520,954</u>	<u>\$10,607,354</u>	<u>\$ 589,364</u>

CITY OF PAULS VALLEY, OKLAHOMA
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Annual debt service requirements to maturity are as follows:

Governmental Activities:

Year Ending June-13	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2014	166,779.43	15,957.02	110,678.04	120,212.76
2015	133,244.12	8,199.64	115,076.46	115,814.34
2016	54,885.68	2,796.64	119,344.54	111,546.26
2017	55,738.00	976.51	124,392.51	106,498.29
2018	-	-	129,335.95	101,554.85
2019-2023	-	-	727,707.43	426,746.57
2024-2029	-	-	884,223.54	270,230.46
2029-2033	-	-	919,067.73	81,456.71
	<u>\$410,647.22</u>	<u>\$27,929.82</u>	<u>\$3,129,826</u>	<u>\$1,334,060</u>

Business Type Activities:

Year Ending June-13	Capital Lease Obligations		Notes Payable		Contracts Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	58,154.93	8,162.83	434,657.30	423,887.96	96,552.41	23,812.15
2015	103,460.42	5,523.68	472,949.21	416,104.75	100,637.93	19,726.63
2016	64,728.25	1,744.49	477,230.36	398,433.54	104,926.13	15,438.43
2017	9,370.46	191.17	498,838.28	379,318.62	109,397.06	10,967.50
2018	-	-	520,323.20	359,852.95	114,058.49	6,306.07
2019-2023	-	-	2,913,355.44	1,478,769.31	88,687.48	1,551.32
2024-2029	-	-	3,468,962.28	863,159.94	-	-
2029-2033	-	-	2,452,876.75	201,872.38	-	-
	<u>\$235,714.06</u>	<u>\$15,627.17</u>	<u>\$11,239,192.83</u>	<u>\$4,521,399.44</u>	<u>\$614,260</u>	<u>\$77,802</u>

Less amount remaining to be drawn (1,570,108.95)

\$9,669,083.88

Interest and Admin expense were charged to functions as follows in the Statement of Activities:

Business Type Activities	
Water	310,190
Sewer	20,340
Sanitation	9,811
Hospital	10,667
	<u>\$351,008</u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Utility Revenues Pledged

The City has pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay \$900,000 in a promissory note to OWRB-Series 2004 CWSRF Bonds and \$10,325,000 in a promissory note to OWRB-Series 2008 DWSRF Bonds, the Series 2008 note has not been fully drawn down as of June 30, 2013. Proceeds from the 2004 note provided financing for sewer system improvements and the 2008 note for water system improvements. The notes are payable from water, sewer, and sanitation customer net revenues and future sales tax revenue (discussed below) and are payable through 2027 and 2031, respectively. The total principal and interest payable for the remainder of the life of these notes are \$10,947,122. Total customer net revenues for the current year were \$2,850,724. Debt service payments of \$633,763 for the current fiscal year were 22.23% of the net water, sewer and sanitation utility revenues.

Sales Tax Revenues Pledged

The City has pledged one half of one cent sales tax revenues to repay \$10.325 million in a promissory note to OWRB issued January 2008. This note has not been fully drawn down as of June 30, 2013. Proceeds from the note provided financing for water system improvements. The note is payable from future sales tax revenue and net utility revenue (discussed above). The total principal and interest remaining to be paid on the note is \$10,155,628, payable through September 2031. Pledged sales tax received in the current year was \$630,556. Debt Service payments of \$577,405 for the current fiscal year were 91.57% of pledged sales taxes.

Debt Service Coverage Requirement

The OWRB & FUB debt agreements require that Net Revenue Available for Debt Service must equal 125% of maximum annual debt service. Actual coverage was as follows:

	<u>OWRB</u>	<u>OWRB</u>	<u>First</u>
	<u>Series 2004</u>	<u>Series 2008</u>	<u>United</u>
			<u>Bank</u>
Net Revenue Available for Debt Service:			
Sales Tax Revenues	\$ -	\$ -	\$3,112,980
Operating Revenues	\$ 2,915,895	\$ 2,915,895	\$ -
Less Lake Revenue	\$ (65,171)	\$ (65,171)	\$ -
Total Operating Revenue	2,915,895	2,915,895	3,112,980
Operating Expenses	4,667,299	4,667,299	-
Less Lake Expenses	(114,466)	(114,466)	-
Less Administration Expenses	(666,383)	(666,383)	-
Less Depreciation/Amortization	(1,844,819)	(1,844,819)	-
Total Operating Expenses	2,041,631	2,041,631	-
1/2 Sales Tax Transfer (Sr. 2008)	-	630,556	-
Net Revenues Available for Debt Service	<u>\$ 874,264</u>	<u>\$ 1,504,820</u>	<u>\$3,112,980</u>

CITY OF PAULS VALLEY, OKLAHOMA
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For the Year Ended June 30, 2013

Debt Service Requirements:

Annual debt service payments - OWRB 2004	56,535	56,535	-
Annual debt service payments - OWRB 2008	581,670	581,670	-
Annual debt service payments – FUB Pool			230,891
Annual debt service payments - FUB Hospital	-	-	241,146
Total Debt Service Requirement	638,205	638,205	472,037
 Coverage	136%	153%	659.48%
 Coverage Requirement	125%	125%	125%

Note: Operating revenues and expenses include only the following leased systems: water, sewer, and sanitation.

2.F. Landfill Closure and Post Closure Requirements

A \$76,407 accrued liability has been recognized in Pauls Valley Municipal Authority to represent the total estimated amount owed by the Authority for closure and post closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 12.62% of the estimated capacity of the landfill. It is estimated that an additional \$605,289 will be recognized as closure and post closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in April 2087. The estimated remaining landfill life is 74 years. Currently, the City is in compliance with DEQ assurances.

2.G. Interfund Receivables, Payables, and Transfers

Reconciliation to Statement of Net Position:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Activities	\$ 9,180	\$ 9,180	\$ 0
Business-Type Activities	0	0	0
Total	\$ 9,180	\$ 9,180	\$ 0

Franchise tax was deposited in error in the 911 account instead of the General Fund.

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
One Cent Sales Tax Fund	General Fund	\$ 235,274	Operating subsidy
General Fund	Police Special Fund	4,856	To fund capital purchases
PVMA	General Fund	110,000	Operating Subsidy
General Fund	PVMA	1,261,112	Sales tax transfer

CITY OF PAULS VALLEY, OKLAHOMA
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General Fund	PVMA	90,000	To fund capital purchases
General Fund	911 Account Fund	10,500	Operating subsidy
General Fund	PVMA	56,073	A/P Reimb from Spec Fire
Community Center	General Fund	380,034	Reclass Activity
One Cent Sales Tax Fund	Community Center Fd	80,004	Per grant agreement
One Cent Sales Tax Fund	General Fund	153,927	Debt payments
Marianne Ewert Fund	Rose Garden Fund	60	Transfer of interest income
Marianne Ewert Fund	Wacker Park Fund	60	Transfer of interest income
		<u>\$ 2,381,900</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 974,715	\$ (2,271,900)	\$ (1,297,185)
Enterprise Funds	1,407,185	(110,000)	1,297,185
Total	<u>\$ 2,381,900</u>	<u>\$ (2,381,900)</u>	<u>\$ -</u>

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

Net Transfers	\$ 1,297,185
Capital assets paid for government funds	5,939
Payment of governmental debt by business-type activities	(116,000)
Transfers-Internal Activity	<u>\$ 1,187,124</u>

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

Transfers from general fund to component unit-PVAA at the fund level	\$ 21,600
Transfers from non-major govern funds to PVAA component unit	202,275
Payments from primary government	<u>\$ 223,875</u>

2.H. Fund Equity/Net Position

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

	Discretely Presented PVAA
Beginning net position (as previously reported)	\$ 3,887,397
Prior period adjustments for corrections of errors: Reclass to General Fund Repayment	(2,400)
Beginning net position, restated	<u>\$ 3,889,797</u>

CITY OF PAULS VALLEY, OKLAHOMA
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	<u>Proprietary</u> <u>PVMA</u>
Beginning net position (as previously reported)	\$ 17,738,471
Prior period adjustments for corrections of errors:	
GASB change in Debt issue cost	(98,401)
Beginning net position, restated	<u>\$ 17,640,070</u>

Since last year the classification of the Special Ambulance Fund was changed from fiduciary to special revenue. This had no effect on the beginning fund balance.

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

	<u>General</u> <u>Fund</u>	<u>Cent Tax</u> <u>Fund</u>	<u>Governmental</u> <u>Funds</u>	<u>Total</u>
Fund Balance:				
Nonspendable:				
Nonexpendable Perm.	-		50,000	50,000
Endowment-Parks	-		15,360	15,360
Prepaid expenses	39,069		-	39,069
Long-term receivable	36,100		-	36,100
Restricted for:				
Cemetery	-		16,275	16,275
Senior Citizens	-		1,453	1,453
Ambulance	-		216,742	216,742
Library	-		497,972	497,972
TIF District	-			19,255
Debt service		19,255		19,255
Parks and Recreation		43,071		43,071
Streets		1,192,670		1,192,670
Economic Dev			502,683	502,683
Pool	451,495			451,495
Community Center	400,020		38,473	438,493
Assigned to:				
Police	-		44,498	44,498
Animal Control	-		-	-
Parks and Recreation	75,549		25	75,574
TIF District	-		168	168
Economic Dev	-		9,297	9,297
Library	-		57,636	57,636
911	-		49,497	49,497
Cemetery	-		-	-
Senior Citizens	-		11,084	11,084
Airport	-		522	522
Community Center	-		-	-
Other Purposes	-		-	-
Unassigned	17,063	44,937	(1,277)	60,723
Total Fund Balance	1,019,296	1,299,933	1,510,408	3,829,637

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Net Assets Restricted by Enabling Legislation - The government wide statement of net position reports \$3,829,636 of restricted net assets, of which \$2,195,933 is restricted by enabling legislation.

Enabling Legislation:	
Cemetery Care Fund	\$ 6,642
TIF Fund	497,972
Sales Tax Streets	1,146,722
Sales Tax Parks	41,914
Tourism/Motel Tax Fund	502,683
Total	<u>\$ 2,195,933</u>

Note 3 - Other Notes

3.A. Risk Management

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

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

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

3.B. Contingencies

Federal and State Award Programs - The City of Pauls Valley participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

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

Commitments-Construction – At June 30, 2013, the City had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Outdoor Aquatic Center	\$ 3,583,558	\$ 213,314	General Fund
Airport Design and Engineering	505,030	212,275	PV Airport Projects
Airport Hanger	132,000	117,000	PVAA

Contingent Liability – The City of Pauls Valley has a contract with Garvin County Rural Water District No. 4 for the purchase of certain water infrastructure. See Note 2.E. Contract Payable for consideration for sale of infrastructure. Additional consideration for industrial/commercial customers has not been determined as of June 30, 2013. This amount when determined shall be added to the contract payable and capital assets for water infrastructure.

Going Concern - Pauls Valley Hospital Authority – The Hospital is a component unit of the City of Pauls Valley. But to uncertainties related to asset valuations in the Hospital bankruptcy proceedings the City has elected to omit the financial information of the Hospital. Also the PVMA has supplemented the operations of the hospital through obtaining \$3,150,000 financing. Subsequent to yearend the citizen approved additional sales tax to liquidate this debt.

As a result of sustained annual operating losses caused by declining patient service revenue and increased debt obligations, on March 1, 2013, the Hospital filed a voluntary petition for bankruptcy protection from creditors under Chapter 9 of the Federal Bankruptcy Code.

Upon filing petition, an automatic stay commenced, prohibiting Hospital creditors from taking action against the Hospital, its property, and its officers and inhabitants if the action seeks to enforce a claim against the Hospital for pre-petition debts.

The Hospital intends to prepare a Plan of Adjustment (the Plan) for approval by the Bankruptcy Court. The confirmed Plan will specify how the pre-petition debts of the Hospital will be discharged.

The Hospital has remained open since the filing of the bankruptcy petition. However, there is potential that the ultimate outcome of the bankruptcy will result in termination of the Hospital.

CITY OF PAULS VALLEY, OKLAHOMA
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3.C. Pension Plans

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

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

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

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2013. Participating members are required to contribute 8%. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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

Schedule of Retirement Plan Contributions – OFPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$39,711	100%
2011	\$40,002	100%
2012	\$42,430	100%
2013	\$40,954	100%

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

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2013. Participating members are required to contribute 8%. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2013

Schedule of Retirement Plan Contributions – OPPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$55,267	100%
2011	\$52,717	100%
2012	\$57,084	100%
2013	\$63,885	100%

State On Behalf Payments – For the fiscal year June 30, 2013, the State of Oklahoma contributed estimated payments on behalf of City employees to the Oklahoma Firefighter Pension and Retirement System for \$95,500 and the Oklahoma Police Pension and Retirement System for \$57,800. State contributions are funded by allocations of the state’s insurance premium tax. The City is not legally responsible for these contributions.

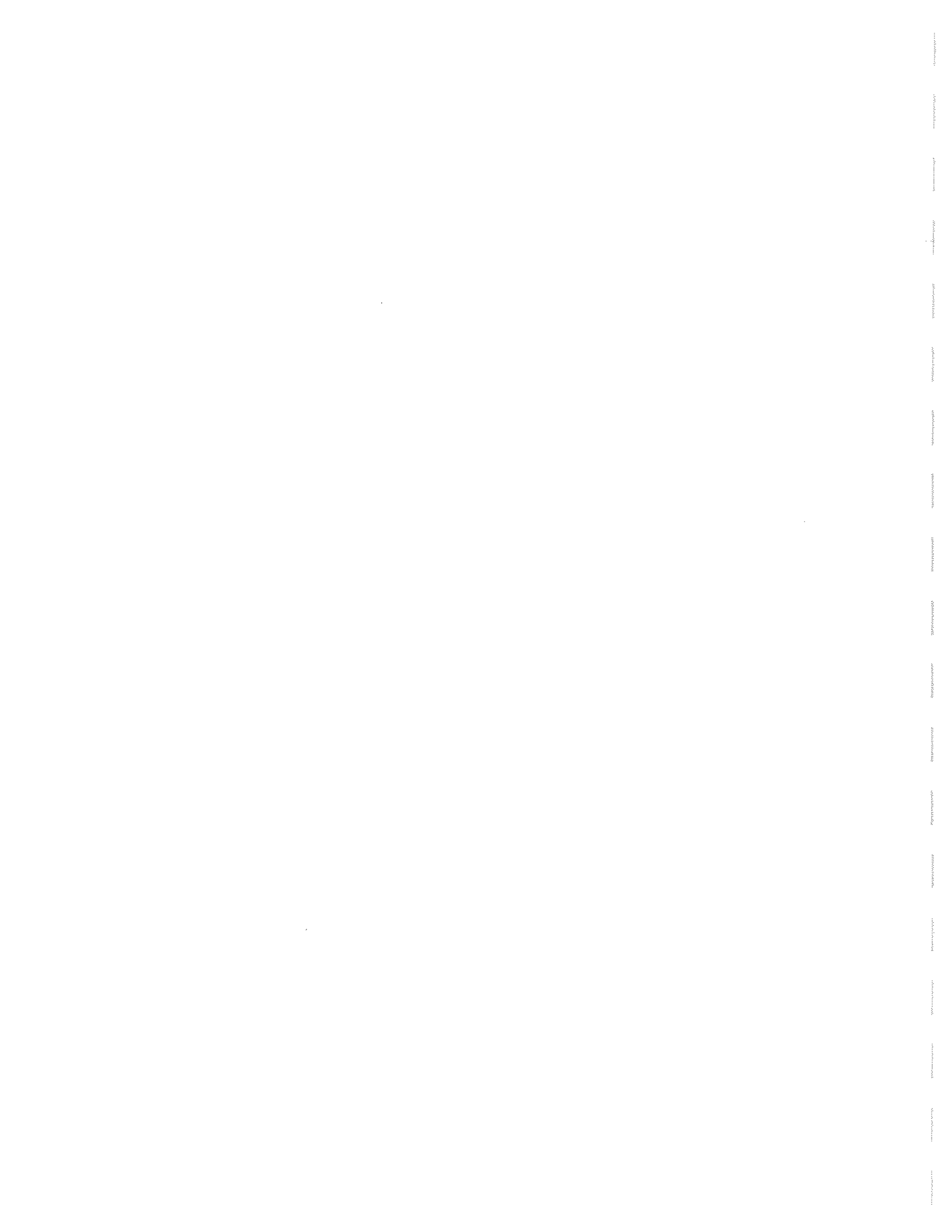
Municipal Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the “Plan”) in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees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

For the year ended June 30, 2013, employee contributions were \$53,597 and the employer contributions were \$47,948.

City Manager Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the “Plan”) in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The city manager is required to contribute to the Plan 3.5% of compensation. The City Council determines the City’s contribution rate each year. However, the maximum contribution amount from employee and employer is limited to \$46,000. City contributions for the city manager begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

For the year ended June 30, 2013, employee contributions were \$2,965 and the employer contributions were \$7,134.

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION



CITY OF PAULS VALLEY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
General Fund
For the Year Ending June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$	\$	\$	\$ -
Revenue				
Taxes	4,415,000	4,648,434	4,596,970	51,464
Intergovernmental	221,000	226,800	246,984	(20,184)
Charges for Services	632,374	679,174	678,081	1,093
Fines and Forfeitures	162,000	162,000	158,837	3,163
Licenses and Permits	25,000	39,000	37,805	1,195
Investment Income	1,500	1,500	2,522	(1,022)
Miscellaneous	49,000	137,404	171,024	(33,620)
Loan Proceeds		2,806,000	3,200,000	(394,000)
Transfers In	219,996	345,274	345,274	-
Total Revenues	<u>5,725,870</u>	<u>9,045,586</u>	<u>9,437,497</u>	<u>(391,911)</u>
Amounts available for appropriations	<u>5,725,870</u>	<u>9,045,586</u>	<u>9,437,497</u>	<u>(391,911)</u>
Expenses				
Transfers	1,205,000	1,276,612	1,276,468	144
Administration	667,924	798,382	795,380	3,002
Police	1,050,035	1,102,535	1,100,190	2,345
Fire	554,450	578,960	577,974	986
Street	556,171	556,171	527,739	28,432
Shop	89,543	89,543	82,705	6,838
Park	134,279	172,629	171,202	1,427
Cemetery	169,262	170,762	170,303	459
Golf	310,466	310,466	310,180	286
Library	127,084	127,084	119,888	7,196
Senior Center	54,278	63,928	63,449	479
Airport	43,821	46,621	46,260	361
Aquatic	212,687	221,687	221,037	650
Recreation	430,454	3,308,144	3,305,076	3,068
Animal Control	96,778	119,003	117,804	1,199
Total Expenses	<u>5,702,232</u>	<u>8,942,527</u>	<u>8,885,655</u>	<u>56,872</u>
Ending Budgetary Fund Balance	<u>\$ 23,638</u>	<u>\$ 103,059</u>	<u>\$ 551,842</u>	<u>\$ (448,783)</u>
Reconciliation of Budget to GAAP				
Cash from loan			(355,995)	
Direct payment from Loan Proceeds			(42,000)	
Accruals			34,878	
Fund Balance - GAAP			<u>\$ 188,725</u>	

See Disclaimer in Independent Auditor's Report.

CITY OF PAULS VALLEY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
One Cent Fund
For the Year Ending June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ -	\$ -	\$ 713,789	\$ (713,789)
Revenue				
Taxes	1,200,000	1,261,112	1,261,112	-
Investment Income	1,100	4,100	1,804	2,296
Miscellaneous revenue		87,953	87,953	-
Transfer In				-
Total Revenues	<u>1,201,100</u>	<u>1,353,165</u>	<u>1,350,869</u>	<u>2,296</u>
Amounts available for appropriations	<u>1,201,100</u>	<u>1,353,165</u>	<u>2,064,658</u>	<u>(711,493)</u>
Expenses				
Transfers out	219,996	235,274	235,274	-
Capital Outlay	980,004	1,025,838	468,395	557,443
Total Expenses	<u>1,200,000</u>	<u>1,261,112</u>	<u>703,669</u>	<u>557,443</u>
Ending Budgetary Fund Balance	<u>\$ 1,100</u>	<u>\$ 92,053</u>	<u>\$ 1,360,989</u>	<u>\$ (1,268,936)</u>
Reconciliation of Budget to GAAP				
Debt service accounts			19,255	
Accruals			(80,311)	
Fund Balance - GAAP			<u>\$ 1,299,933</u>	

See Disclaimer in Independent Auditor's Report.

CITY OF PAULS VALLEY, OKLAHOMA
Notes to Budgetary Comparison Schedules
For the year Ended June 30, 2013

1. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personal services, materials and supplies, other services, capital outlay, debt service and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

SUPPLEMENTARY INFORMATION

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
Nonmajor Governmental Funds
6/30/2013

	Special Revenue										Capital Projects			Total Nonmajor Governmental Funds
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Tourism Motel Tax	PV Special Ambulance	NSW Library Trust	Community Center	APV Airport Projects	TIF	Cemetery Care		
Assets														
Cash and Cash Equivalents	\$ 44,513	\$ 9,864	\$ -	\$ 73,452	\$ 50,025	480,547	\$ -	\$ 122,562	\$ 38,995	71,274	\$ 495,447	\$ 55,908	\$ 1,442,587	\$ 151,633
Investments	-	-	-	-	-	-	-	151,633	-	-	-	-	-	-
Receivables:														
Interest	-	-	-	-	-	-	-	182	-	-	-	-	182	-
Taxes	-	-	-	2,195	-	31,432	1,453	-	-	-	2,693	-	37,773	-
Prepays	-	-	-	-	-	-	-	-	15,360	-	-	-	15,360	-
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Position	44,513	9,864	-	75,647	50,025	511,980	1,453	274,378	54,355	71,274	498,140	55,908	1,647,536	-
Liabilities														
Accounts Payable	15	-	-	-	-	-	-	-	-	60,190	-	-	60,205	-
Due to Other Funds	-	-	-	9,180	-	-	-	-	-	-	-	-	9,180	-
AT&T 911 Fee Advances	-	-	-	67,744	-	-	-	-	-	-	-	-	67,744	-
Total Liabilities	15	-	-	76,924	-	-	-	-	-	60,190	-	-	137,129	-
Fund Balances														
Nonspendable	-	-	-	-	50,000	-	-	-	15,360	-	-	-	65,360	-
Restricted	-	9,633	-	-	-	502,683	1,453	216,742	38,473	-	497,972	6,642	1,273,598	-
Committed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	44,498	231	-	-	25	9,297	-	57,636	522	11,084	168	49,266	172,727	-
Unassigned	-	-	-	(1,277)	-	-	-	-	-	-	-	-	(1,277)	-
Total Fund Balances	44,498	9,864	-	(1,277)	50,025	511,980	1,453	274,378	54,355	11,084	498,140	55,908	1,510,408	-
Total Liabilities and Fund Balances	\$ 44,513	\$ 9,864	\$ -	\$ 75,647	\$ 50,025	\$ 511,980	\$ 1,453	\$ 274,378	\$ 54,355	\$ 71,274	\$ 498,140	\$ 55,908	\$ 1,647,537	\$ -

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue										Capital Projects			Total Nonmajor Governmental Funds
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Request	Tourism Motel Tax	NSW Trust	PV Special Ambulance	Community Center	PV Airport Projects	TIF	Cemetery Care		
Revenues	\$ -	\$ -	\$ 2,950	\$ 25,818	\$ -	\$ 352,029	\$ -	\$ 98,811	\$ -	\$ -	\$ 143,042	\$ -	\$ -	
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	
Inergovernmental	2,400	-	2,950	25,818	-	352,029	7,106	98,811	-	127,458	143,042	-	619,699	
Charges for Services	-	-	-	9,720	-	-	-	-	-	-	-	-	139,914	
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-	-	-	16,362	
Investment Income	94	16	-	9	114	2,111	1,386	-	-	116	-	-	3,965	
Miscellaneous	18,514	940	112	-	-	3,044	17,791	-	-	-	-	-	40,404	
Total Revenues	21,008	956	3,062	35,547	114	357,184	26,283	98,811	4	127,574	143,042	6,761	830,344	
Expenditures														
Current:														
Police	4,897	-	-	-	-	-	-	-	-	-	-	-	4,897	
Emergency 911	-	-	-	53,495	-	-	-	-	-	-	-	-	53,495	
Special Ambulance Service	-	-	-	-	-	-	-	-	-	-	-	-	-	
Library	-	-	-	-	-	-	55,801	-	-	-	-	-	55,801	
Senior Citizens	-	-	-	-	-	-	-	-	-	-	-	-	-	
Recreation	-	-	-	-	-	-	-	-	7,680	-	-	-	7,680	
Streets	-	-	-	-	-	-	-	-	-	-	-	-	-	
Economic Development	-	-	-	-	-	172,154	-	-	-	-	-	-	172,154	
Airport	-	-	-	-	-	-	-	-	-	-	-	-	-	
Capital Outlay	10,180	-	5,659	-	-	-	-	-	18,654	-	24,993	-	59,486	
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Expenditures	15,077	-	5,659	53,495	-	172,154	55,801	-	26,334	-	24,993	-	353,513	
Excess (Deficiency) of Revenues over Expenditures	5,931	956	(2,597)	(17,948)	114	185,029	(29,518)	98,811	(26,330)	127,574	118,048	6,761	466,831	
Other Financing Sources														
Transfers In	4,856	-	-	10,500	-	-	-	-	-	-	-	-	15,356	
Transfers Out	-	-	-	-	(120)	-	-	-	(380,034)	-	-	-	(380,154)	
Contribution Expense	-	-	-	-	-	-	-	-	-	-	(5,939)	-	(5,939)	
Transfers to Component Unit	-	-	-	-	-	-	-	(97,359)	(380,034)	(202,275)	(5,939)	-	(299,634)	
Total Other Financing Source:	4,856	-	-	10,500	(120)	-	-	(97,359)	(380,034)	(202,275)	(5,939)	-	(670,372)	
Net Change in Fund Balances	10,787	956	(2,597)	(7,448)	(6)	185,029	(29,518)	1,452	(406,364)	(74,701)	112,109	6,761	(203,540)	
Fund Balances - Beginning	33,711	8,908	2,597	6,172	50,031	326,950	303,896	-	460,719	85,786	386,031	49,147	1,713,947	
Fund Balances - Ending	\$ 44,498	\$ 9,864	\$ -	\$ (1,277)	\$ 50,025	\$ 511,980	\$ 274,378	\$ 1,452	\$ 54,354	\$ 11,084	\$ 498,140	\$ 55,908	\$ 1,510,406	

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
General Fund Accounts
For the Year Ended June 30, 2013

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>Animal Control Fund Account</u>	<u>Total General Fund</u>
Assets						
Cash and cash equivalents	\$ 998,671	\$ 4,756	\$ 60,732	\$ 10,061	\$ -	\$ 1,074,220
Accounts receivable, net	59,729					59,729
Taxes receivable	620,047					620,047
Due from other funds	9,180					9,180
Prepaid expenses	39,069					39,069
Advance to component unit	36,100					36,100
<i>Total Assets</i>	<u>1,762,795</u>	<u>4,756</u>	<u>60,732</u>	<u>10,061</u>	<u>-</u>	<u>1,838,344</u>
Liabilities						
Accounts payable	718,474				-	718,474
Accrued liabilities	71,413				-	71,413
Due to other funds					-	-
<i>Total Liabilities</i>	<u>789,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>789,887</u>
Deferred Inflows of Resources:						
Police fines unavailable	29,161					29,161
<i>Total Deferred Inflows of Revenue</i>	<u>29,161</u>					<u>29,161</u>
Fund Balances						
Nonspendable	75,169				-	75,169
Restricted	851,515					851,515
Committed						-
Assigned		4,756	60,732	10,061		75,549
Unassigned	17,063					17,063
<i>Total Fund Balances</i>	<u>943,747</u>	<u>4,756</u>	<u>60,732</u>	<u>10,061</u>	<u>-</u>	<u>1,019,296</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,762,795</u>	<u>\$ 4,756</u>	<u>\$ 60,732</u>	<u>\$ 10,061</u>	<u>\$ -</u>	<u>\$ 1,838,344</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund Accounts
For the Year Ended June 30, 2013

	General Fund Account	Rose Garden Fund Account	Wacker Park Fund Account	Beautification Fund Account	Animal Control Fund Account	Total General Fund
Revenues						
Taxes	\$ 4,663,777	\$ -	\$ -	\$ -	\$ -	\$ 4,663,777
Intergovernmental	400,075	-	-	-	-	400,075
Charges for services	675,331	-	-	-	-	675,331
Fines and forfeitures	172,136	-	-	-	-	172,136
Licenses and permits	37,805	-	-	1,400	-	39,205
Investment income	5,914	8	99	16	-	6,036
Expense Reimbursement	-	-	-	-	-	-
Miscellaneous	73,954	-	7,986	4,428	-	86,368
<i>Total Revenues</i>	<u>6,028,993</u>	<u>8</u>	<u>8,084</u>	<u>5,844</u>	<u>-</u>	<u>6,042,929</u>
Expenditures						
Current:						
Administration	654,956	-	-	-	-	654,956
Police	1,151,838	-	-	-	-	1,151,838
Fire	794,714	-	-	-	-	794,714
Streets	533,816	-	-	-	-	533,816
Shop	83,882	-	-	-	-	83,882
Park	169,963	-	-	3,860	-	173,823
Cemetery	168,561	-	-	-	-	168,561
Golf	303,166	-	-	-	-	303,166
Library	121,958	-	-	-	-	121,958
Senior center	63,643	-	-	-	-	63,643
Airport	22,312	-	-	-	-	22,312
Aquatic	382,884	-	-	-	-	382,884
Recreation	475,571	-	-	-	-	475,571
Animal control	122,067	-	-	-	-	122,067
Capital outlay	3,710,289	-	-	-	-	3,710,289
Debt service	-	-	-	-	-	-
<i>Total Expenditures</i>	<u>8,759,619</u>	<u>-</u>	<u>-</u>	<u>3,860</u>	<u>-</u>	<u>8,763,479</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>(2,730,626)</u>	<u>8</u>	<u>8,084</u>	<u>1,984</u>	<u>-</u>	<u>(2,720,549)</u>
Other Financing Sources (Uses)						
Transfers in	959,239	60	60	-	-	959,359
Transfers out	(1,422,541)	-	-	-	-	(1,422,541)
Capital lease/loan proceeds	3,288,253	-	-	-	-	3,288,253
Contributed income	116,000	-	-	-	-	116,000
Hospital M&O	-	-	-	-	-	-
Transfers to component unit	(21,600)	-	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>2,919,351</u>	<u>60</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>2,919,471</u>
Net Change in Fund Balances	188,725	68	8,144	1,984	-	198,922
Fund Balances - beginning	755,023	4,688	52,587	8,077	-	820,375
Fund Balances - ending	<u>\$ 943,748</u>	<u>\$ 4,756</u>	<u>\$ 60,732</u>	<u>\$ 10,061</u>	<u>\$ -</u>	<u>\$ 1,019,297</u>

CITY OF PAULS VALLEY, OKLAHOMA
Schedule of Federal and State Awards
For the Year Ending June 30, 2013

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:					
Depart of Public Safety PT-13-03-98-02	\$ 2,400	\$ -	\$ 2,400	\$ -	\$ 2,400
FAA 3-40-0076-011-2012	160,488		127,458		160,488
	<u>162,888</u>	<u>-</u>	<u>129,858</u>	<u>-</u>	<u>162,888</u>
State Awards:					
ODEM	\$ 2,181	\$ -	\$ 2,181	\$ -	\$ 2,181
State Potion FEMA 2010 Winter Storm	30,449		30,449	30,449	
SODA CENA	2,950		2,950		2,950
REAP	50,000		50,000		50,000
Dept. Libraries State Aid	7,106		7,106		7,106
Dept. of Agriculture- Fire Operations	4,484		4,484		4,484
	<u>97,170</u>	<u>-</u>	<u>97,170</u>	<u>30,449</u>	<u>66,721</u>

INTERNAL CONTROL AND COMPLIANCE



P.O. BOX 706 • 2700 SOUTH FOURTH
CHICKASHA, OKLAHOMA 73023
PHONE (405) 224-6363 • FAX (405) 224-6364
ajb-cpas.com

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited 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, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2014. We qualified our opinion on the aggregate discretely presented component units, due to the unaudited presentation of the Pauls Valley Hospital Authority.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 13-1.

Compliance and Other Matters

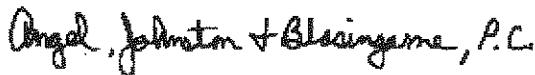
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 13-1.

City of Pauls Valley's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City'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.



Chickasha, Oklahoma
June 10, 2014

CITY OF PAULS VALLEY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013

Deficiencies of Internal Control, Compliance and Other Matters

13-1. Criteria –Cash and investments held at depository is required to be incurred or collateralized.

Condition –At June 30, 2013, the Pauls Valley Municipal Authority cash and investments were under collateralized by \$50,023.

Cause – The collateral pledged and account balances were adequately monitored to insure sufficiency.

Effect – Assets at yearend were at credit risk.

Recommendation – Proper tracking of insurance and pledged collateral is necessary to insure credit risk is avoided.

Management response – Management agrees.

**CITY OF PAULS VALLEY, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2013**

Deficiencies of Internal Control, Compliance and Other Matters

- 12-1. Criteria – Revenue collections for the pool and recreation center should follow certain procedures: logging revenues by categories, correctly identifying all adjustments, and printing daily summaries of cash collected.

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

Disposition – This procedure was improved but still the “RecTrac” software didn’t have all the revenue codes setup to track all revenue sources. For example employee payments and the annual school contract were not coded.

- 12-2. Criteria – All liabilities and assets should be reflected in the City’s financial statements.

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

Disposition – This was still unresolved as of June 30, 2013.

- 12-3. Criteria – Oklahoma Statutes has competitive bidding requirements when construction contracts are greater than \$50,000. On require in this law is a certificate of completion attested by an engineer or architect prior to final payment.

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

Disposition – This was not noted as a problem during the 2012-13 fiscal year.