

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2001**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

July 31, 2003

TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma, for the fiscal year ended June 30, 2001. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

TABLE OF CONTENTS

INTRODUCTORY SECTION (Unaudited)

Report to the Citizens of Muskogee Countyii
County Officials and Responsibilities..... iii
Ad Valorem Tax Distribution..... viii

FINANCIAL SECTION

Report of State Auditor and Inspector..... 1

General-Purpose Financial Statements:

Combined Balance Sheet - All Fund Types and Account Group and
Discretely Presented Component Unit 3

Combined Statement of Revenues, Expenditures, and Changes
in Fund Balances - All Governmental Fund Types 5

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual -
General and Special Revenue (County Health Department only) Funds..... 6

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings -
Proprietary Fund Types and Discretely Presented Component Unit 7

Combined Statement of Cash Flows - Proprietary Fund Types and
Discretely Presented Component Unit 8

Notes to the Financial Statements..... 9

Supplementary Schedule:

Schedule of Expenditures of Federal Awards 26

COMPLIANCE/INTERNAL CONTROL SECTION

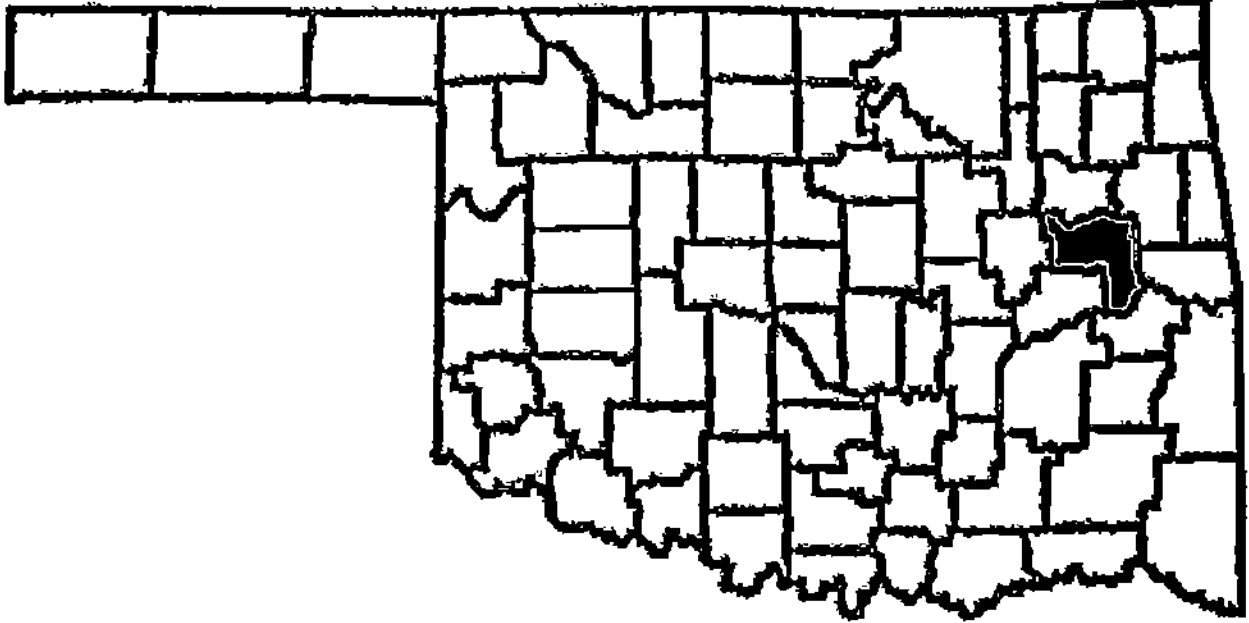
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards* 27

Report on Compliance With Requirements Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with OMB Circular A-133 29

Schedule of Findings and Questioned Costs 31

Management Response 35

REPORT TO THE CITIZENS
OF
MUSKOGEE COUNTY, OKLAHOMA



Named for the Muskogee Creek Indians, Muskogee County was created at statehood. The city of Muskogee, the county seat, became the focal point for the Five Civilized Tribes when the Union Agency established its headquarters in what is now Honor Heights Park. The old Union Agency Building is now the Five Civilized Tribes Museum and the famous Azalea Festival is held in the park each April. The park is also home to the Garden of Lights in December.

Muskogee County's economy is based primarily on agriculture, but oil, industry, and recreation have also been part of the building of this county's economics. The city of Muskogee itself is within 30 minutes of five major lakes.

County Seat – Muskogee

Area – 813.9 Square Miles

County Population - 70,010
(1995 est.)

Farms – 1,468

Land in Farms – 332,566 Acres

Source: Oklahoma Almanac 2001 - 2002

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY ASSESSOR
Terry Foutch
(D) Haskell

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK
Karen Anderson
(D) Porum

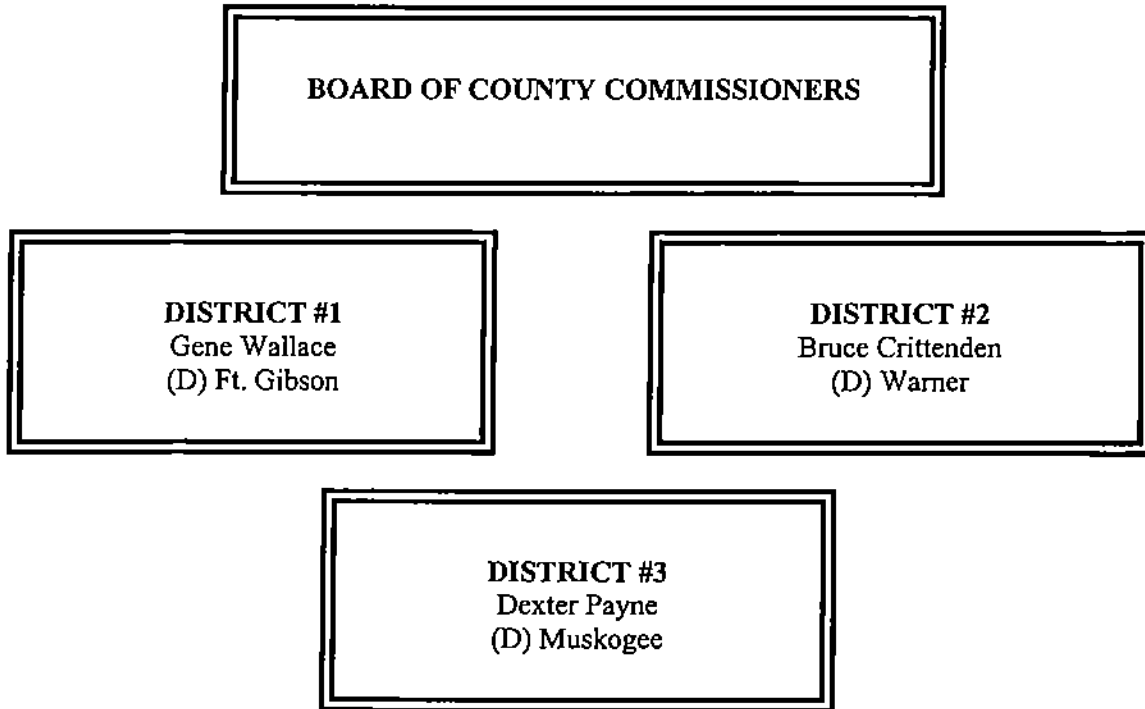
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY SHERIFF
Charles Pearson
(D) Muskogee

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Dorothy Lawson
(D) Muskogee

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COURT CLERK
Adaina Riley
(D) Muskogee

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
John David Luton
(D) Muskogee

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

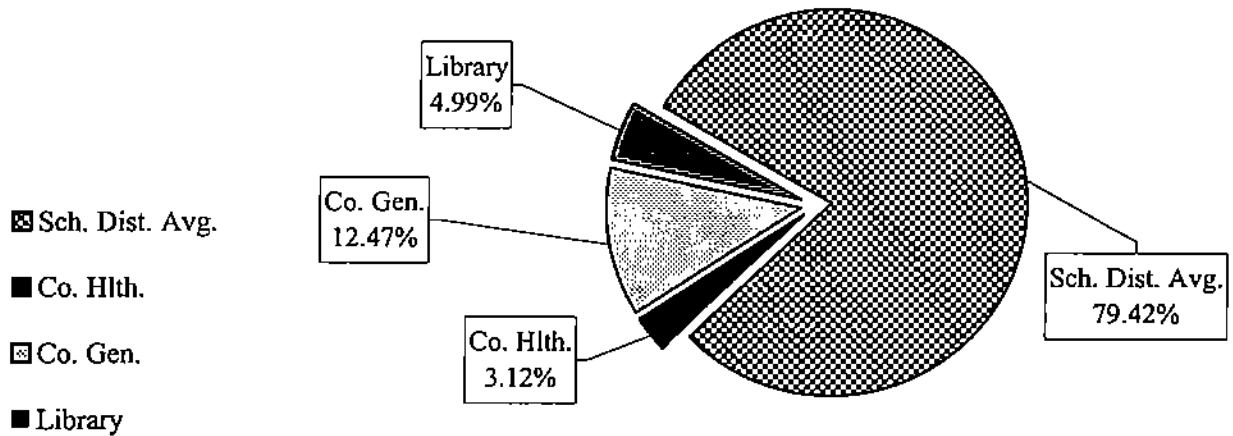
ELECTION BOARD SECRETARY
Kenneth Blackburn
(D) Muskogee

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**AD VALOREM TAX DISTRIBUTION
MUSKOGEE COUNTY, OKLAHOMA
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages

Co. General	10.00
County Health	2.50
Library	4.00

City Millages

Muskogee	1.73
Hilldale	1.73

Other

Gooseneck Bend	
Fire District	7.12
EMS	3.00

School District Millages

	<u>Gen.</u>	<u>Bldg.</u>	<u>Sinking</u>	<u>Vo-Tech</u>	<u>Common</u>	<u>Total</u>
Haskell - 2	35.00	5.00	6.43	10.00	4.00	60.43
Ft. Gibson - 3	35.00	5.00	14.75	10.00	4.00	68.75
Boynton - 4	35.00	5.00		10.00	4.00	54.00
Webbers Falls - 6	35.00	5.00	11.36	10.00	4.00	65.36
Oktaha - 8	35.00	5.00	17.28	10.00	4.00	71.28
Wainwright - 9	35.00	5.00		10.00	4.00	54.00
Muskogee - 20	35.00	5.00	20.89	10.00	4.00	74.89
Hilldale - 29	35.00	5.00	16.99	10.00	4.00	70.99
Braggs - 46	35.00	5.00	14.29	10.00	4.00	68.29
Warner - 74	35.00	5.00	9.41	10.00	4.00	63.41
Porum - 88	35.00	5.00	20.24	10.00	4.00	74.24
Sequoyah - J6B	35.00	5.00		10.00	4.00	54.00
McIntosh - J19B	35.00	5.00	.20	10.00	4.00	54.20
McIntosh - J27A&B	35.00	5.00	3.86	10.00	4.00	57.86

See independent auditor's report



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Muskogee County, Oklahoma, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of Muskogee County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of Muskogee County Home Finance Authority, which represents 100 percent and 100 percent, respectively, of the assets and revenues of the discretely presented component unit column. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for is based solely on the report of the other auditors.

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

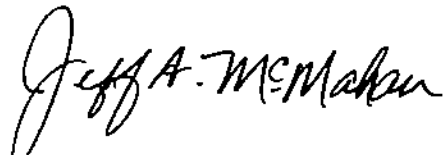
As explained in Note 1(K), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the report of the other auditors, except for the effects on the general-purpose financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Muskogee County, Oklahoma, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2002, on our consideration of Muskogee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Muskogee County, Oklahoma, taken as a whole. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole. The other information listed in the table of contents under *Introductory Section* has not been audited by us, and accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahen". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN
State Auditor and Inspector

October 7, 2002

General-Purpose Financial Statements

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUP	TOTAL (MEMORANDUM ONLY)	DISCRETELY PRESENTED COMPONENT UNIT	TOTAL (MEMORANDUM ONLY)
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL LONG - TERM DEBT	PRIMARY GOVERNMENT		REPORTING ENTITY
\$	\$ 114,178	\$ 4,142,740	\$	\$ 12,994,435	\$	\$ 12,994,435
		182,306		211,259	772,157	772,157
		6,565		18,881	567	211,259
		54,776		347,390		19,448
					26,497	347,390
					44,008	26,497
					2,782,980	44,008
			140,699	140,699		2,782,980
12,192,000				12,192,000		140,699
826,377				826,377		12,192,000
<u>\$ 13,018,377</u>	<u>\$ 114,178</u>	<u>\$ 4,386,387</u>	<u>\$ 140,699</u>	<u>\$ 26,731,041</u>	<u>\$ 3,626,209</u>	<u>\$ 30,357,250</u>
\$	\$ 115,590	\$	\$	\$ 788,779	\$	\$ 788,779
		1,046,858		374,175		374,175
		3,339,529		1,046,858		1,046,858
				3,339,529		3,339,529
					3,730,634	3,730,634
			140,699	140,699		140,699
12,192,000				12,192,000		12,192,000
826,377				826,377		826,377
<u>13,018,377</u>	<u>115,590</u>	<u>4,386,387</u>	<u>140,699</u>	<u>18,708,417</u>	<u>3,730,634</u>	<u>22,439,051</u>
	(1,412)			(1,412)	(104,425)	(105,837)
				211,930		211,930
				1,189,225		1,189,225
				6,622,881		6,622,881
-	(1,412)	-	-	8,022,624	(104,425)	7,918,199
<u>\$ 13,018,377</u>	<u>\$ 114,178</u>	<u>\$ 4,386,387</u>	<u>\$ 140,699</u>	<u>\$ 26,731,041</u>	<u>\$ 3,626,209</u>	<u>\$ 30,357,250</u>

The notes to the financial statements are an integral part of this statement.

**MUSKOGEE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
Revenues:					
Ad valorem taxes	\$ 3,259,489	\$ 997,827	\$	\$ 4,291	\$ 4,261,607
Charges for services	364,267	346,045			710,312
Intergovernmental revenues	448,523	3,557,361	2,980		4,008,864
Miscellaneous revenues	324,783	3,341,313	50,631	14,662	3,731,389
Total revenues	<u>4,397,062</u>	<u>8,242,546</u>	<u>53,611</u>	<u>18,953</u>	<u>12,712,172</u>
Expenditures:					
Current operating:					
General government	2,801,122	255,648			3,056,770
Public safety	673,424	1,814,188			2,487,612
Health and welfare	14,526	853,428			867,954
Culture and recreation	1,200				1,200
Education	87,671	100,000			187,671
Roads and highways	433,980	4,190,925			4,624,905
Capital outlay			26,899		26,899
Debt service:					
Principal retirement				13,000	13,000
Interest and fiscal agent charges				1,199	1,199
Total expenditures	<u>4,011,923</u>	<u>7,214,189</u>	<u>26,899</u>	<u>14,199</u>	<u>11,267,210</u>
Excess revenues over expenditures	<u>385,139</u>	<u>1,028,357</u>	<u>26,712</u>	<u>4,754</u>	<u>1,444,962</u>
Other financing sources (uses):					
Transfers out	(454,500)				(454,500)
Sale of county property		1,606,430			1,606,430
Total other financing sources (uses)	<u>(454,500)</u>	<u>1,606,430</u>	<u>-</u>	<u>-</u>	<u>1,151,930</u>
Excess revenues and other sources (uses) over (under) expenditures	(69,361)	2,634,787	26,712	4,754	2,596,892
Beginning fund balances	<u>806,385</u>	<u>3,448,073</u>	<u>1,162,513</u>	<u>10,173</u>	<u>5,427,144</u>
Ending fund balances	<u>\$ 737,024</u>	<u>\$ 6,082,860</u>	<u>\$ 1,189,225</u>	<u>\$ 14,927</u>	<u>\$ 8,024,036</u>

The notes to the financial statements are an integral part of this statement.

MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
-BUDGET AND ACTUAL-GENERAL AND SPECIAL REVENUE
(COUNTY HEALTH DEPARTMENT ONLY) FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 711,633	\$ 711,633	\$ -	\$ 472,445	\$ 472,445	\$ -
Revenues:						
Ad valorem taxes	2,963,516	3,266,309	302,793	740,879	816,659	75,780
Charges for services	303,500	364,267	60,767	31,612	38,861	7,249
Intergovernmental revenues	340,150	448,523	108,373		429	429
Miscellaneous revenues	253,783	326,829	73,046		7,997	7,997
Total revenues, budgetary basis	<u>3,860,949</u>	<u>4,405,928</u>	<u>544,979</u>	<u>772,491</u>	<u>863,946</u>	<u>91,455</u>
Expenditures:						
General government	3,340,881	2,808,603	532,278			
Public safety	681,937	679,230	2,707			
Health and welfare	14,678	14,673	5	1,244,936	803,452	441,484
Culture and recreation	1,200	1,200				
Education	87,765	87,671	94			
Roads and highway	446,121	433,980	12,141			
Total expenditures, budgetary basis	<u>4,572,582</u>	<u>4,025,357</u>	<u>547,225</u>	<u>1,244,936</u>	<u>803,452</u>	<u>441,484</u>
Excess of revenues and beginning fund balances over expenditures, budgetary basis	-	1,092,204	1,092,204	-	532,939	532,939
Other financing sources (uses):						
Transfer out		(454,500)	(454,500)			
Excess of beginning balances, revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>637,704</u>	<u>\$ 637,704</u>	<u>\$ -</u>	<u>532,939</u>	<u>\$ 532,939</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem receivable		23,162			5,791	
Accrued interest		8,609				
Due from other governments		10,623				
Reserved for encumbrances		13,434			24	
Adjustment to prior year reserved for encumbrances		43,492			236	
Ending fund balances		<u>\$ 737,024</u>			<u>\$ 538,990</u>	

The notes to the financial statements are an integral part of this statement.

**MUSKOGEE COUNTY, OKLAHOMA
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 RETAINED EARNINGS – PROPRIETARY FUND TYPES
 AND DISCRETELY PRESENTED COMPONENT UNIT
 FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Types		Muskogee County Home Finance Authority	Total (Memorandum Only)
	Enterprise Fund	Internal Service		
Operating revenues:				
Interest income	\$ 955,783	\$	\$	\$ 955,783
Insurance premiums		134,149		134,149
Interest income - mortgages			283,558	283,558
Loss on sale - real estate			16,665	16,665
Total operating revenues	<u>955,783</u>	<u>134,149</u>	<u>300,223</u>	<u>1,390,155</u>
Operating expenses:				
Benefits accrued to participants		682,731		682,731
Interest expense - current interest bonds			4,750	4,750
Interest expense - capital appreciation bonds			281,466	281,466
Audit fees			6,000	6,000
Trustee fees			8,219	8,219
Insurance			24,631	24,631
Miscellaneous expenses			1,998	1,998
Total operating expenses	<u>-</u>	<u>682,731</u>	<u>327,064</u>	<u>1,009,795</u>
Operating income (loss)	<u>955,783</u>	<u>(548,582)</u>	<u>(26,841)</u>	<u>380,360</u>
Non-operating revenues (expenses):				
Interest expense	(955,783)			(955,783)
Interest revenue		371	34,647	35,018
Reimbursements		52,511		52,511
Total non-operating revenue (expenses)	<u>(955,783)</u>	<u>52,882</u>	<u>34,647</u>	<u>(868,254)</u>
Income (loss) before operating transfers:	-	(495,700)	7,806	(487,894)
Operating transfers in (out)		454,500		454,500
Net income (loss)	<u>-</u>	<u>(41,200)</u>	<u>7,806</u>	<u>(33,394)</u>
Beginning retained earnings	<u>-</u>	<u>39,788</u>	<u>(112,231)</u>	<u>(72,443)</u>
Ending retained earnings	<u>\$ -</u>	<u>\$ (1,412)</u>	<u>\$ (104,425)</u>	<u>\$ (105,837)</u>

The notes to the financial statements are an integral part of this statement.

**MUSKOGEE COUNTY, OKLAHOMA
COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPES
AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Types		Muskogee County Home Finance Authority	Total (Memorandum Only)
	Enterprise Fund	Internal Service		
Cash flows from operating activities:				
Operating income (loss)	\$ 955,783	\$ (548,582)	\$ (26,841)	\$ 380,360
Adjustments to reconcile operating income to net cash provided by operating activities:				
Decrease in accounts payable		(10,807)		(10,807)
Increase in interest receivable	(430,259)			(430,259)
Accretion of capital appreciation interest			281,466	281,466
Issuance of loans	(2,988,000)			(2,988,000)
Proceeds from mortgages for resale			15,301	15,301
Loan payments received	764,000			764,000
Proceeds from mortgages receivable			493,709	493,709
Decrease in interest payable			(24,700)	(24,700)
Decrease in due from mortgage servicers			34,135	34,135
Net cash provided (used) by operating activities	<u>(1,698,476)</u>	<u>(559,389)</u>	<u>773,070</u>	<u>(1,484,795)</u>
Cash flows from non-capital financing activities:				
Operating transfers in		454,500		454,500
Interest expense	(955,783)			(955,783)
Reimbursements		52,511		52,511
Increase in interest payable to bondholders	430,259			430,259
Payments on current interest bonds			(650,000)	(650,000)
Payments on capital appreciation bonds			(222,778)	(222,778)
Issuance of bonds	2,988,000			2,988,000
Payments of bonds	(764,000)			(764,000)
Net cash provided (used) by non-capital financing activities	<u>1,698,476</u>	<u>507,011</u>	<u>(872,778)</u>	<u>1,332,709</u>
Cash flows from investing activities:				
Interest received		371	35,327	35,698
Purchase of investments			(2,054,388)	(2,054,388)
Proceeds from sales and maturities of investments			2,118,769	2,118,769
Net cash provided (used) by investing activities	<u>-</u>	<u>371</u>	<u>99,708</u>	<u>100,079</u>
Net increase (decrease) in cash and investments	-	(52,007)	-	(52,007)
Cash at beginning of fiscal year	<u>-</u>	<u>166,185</u>	<u>-</u>	<u>166,185</u>
Cash at end of fiscal year	<u>\$ -</u>	<u>\$ 114,178</u>	<u>\$ -</u>	<u>\$ 114,178</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

1. Summary of Significant Accounting Policies

The financial statements of Muskogee County are required to be presented in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with the GASB Statement No. 14, *The Financial Reporting Entity*, the County is required to present the entities that comprise the primary government and its legally separate component units in the fiscal year 2001 general-purpose financial statements.

Discretely Presented Component Unit

The Muskogee County Home Finance Authority (the Authority) was created as a public trust under applicable Oklahoma Statutes on October 23, 1978. The Authority was established to provide a means of financing housing and rental property for eligible low and moderate-income persons within Muskogee County.

The Muskogee County Home Finance Authority is reported as a discretely presented component unit. The Authority is reported in a separate column to distinguish between the financial data of the primary government and those of the discretely presented component unit. The component unit is included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization. The Muskogee County Home Finance Authority reports on a period ending May 31, 2001. Copies of the Authority's audited financial statements may be obtained from the Muskogee County Home Finance Authority, Muskogee, Oklahoma.

Related Organizations Excluded from the Reporting Entity

The County's officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. These organizations are not included in the financial statements.

Muskogee City-County Trust Port Authority
Gruber Recreational Trust Authority
Muskogee County Industrial Authority

Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Governmental entities classify funds into the following categories: governmental, proprietary, and fiduciary. Each category in turn is divided into separate fund types.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except for those that conflict with GASB pronouncements.

Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of other as their agent.

Account Groups

General Fixed Assets Account Group (GFAAG) - Accounting principles generally accepted in the United States of America require that those fixed assets of a government not reported in a proprietary fund or a trust fund be reported in a general fixed assets account group (GFAAG). This account group is not a fund. It does not have a balance sheet as such, nor does it report operations. Instead, the GFAAG serves as a list of the government's fixed assets and is designed to ensure accountability.

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes, warrants), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., capitalized lease-purchase obligations, claims and judgments).

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Summary of Significant Accounting Policies (continued)

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. The Muskogee County Home Finance Authority utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis.

The modified-accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be quantified, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources. Principal and interest on general long-term debt are recorded as fund expenditures when paid or when amounts for principal and interest have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, sales tax, interest revenue, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma Statutes, the general fund and the county health department fund are required to adopt a formal budget. The budget presented for the general and special revenue (county health department only) funds include the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.

Summary of Significant Accounting Policies (continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

E. Cash - Primary Government

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

Cash and Investments - Discretely Presented Component Unit

All amounts held under the Bond Indenture by the Trustee Bank were invested to the extent feasible and were continuously and fully secured for the benefit of the Authority and the owners of the bonds, primarily by the investment thereof in investment securities meeting the strict criteria of the Bond Indenture. Cash balances in each fund at May 31, 2001, were covered by federal depository insurance or by collateral held by the Trustee bank.

F. Use of Estimates - Discretely Presented Component Unit

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

G. Mortgage Loans - Discretely Presented Component Unit

Various lenders originated mortgage loans with acquisition fund moneys according to the Origination and Service Agreement dated December 1, 1979, of the 1979 Series A Bonds. Pursuant to the Refunding Bonds Indenture the mortgage loans outstanding as of April 17, 1990, were purchased, without recourse.

The lenders service the loans and are paid or retain a service fee calculated as a percentage of the outstanding mortgage loan balance each month. The mortgage loans have a level monthly amortization, an annual interest rate of 9.8%, an original maturity of 30 years and are insured for 80% or more of the purchase price or original appraised value of the mortgaged property.

Summary of Significant Accounting Policies (continued)

Additionally, a mortgage pool insurance policy provides insurance coverage on the full amount of any loss realized as a result of default in payments by a mortgagor on every mortgage loan foreclosed (after payment of private mortgage insurance) subject to a total of \$4,003,000, which is the limitation on aggregate claims of 15% of the original principal amount of all mortgage loans, plus an additional \$3,176,887 obtained at refunding of the Bonds on April 17, 1990.

At May 31, 2001, based on correspondence with lenders, there were six (6) mortgage loans, approximately \$104,203 on which payments were past due for 60 days or more. This represents approximately 3.7% of the total mortgage principal outstanding at May 31, 2001.

H. Other Real Estate Owned - Discretely Presented Component Unit

Other real estate owned includes principal outstanding at the time of foreclosure on delinquent mortgages less any payments received from primary mortgage insurance. These properties are marketed by the lenders servicing the original loans. Recoveries of balances are obtained from original loans. Recoveries of balances are obtained from sales of properties or from the mortgage pool insurance.

I. Receivables

All receivables are reported at their gross value.

J. Interest Receivable

Interest on deposits and investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

K. Fixed Assets

While the County presently maintains some individual records of personal property, it does not keep similar records for land, buildings, and improvements. For this reason, a Statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America is not presented on the Combined Balance Sheet - All Fund Types and Account Group.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

Summary of Significant Accounting Policies (continued)

L. Risk Management

The County is exposed to various risks of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability - Vehicle	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insured Group. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Worker's Compensation - Employees' Injuries	The County participates in a public entity risk pool. Association of County Commissioners of Oklahoma-Self-Insured Fund. (See ACCO-SIF.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life - Medical - Dental - Life - Disability	The County is self-insured for medical and dental coverage and carries commercial insurance for life and disability	All risk is retained for medical and dental and no risk is retained for life and disability

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county pays a deductible amount (\$1,000 to \$10,000; Muskogee County has a \$2,500 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool pays legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

ACCO-SIF - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and pays legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit,

Summary of Significant Accounting Policies (continued)

pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

The County continues to carry commercial insurance for employees' life and disability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the 2001 fiscal year.

Risk Management – Self Insurance Fund

Muskogee County is self-insured for health and dental benefits. The self-insurance fund accounts for the risk financing activities of the County, but does not constitute a transfer of risk from the County.

The Health and Dental Plan was established by Muskogee County to provide benefits for its employees, their dependents, eligible retirees and their survivors, participants covered under continuation of coverage, and employees on leave of absence. The cost of coverage for employees is financed through transfers from other funds and the premiums withheld from employees payroll checks. Certain limitations are placed upon these benefits as to the amount of coverage and who may be covered in specific areas. A member service administrator is employed by Muskogee County to administer the program. The administrator receives and pays claims from County funds based upon contract limitations. The administrator is responsible for insuring that claims are legitimate, based on enrollment information provided by the County and claims submitted by or on behalf of the claimant. The administrator receives a fee for the services.

M. Compensated Absences

The County does not accrue any liability for future vacation benefits. Vacation benefits are earned by the employee during the year and may not be accumulated. In management's opinion, such an amount, if recorded, would not be material to the financial statements.

The County does not record any liability for sick leave. An employee earns up to 12 days per year and may accumulate up to 130 days. There is no history of sick leave usage from which to project future usage; hence, no liability for such has been recorded. Management believes such an amount, if recorded, would not be material to the financial statements.

Summary of Significant Accounting Policies (continued)

O. Fund Equity

Retained earnings reflect the accumulated earnings of an enterprise or internal service fund. Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund equity represents tentative plans for future use of financial resources.

P. Interfund Transactions

Operating transfers consist of \$454,500 from County general fund to the proprietary internal service fund.

Q. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Interfund transactions, if any, have not been eliminated from the total column of each financial statement.

R. Grant Revenue

Revenues from federal grants are recognized when expenditures are incurred.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The Muskogee County Board of County Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

3. Detailed Notes on Account Balances

A. Deposits – Primary Government

Title 62 O.S. § 348.3 authorizes the County Treasurer to invest in:

- U.S. government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities, or school districts
- Money judgments against county, municipalities, or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality, or school district
- Negotiable certificates of deposit
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the securities and exchange commission and which investments consist of the above-mentioned types of investments

At year-end, the carrying amount of the County's deposits was \$12,994,435 and the bank balance was \$13,063,628. Of the bank balance, all funds except \$422,478 were covered by federal depository insurance or collateral held by the County's agent in the County's name. The County's deposits were uncollateralized by \$422,478.

Investments - Discretely Presented Component Unit

The Bond Indenture limits the type of investments the Authority may invest. The indenture allows investment in "AAA" rated bonds, direct obligations of the United States of America, obligations of the Federal Home Loan Bank, certificates of deposit with any national or state bank within Oklahoma insured by the FDIC, money market funds consisting only of Government Obligations, and various repurchase agreements with a "AA" rating and maturing in one year or less or that are collateralized by Direct Obligations.

At May 31, 2001, investments recorded at cost, which approximates market value, were comprised of the following:

MUSKOGEE COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2001

Detailed Notes on Account Balances (continued)

<u>Description</u>	<u>Recorded Value</u>	<u>Market Value</u>
Bond Fund-		
Citibank Investment Agreement (7.65%)	\$ 62,727	\$ 62,727
Short Term Treasury Fund	480,884	480,884
Mortgage Reserve Fund-		
Citibank Investment Agreement (8.00%)	54,334	54,334
Short Term Treasury Fund	6,962	6,962
Special Reserve Account-		
Short Term Treasury Fund	285	285
Real Estate Owned Account-		
Short Term Treasury Fund	147,591	147,591
Real Estate Owned Escrow Account-		
Short Term Treasury Fund	604	604
Gain or Loss Account-		
Short Term Treasury Fund	17,321	17,321
Expense Account-		
Short Term Treasury Fund	<u>1,449</u>	<u>1,449</u>
TOTAL INVESTMENTS	\$ <u>772,157</u>	\$ <u>772,157</u>

B. Receivables

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The net assessed property value as of January 1, 2000, was \$325,986,679.

MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

Detailed Notes on Account Balances (continued)

The County levied 10.00 mills (the legal maximum) for general fund operations, 2.50 mills for the County Health Department, and 4.00 mills for the Multi-County Library. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid before January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2001, were approximately 97 percent of the levy for tax year 2000.

C. Pension Plan

Plan Description. Muskogee County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Fund Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributed between 5.0% and 10% of earned compensation for fiscal year 2001. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributed 10% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2001, 2000, and 1999, were \$410,052, \$399,445, and \$471,108, respectively, equal to the required contributions for each year.

D. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. 1991, § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest-free. However,

MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

Detailed Notes on Account Balances (continued)

starting in January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired. The one-time fee is reported as interest. Oklahoma Statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, because it is the County's intent to exercise its right to purchase this property, the lease-purchase agreements have been capitalized to conform to generally accepted accounting principles. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

Providing all capital leases are renewed each year by resolution of the Board of County Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2001, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 38,980	\$ 7,782	\$ 46,762
2003	35,324	5,374	40,698
2004	34,440	3,223	37,663
2005	<u>31,955</u>	<u>981</u>	<u>32,936</u>
Totals	<u>\$140,699</u>	<u>\$ 17,360</u>	<u>\$158,059</u>

During the year, the County paid \$44,080 on the outstanding balances of lease-purchase agreements.

E. Changes in Long-Term Liabilities

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2001</u>
Claims and Judgments	\$ 13,000	\$ -	\$ 13,000	\$ -
Capital leases	<u>184,779</u>	<u>-</u>	<u>44,080</u>	<u>140,699</u>
Total	<u>\$ 197,779</u>	<u>\$ -</u>	<u>\$ 57,080</u>	<u>\$ 140,699</u>

MUSKOGEE COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2001

Detailed Notes on Account Balances (continued)

F. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are required to be fully paid within 25 years from the date of issue. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
County Limited Tax Bonds of 1972, Series C	5.50 to 5.75	\$ 4,000
County Limited Tax Bonds of 1972, Series D	5.50 to 5.75	8,000
County Limited Tax Bonds of 1973, Series E	5.625	60,000
County Limited Tax Bonds of 1973, Series F	5.40 to 6.00	12,000
County Limited Tax Bonds of 1982, Series C	6.00	15,000
County Limited Tax Bonds of 1990	6.00	500,000
County Limited Tax Bonds of 1991	6.00	175,000
County Limited Tax Refunding Bonds of 1993	4.15 to 4.95	235,000
County Limited Tax Bonds of 1994	5.00	60,000
County Limited Tax Bonds of 1995, Series A	6.60 to 14.00	250,000
County Limited Tax Bonds of 1996	5.625 to 13.75	650,000
County Limited Tax Bonds of 1997, Series A	5.45 to 7.00	240,000
County Limited Tax Bonds of 1997, Series B	5.45 to 7.00	2,570,000
County Limited Tax Bonds of 1998, Series A	7.00	300,000
County Limited Tax Bonds of 1998, Series B	5.472	660,000
County Limited Tax Bonds of 1999, Series A	5.225	1,420,000
County Limited Tax Bonds of 1999, Series B	5.763	245,000
County Limited Tax Bonds of 1999, Series C	8.40 to 9.00	350,000
County Limited Tax Bonds of 1999, Series D	5.90 to 6.75	550,000
County Limited Tax Bonds of 1999, Series E	6.45 to 7.00	900,000
County Limited Tax Bonds of 2000, Series A	7.00 to 14.00	500,000
County Limited Tax Bonds of 2000, Series B	5.90 to 7.50	2,000,000
County Limited Tax Bonds of 2000, Series C	6.00	488,000
Total General Obligations Limited Tax Bonds		<u>\$ 12,192,000</u>

The proceeds of these bonds are administered through the Muskogee County Industrial Authority, a related organization of Muskogee County. Proceeds are loaned to various companies to finance construction, expansion or other uses as approved by the Board of Trustees of the Authority. The Authority in return receives a mortgage on the assets purchased or constructed and a promissory note for the same amount required to pay off the issue (including interest). If necessary, the County would levy an ad valorem tax to retire the bonds. To date, no levy has been required. All notes are current at 6-30-2001.

MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

Detailed Notes on Account Balances (continued)

Annual debt service requirements to maturity for general obligation bonds, including interest, are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2002	\$ 759,143	\$ 845,000	\$ 1,604,143
2003	961,084	1,015,000	1,976,084
2004	666,989	899,000	1,565,989
2005	604,701	915,000	1,519,701
2006	542,733	775,000	1,317,733
2007 – 2021	<u>3,023,777</u>	<u>7,743,000</u>	<u>10,766,777</u>
Total	<u>\$6,558,427</u>	<u>\$12,192,000</u>	<u>\$18,750,427</u>

G. Revenue Bonds - Discretely Presented Component Unit

The capital appreciation bonds were issued April 17, 1990, and bear interest from that date.

The following schedule details the maturity dates, maturity amounts and interest rates for the outstanding Refunding Bonds as of May 31, 2001:

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Capital Appreciation Bonds <u>\$3,730,634</u>	June 1, 2011	7.750%

(Includes \$2,236,784 of accreted interest from the date of issue through May 31, 2001)

The current interest bonds were fully paid off during the year ended May 31, 2001. In addition, capital appreciation bonds with an accreted value of \$222,778 and a maturity value of \$495,000 were redeemed.

The Refunding Bonds are subject to mandatory redemption, on any date, at a redemption price equal to the principal amount together with accrued interest to the redemption date, without premium:

- (I) In whole or in part, on any payment date from moneys in the Bond Fund deposited pursuant to the Indenture for the Refunding Bonds (the Indenture); provided that the Trustee Bank not redeem bonds pursuant to the Indenture until the amount on deposit in the Bond Fund exceeds \$25,000.

Detailed Notes on Account Balances (continued)

(II). In whole, on the earliest date with respect to which notice of redemption can timely be given, if the sum of the amounts of money and the market value of investments held in the Bond Fund is sufficient to pay all outstanding bonds and all fees and expenses due and payable under the Indentures to the date of such redemption. To the extent the aggregate principal amount of mortgage loans held by the Trustee Bank under the Indenture and then outstanding is less than \$5,000,000 the Authority may, at its option, direct the Trustee Bank to sell the mortgage loans and utilize the proceeds from such sale for the redemption of all outstanding bonds.

The Series 1990 A capital appreciation bonds are not subject to mandatory redemption by the Issuer.

H. Fund Equity

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Designated fund equity represents tentative plans for future use of financial resources, which are available for appropriation. Specific reservations and designations of the fund balance accounts are summarized below.

Reserved for Encumbrances- The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

Designated for Capital Projects – The current fund balance in the capital project fund was and is to be used to restore and renovate the Muskogee County Courthouse and construct a three tier parking garage.

I. Fuel Taxes

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County highway fund. The County highway fund is reported herein as "special revenue," and the fuel tax revenue is presented as "intergovernmental."

Detailed Notes on Account Balances (continued)

4. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily 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 cannot be determined at this time; although, the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

5. Deficit Fund Balance - Discretely Presented Component Unit

The deficit fund balance has been caused partially by mortgages refinancing at lower interest rates and costs associated with foreclosed properties. These transactions have forced excess cash to be invested in assets with lower earning capacities than needed to accumulate payments for interest expense of bonds. Where possible, the Trustee is purchasing outstanding bonds to eliminate this deficiency.

Supplementary Schedule

MUSKOGEE COUNTY, OKLAHOMA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2001

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed through the State Department of Commerce:		
Community Development Block		
Grant/State's Program	14.228	\$ 100,000
Women in Safe Homes	14.231	50,000
Total U.S. Department of Justice		<u>150,000</u>
U.S. DEPARTMENT OF JUSTICE		
COPS Grant	16.710	46,565
LLEBG Grant	16.592	<u>136,293</u>
Total U.S. Department of Justice		<u>182,858</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through State Department of Civil Emergency Management:		
Public Assistance Grant Program	83.544	3,152,077
Hazard Mitigation Grant Program (Safe Room)	83.548	28,000
Total Federal Emergency Management Agency		<u>3,180,077</u>
Total Expenditures of Federal Awards		<u>\$ 3,512,935</u>

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Muskogee County, and is presented on the *modified accrual basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited the financial statements of Muskogee County, Oklahoma, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 7, 2002. We qualified our opinion because the general fixed assets account group was not included in the general-purpose financial statements. We did not audit the financial statements of Muskogee County Home Finance Authority, a component unit of Muskogee County. Those financial statements were audited by other auditors, whose report thereon has been furnished to us. 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.

Compliance

As part of obtaining reasonable assurance about whether Muskogee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Questioned Costs as items 2001-2 and 2001-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskogee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 1998-1, 1999-1, and 2001-1.

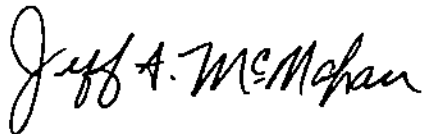
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1998-1 and 1999-1 to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

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

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

October 7, 2002

**Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With
OMB Circular A-133**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With
OMB Circular A-133**

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Muskogee County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2001. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

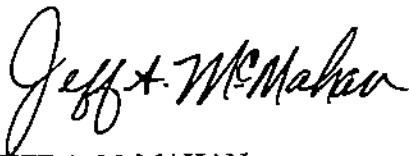
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

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

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

October 7, 2002

Schedule of Findings and Questioned Costs

MUSKOGEE COUNTY, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2001

SECTION 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified
 Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? None Reported

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
83.544	Federal Emergency Management Agency (FEMA) Public Assistance Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001

SECTION 2 - Financial Statement Findings

Finding 1998-1 - General Fixed Assets (Repeat Finding)

Criteria: Accounting principles generally accepted in the United States of America for a governmental entity using governmental fund types require the presentation of the general fixed assets account group (GFAAG) in the financial statements.

Condition: Information is not available for reporting general fixed assets in accordance with generally accepted accounting principles for a government entity. The general fixed assets control account is not accurate.

Recommendation: We recommend records include acquisition cost, a complete description, purchase date, location of such assets, and that a control total of the cost of these assets be maintained and reconciled annually.

Finding 1999-1 - Segregation of Duties (Repeat Finding)

Criteria: The overall goal of accounting principles generally accepted in the United States of America is to demonstrate accountability and stewardship to be used in evaluating management's accounting for funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: Based on inquiries of County personnel, it was noted that the duties of receiving, receipting, recording, and depositing collections were not adequately segregated.

Effect: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: We recommend management be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of County operations and periodic review of those operations.

Finding 2001-1 - General Ledger Account Balances

Criteria: In accordance with Title 19 O.S. 1991, § 642, the County Treasurer shall keep a cash book in which he shall enter all funds receipted by him. Additionally, in accordance with Title 19 O.S. 1991, § 681, the County Treasurer is the custodian of all funds received by any other officer or department.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Condition: There was an unexplained variance on official depository reconciliation of (\$63.97) at June 30, 2001.

The Muskogee County Treasurer is the custodian of the following bank accounts that are not placed on the general ledger and/or reconciled monthly. All account balances were confirmed by the bank at June 30, 2001.

Account #	Account Name	Recorded Balance General Ledger	Bank Balance at June 30, 2001
9744037	General Obligations 2000 B Series	\$782,428.42	\$ 3,041.16
8911797	General Obligations 2000 A	\$243,348.16	\$128,004.29
100943	ASF Machine, Inc Muskogee County	Not Recorded	\$ 4,504.98
8911185	Employees Taxes	Not Recorded	\$ 0
8911193	WISH EMG SPG	Not Recorded	\$ -2.50
9421890	Insurance Fund	Not Recorded	\$ 76,178.24

Recommendation: We recommend that all bank accounts within the custody of the County Treasurer be placed on the general ledger and we further recommend that all accounts be reconciled on a monthly basis.

Finding 2001-2 - Pledged Collateral (Repeat Finding)

Criteria: As set forth in Title 19 O.S. 1991, § 121, County Treasurer's are required to receive collateral from financial institutions in which they keep county monies whenever the balance exceeds the amount insured by the Federal Deposit Insurance Corporation (FDIC).

Condition: The County Treasurer did not maintain a pledged collateral ledger and was underpledged at June 30, 2001.

Bank of Oklahoma carried a balance of \$1,194,865, but was only pledged \$1,000,000 plus \$100,000 FDIC.

Recommendation: We recommend the County Treasurer comply with 19 O.S. 1991, § 121, and maintain a pledged collateral ledger that would clearly illustrate the amount of securities pledged from each bank on any given date. We further recommend that the total bank deposits be compared to the amount pledged to assure that the pledges are adequately protected.

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

Finding 2001-3 - Resolutions to Invest Funds

Criteria: According to Title 62 O.S. 1991, § 348.1, the county treasurer shall invest funds "when authorized by the appropriate governing body by a written investment policy, ordinance or resolution".

Condition: The County Treasurer did not have school investment resolutions on file.

Recommendation: We recommend that a resolution be obtained from each school district for which the County Treasurer invests funds. The resolution should specify what funds should be invested and where the interest is to be apportioned.

SECTION 3 – Federal Award Findings and Questioned Costs

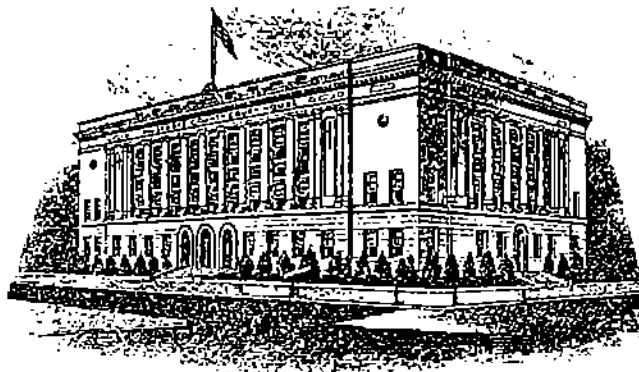
No items were reported.

Management Response

GENE WALLACE
MUSKOGEE DIST. 1

KAREN ANDERSON
COUNTY CLERK

BRUCE CRITTENDEN
MUSKOGEE DIST. 2



DEXTER PAYNE
MUSKOGEE DIST. 3

JACKIE LANN
SECRETARY

P.O. BOX 2307 • MUSKOGEE, OK 74402-2307 • PHONE (918) 682-9601 • FAX (918) 684-1697

MUSKOGEE COUNTY BOARD OF COMMISSIONERS

Oklahoma State Auditor and Inspector
Weatherford District
1401 Lera, Suite 9 Rt. 2
Weatherford, OK 73096

Re: Response for fiscal year 2001

Dear Ms. Merle:

This is in response to the reportable conditions of the audit for the fiscal year ended June 30, 2001.

General Fixed Assets

98-1 Muskogee County will include acquisition costs, a complete description, purchase date, location of such assets, and a control total of the cost of these assets will be maintained and reconciled annually in the future.

Segregation of Duties

1999-1 Muskogee County will become aware of the duties of receiving, receipting, recording and depositing collections and will segregate these duties in the future.

General Ledger Account Balances

2001-1 The County Treasurer will reconcile all accounts on a monthly basis and will place all bank accounts on the general ledger in the future.

Pledged Collateral

2001-2 The County Treasurer will maintain a pledged collateral ledger that would clearly illustrate the amount of securities pledged from each bank on any given date. Also the total bank deposits will be compared to the amount pledged to assure that the pledges are adequately protected.

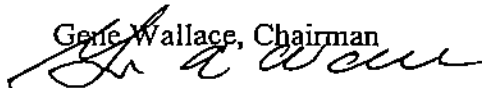
Resolutions to Invest Funds

2001-3 A Resolution will be obtained from each school district for which the County Treasurer invests funds. The resolution will specify what funds should be invested and where the interest is to be apportioned.

Respectfully submitted,

Muskogee Board of County Commissioners

Gene Wallace, Chairman



Dexter Payne, Member



Bruce Craftenden, Member

