

**THE CITY OF OKEMAH,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Okemah, Oklahoma

We have audited 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 Okemah, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1(B), the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City as of June 30, 2012, and the respective changes in financial position—modified cash basis and cash flows—modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012, 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 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The management's discussion and analysis and budgetary comparison information on pages 8 through 16 and page 49 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor governmental funds schedules—modified cash basis, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor governmental funds schedules—modified cash basis, schedule of expenditures of federal and state awards, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Finley + Cook, PLLC

Shawnee, Oklahoma
November 13, 2012

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MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
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The management of the City of Okemah is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities for the year ended June 30, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analysis in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$1.1 million, and the assets of the City exceed its liabilities at June 30, 2012, by \$17.7 million (net assets). Of this amount, \$1.9 million (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$2.1 million.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$353,540 or 22.4% of General Fund revenues.
- The Okemah Utilities Authority issued \$2,565,000 notes payable to the Oklahoma Water Resources Board during fiscal year 2012 which was used for a wastewater construction project.

About the City

The City of Okemah is an incorporated municipality with a population of approximately 3,085 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, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, sewer, and sanitation and economic development services.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Okemah City Council is fiscally responsible. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

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The City's financial reporting entity includes the following separate legal entities.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City
- **The Okemah Utilities Authority (OUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Okemah is the beneficiary of the trust and the City Council serves as the governing body of the trust.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the City Council members serving as the trustees.

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trust does not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Okemah (the "City"), the Okemah Utilities Authority (the "Authority") and the Okemah Economic Development Authority (OEDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, the quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

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These two government-wide statements report the City's net assets and changes in them from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, in the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** -- The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, and sanitation activities and economic development activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

Governmental funds -- Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds – When the City, through the Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary funds are the Okemah Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities as well as the Okemah Economic Development Authority that accounts for economic development activities.

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Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28-47 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Management's Discussion and Analysis, a Budgetary Comparison Schedule for the General Fund, federal and state award schedules, and debt service coverage and debt reserve schedules.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the primary government, on a modified cash basis, assets exceeded liabilities by \$17.7 million at the close of the most recent fiscal year.

NET ASSETS - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current assets	\$ 2,114	\$ 1,978	7%	\$ 1,808	\$ 1,455	24%	\$ 3,922	\$ 3,433	14%
Capital assets, net	5,058	4,926	3%	13,804	11,899	16%	18,862	16,825	12%
Other non-current assets	-	-	0%	96	113	-15%	96	113	-15%
Total assets	7,172	6,904	4%	15,708	13,467	17%	22,880	20,371	12%
Current liabilities	52	54	-4%	573	494	16%	625	548	14%
Non-current liabilities	150	202	-26%	4,450	3,084	44%	4,600	3,286	40%
Total liabilities	202	256	-21%	5,023	3,578	40%	5,225	3,834	36%
Net assets									
Invested in capital assets, net of related debt	4,857	4,670	4%	8,960	8,397	7%	13,817	13,067	6%
Restricted	1,340	1,345	0%	579	543	7%	1,919	1,888	2%
Unrestricted	773	633	22%	1,146	949	21%	1,919	1,582	21%
Total net assets	\$ 6,970	\$ 6,648	5%	\$10,685	\$ 9,889	8%	\$ 17,655	\$ 16,537	7%

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2012, this investment in capital assets, net of related debt amounted to \$13.8 million. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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A major portion of the City's net assets, \$1.9 million, also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is available to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for both the governmental and business-type activities.

Governmental Activities:

The 22% increase in unrestricted net assets (about \$140,000) was due to unrestricted revenues exceeding unrestricted expenses.

Business-Type Activities:

Current assets increased 24% (about \$353,000) mainly due to an increase in cash and cash equivalents. Details of the change in cash are reported in the Cash Flow Statement on page 27.

The 44% increase in noncurrent liabilities (approximately \$1,366,000) is due to the net effect of the drawdown of \$2.1 million of notes payable to the Oklahoma Water Resources Board and partial forgiveness of that debt with a federal grant of \$234,000 and other principal payments of about \$400,000.

Unrestricted net assets increased 21% (about \$196,000) as a result of unrestricted revenues exceeding unrestricted expenses.

Changes in Net Assets

For the year ended June 30, 2012, on the modified cash basis of accounting, net assets of the primary government changed as follows:

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CHANGES IN NET ASSETS - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for service	\$ 59	\$ 67	-12%	\$ 1,998	\$ 1,911	5%	\$ 2,057	\$ 1,978	4%
Operating grants and contributions	42	43	-2%	-	-	-	42	43	-2%
Capital grants and contributions	48	384	-88%	375	324	16%	423	708	-40%
Taxes	1,315	1,175	12%	-	-	-	1,315	1,175	12%
Intergovernmental revenue	53	49	8%	-	-	-	53	49	8%
Investment income	13	15	-13%	8	10	-20%	21	25	-16%
Miscellaneous	135	95	42%	17	12	42%	152	107	42%
Total revenues	1,665	1,828	-9%	2,398	2,257	6%	4,063	4,085	-1%
Expenses									
General government	219	262	-16%	-	-	-	219	262	-16%
Public safety	672	621	8%	-	-	-	672	621	8%
Streets	234	211	11%	-	-	-	234	211	11%
Cemetery	72	45	60%	-	-	-	72	45	60%
Culture and Recreation	112	98	14%	-	-	-	112	98	14%
Economic development	-	-	-	108	134	-19%	108	134	-19%
Interest on long-term debt	11	11	0%	-	-	-	11	11	0%
Water	-	-	-	814	684	19%	814	684	19%
Sewer	-	-	-	490	412	19%	490	412	19%
Sanitation	-	-	-	213	184	16%	213	184	16%
Total expenses	1,320	1,248	6%	1,625	1,414	15%	2,945	2,662	11%
Excess (deficiency) before transfers	345	580	-41%	773	843	-8%	1,118	1,423	-21%
Transfers	(23)	(193)	-88%	23	193	-88%	-	-	-
Change in net assets	322	387	-17%	796	1,036	-23%	1,118	1,423	-21%
Beginning net assets	6,648	6,263	6%	9,889	8,854	12%	16,537	15,117	9%
Ending net assets	\$ 6,970	\$ 6,650	5%	\$ 10,685	\$ 9,890	8%	\$ 17,655	\$ 16,540	7%

Governmental Activities

The City's governmental activities had an increase in net assets, on the modified cash basis of accounting, of about \$322,000. The increase is due in part to an increase of about \$140,000 in sales and use taxes and miscellaneous revenues increase of \$40,000. In the prior year, the airport received a \$300,000 grant which explains the 88% decline in capital grant revenues. Transfers changed by \$170,000 due to the increase in sales taxes noted above.

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**Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	General government	\$ 219		\$ 262	-16%	
Public safety	672	621	8%	(650)	(540)	-20%
Streets	234	211	11%	(205)	(184)	-11%
Cemetery	72	45	60%	(47)	(19)	-147%
Culture and Recreation	112	98	14%	(95)	(79)	-20%
Interest on long-term debt	11	12	-8%	(11)	(12)	8%
Total	\$ 1,320	\$ 1,249	6%	(\$1,171)	(\$756)	-55%

The general government activity had a 309% decrease in net revenue of about \$240,000 due mainly to a prior year airport grant of about \$300,000. The public safety activity decrease in net revenue of about \$110,000 (20%) resulted primarily from a decrease in grant revenue of about \$50,000 and an increase in salaries and wages of about \$36,000.

Business-type Activities

The business-type activities, on the modified cash basis of accounting, had an increase in net assets of approximately \$0.8 million. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2012 were sufficient to cover expenses. The Economic Development activity reported a 68% decrease in net revenue due to a \$284,000 grant used to construct a building and purchase land for an industry in the prior year.

**Net Revenue (Expense) of Business-Type Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	Water	\$ 814		\$ 684	19%	
Wastewater	490	413	19%	446	213	109%
Sanitation	213	184	16%	63	93	-32%
Economic Development	108	134	-19%	56	174	-68%
Total	\$ 1,625	\$ 1,415	15%	\$ 748	\$ 819	-9%

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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$2.1 million or a 6.9% increase. The enterprise funds reported, on a modified cash basis of accounting, combined net assets of \$10.7 million or an 8% increase from 2011.

Other fund highlights include:

- For the year ended June 30, 2012, the General Fund's total fund balance increased by about \$47,000 or 7.6%.
- Proprietary fund net asset restriction included approximately \$579,000 for debt service.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues over final estimates by \$316,000 or a 20% positive variance which was due mainly to increased sales tax revenue and a related transfer in of unused pledged sales taxes. General Fund actual expenditures were under final appropriations by \$81,000 or a 4% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$18.9 million invested in capital assets (net of depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net increase of approximately \$2,035,000 over last year.

Capital Assets						
(In Thousands)						
(Net of accumulated depreciation)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 444	\$ 413	\$ 1,738	\$ 1,738	\$ 2,182	\$ 2,151
Buildings	603	603	5,776	5,882	6,379	6,485
Imp. other than buildings	1,188	1,207	12	14	1,200	1,221
Machinery, furniture and equipment	493	484	309	204	802	688
Infrastructure	2,131	2,209	-	-	2,131	2,209
Utility property	-	-	3,795	3,197	3,795	3,197
Construction in progress	199	11	2,174	865	2,373	876
Totals	<u>\$ 5,058</u>	<u>\$ 4,927</u>	<u>\$ 13,804</u>	<u>\$ 11,900</u>	<u>\$ 18,862</u>	<u>\$ 16,827</u>

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This year's more significant capital asset additions included:

Basin 8 Sewer Rehabilitation	\$398,000
Sewer CMOM Project	293,000

See Note 3 to the financial statements for more detail information on the City's capital assets and changes therein.

Long- Term Debt

At year-end, the City had \$5.2 million in long-term debt outstanding which represents a \$1,379,000 or 36.5% increase from the prior year. The City's changes in long-term debt by type of debt are as follows:

	Long-Term Debt (In Thousands)						Total Percentage Change
	Governmental Activities		Business-Type Activities		Total		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Notes payable	\$ -	\$ -	\$ 4,940	\$ 3,488	\$ 4,940	\$ 3,488	41.6%
Capital leases	<u>202</u>	<u>256</u>	<u>12</u>	<u>31</u>	<u>214</u>	<u>287</u>	-25.4%
Totals	<u>\$ 202</u>	<u>\$ 256</u>	<u>\$ 4,952</u>	<u>\$ 3,519</u>	<u>\$ 5,154</u>	<u>\$ 3,775</u>	36.5%

The increase was the net result of an OWRB note addition of \$2,085,000, debt forgiveness with federal funds of \$234,000, and regular debt principal payments of \$472,000. See Note 5 to the financial statements for more detail information on the City's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2012 budget is consistent to prior years for operational expenses.
- The \$2,565,000 of OWRB debt issued at the end of fiscal year 2011 is budgeted to be completed during fiscal year 2013. This will complete construction a flow equalization basin for the sewer system.
- An EDA grant of \$770,000 is budgeted to be used for construction of roadways to further industrial development.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 502 W. Broadway, Okemah, Oklahoma 74859-2400 or telephone at 918-623-1050.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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Statement of Net Assets (Modified Cash Basis)– June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 693,749	\$ 1,624,198	\$ 2,317,947
Investments	1,080,891	519,007	1,599,898
Notes receivable	-	2,300	2,300
Internal Balances	338,239	(338,239)	-
Capital Assets:			
Land and construction in progress	643,295	3,911,604	4,554,899
Other capital assets, net of depreciation	4,415,155	9,892,472	14,307,627
Unamortized bond issuance costs	-	96,243	96,243
Total Assets	<u>7,171,329</u>	<u>15,707,585</u>	<u>22,878,914</u>
LIABILITIES			
Meter deposit liability	-	82,299	82,299
Due to other governments	111	-	111
Long-term liabilities			
Due within one year	52,207	490,253	542,460
Due in more than one year	149,595	4,450,286	4,599,881
Total liabilities	<u>201,913</u>	<u>5,022,838</u>	<u>5,224,751</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,856,648	8,959,780	13,816,428
Restricted for:			
Debt Service	-	579,135	579,135
Capital projects	1,118,150	-	1,118,150
Streets	39,929	-	39,929
Cemetery	147,454	-	147,454
Library	34,735	-	34,735
Unrestricted	772,500	1,145,832	1,918,332
Total net assets	<u>\$ 6,969,416</u>	<u>\$ 10,684,747</u>	<u>\$ 17,654,163</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
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Statement of Activities (Modified Cash Basis) –Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 218,633	\$ 8,385	\$ -	\$ 47,615	\$ (162,633)	\$ -	\$ (162,633)
Public Safety	672,596	18,454	4,437	-	(649,705)	-	(649,705)
Streets	233,685	-	27,969	-	(205,716)	-	(205,716)
Cemetery	71,825	24,361	-	-	(47,464)	-	(47,464)
Culture and Recreation	112,152	7,571	9,603	-	(94,978)	-	(94,978)
Interest on Long-term debt	10,956	-	-	-	(10,956)	-	(10,956)
Total governmental activities	1,319,847	58,771	42,009	47,615	(1,171,452)	-	(1,171,452)
Business-type activities:							
Water	813,558	996,933	-	-	-	183,375	183,375
Wastewater	490,257	701,841	-	234,338	-	445,922	445,922
Sanitation	213,069	275,621	-	-	-	62,552	62,552
Economic Development	107,933	23,630	-	140,360	-	56,057	56,057
Total business-type activities	1,624,817	1,998,025	-	374,698	-	747,906	747,906
Total primary government	2,944,664	2,056,796	42,009	422,313	(1,171,452)	747,906	(423,546)
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,221,643	\$ -	\$ 1,221,643
Franchise taxes and public service taxes					92,892	-	92,892
Intergovernmental revenue not restricted to specific programs					53,492	-	53,492
Unrestricted investment earnings					12,791	8,391	21,182
Miscellaneous					134,745	17,231	151,976
Transfers					(22,519)	22,519	-
Total general revenues and transfers					1,493,044	48,141	1,541,185
Change in net assets					321,592	796,047	1,117,639
Net assets - beginning					6,647,824	9,888,700	16,536,524
Net assets - ending					\$ 6,969,416	\$ 10,684,747	\$ 17,654,163

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF OKEMAH, OKLAHOMA
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Governmental Funds Balance Sheet (Modified Cash Basis)- June 30, 2012

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 97,117	\$ 516,590	\$ 80,042	\$ 693,749
Investments	284,785	649,999	146,107	1,080,891
Due from other funds	333,529	50,520	6,990	391,039
Total assets	<u>715,431</u>	<u>1,217,109</u>	<u>233,139</u>	<u>2,165,679</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	44,469	-	8,331	52,800
Payable to other governments	111	-	-	111
Total liabilities	<u>44,580</u>	<u>-</u>	<u>8,331</u>	<u>52,911</u>
Fund balances:				
Restricted	-	1,118,150	222,118	1,340,268
Assigned	317,311	98,959	11,021	427,291
Unassigned	353,540	-	(8,331)	345,209
Total fund balances	<u>670,851</u>	<u>1,217,109</u>	<u>224,808</u>	<u>2,112,768</u>
Total liabilities and fund balances	<u>\$ 715,431</u>	<u>\$ 1,217,109</u>	<u>\$ 233,139</u>	<u>\$ 2,165,679</u>

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,314,535	\$ -	\$ -	\$ 1,314,535
Intergovernmental	78,282	167,622	37,572	283,476
Charges for services	25,830	-	8,419	34,249
Fees and fines	16,089	-	365	16,454
Licenses and permits	8,068	-	-	8,068
Investment earnings	4,813	6,730	1,248	12,791
Miscellaneous	128,775	-	5,970	134,745
Total revenues	<u>1,576,392</u>	<u>174,352</u>	<u>53,574</u>	<u>1,804,318</u>
EXPENDITURES				
Current:				
General government	159,256	-	-	159,256
Public Safety:				
Police	297,158	-	-	297,158
Fire	18,005	-	4,979	22,984
Police Dispatcher	159,940	-	-	159,940
Civil Defense	50,995	-	-	50,995
Police - COPS Grant	35,465	-	-	35,465
Animal Control	30,739	-	-	30,739
Code Enforcement	9,088	-	-	9,088
Cemetery	96,844	-	-	96,844
Streets	92,854	-	42,104	134,958
Culture and recreation:				
Library	52,353	-	10,688	63,041
Park and recreation	4,611	-	-	4,611
Swimming pool	21,983	-	-	21,983
Capital Outlay	-	704,279	6,992	711,271
Debt Service:				
Principal	-	64,918	-	64,918
Interest and other charges	-	-	-	-
Total Expenditures	<u>1,029,291</u>	<u>769,197</u>	<u>64,763</u>	<u>1,863,251</u>
Excess (deficiency) of revenues over expenditures	<u>547,101</u>	<u>(594,845)</u>	<u>(11,189)</u>	<u>(58,933)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	327,903	721,595	-	1,049,498
Transfers out	(827,659)	(27,518)	-	(855,177)
Total other financing sources and uses	<u>(499,756)</u>	<u>694,077</u>	<u>-</u>	<u>194,321</u>
Net change in fund balances	47,345	99,232	(11,189)	135,388
Fund balances - beginning	623,506	1,117,877	235,997	1,977,380
Fund balances - ending	<u>\$ 670,851</u>	<u>\$ 1,217,109</u>	<u>\$ 224,808</u>	<u>\$ 2,112,768</u>

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements- (Modified Cash Basis):

Total fund balance, governmental funds	\$	2,112,768
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
		5,058,450
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
		(201,802)
		6,969,416
Net Assets of Governmental Activities in the Statement of Net Assets	\$	6,969,416
Net change in fund balances - total governmental funds:	\$	135,388
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		365,914
Depreciation expense		(233,672)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of netassets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		53,962
Change in net assets of governmental activities	\$	321,592

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF OKEMAH, OKLAHOMA
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Proprietary Funds Statement of Net Assets (Modified Cash Basis) - June 30, 2012

	<u>Okemah Utilities Authority</u>	<u>Okemah Economic Development Authority</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 680,913	\$ 161,716	\$ 842,629
Investments	435,699	13,448	449,147
Restricted:			
Cash and cash equivalents	608,016	6,853	614,869
Investments	69,860	-	69,860
Due from other funds	2,370	1,184	3,554
Notes receivable	-	2,300	2,300
Total current assets	<u>1,796,858</u>	<u>185,501</u>	<u>1,982,359</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	132,700	34,000	166,700
Capital Assets:			
Land and construction in progress	3,399,554	512,050	3,911,604
Other capital assets, net of accumulated depreciation	7,834,019	2,058,453	9,892,472
Unamortized note issue costs	87,493	8,750	96,243
Total non-current assets	<u>11,453,766</u>	<u>2,613,253</u>	<u>14,067,019</u>
Total assets	<u>13,250,624</u>	<u>2,798,754</u>	<u>16,049,378</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	341,793	-	341,793
Meter deposit liability	82,299	-	82,299
Current portion of:			
Capital lease obligation	11,893	-	11,893
Notes payable	383,084	95,276	478,360
Total current liabilities	<u>819,069</u>	<u>95,276</u>	<u>914,345</u>
Non-current liabilities:			
Capital lease obligation	-	-	-
Notes payable	3,397,157	1,053,129	4,450,286
Total non-current liabilities	<u>3,397,157</u>	<u>1,053,129</u>	<u>4,450,286</u>
Total liabilities	<u>4,216,226</u>	<u>1,148,405</u>	<u>5,364,631</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,528,932	1,430,848	8,959,780
Restricted for debt service	538,282	40,853	579,135
Unrestricted	967,184	178,648	1,145,832
Total net assets	<u>\$ 9,034,398</u>	<u>\$ 1,650,349</u>	<u>\$ 10,684,747</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets (Modified Cash Basis) - Year Ended June 30, 2012

	Okemah Utilities Authority	Okemah Economic Development Authority	Total
REVENUES			
Charges for services:			
Water	\$ 928,155	\$ -	\$ 928,155
Sewer	701,841	-	701,841
Sanitation	275,621	-	275,621
Penalties	20,323	-	20,323
Tap fees	1,950	-	1,950
Rents and leases	13,945	23,630	37,575
Camping fees	18,940	-	18,940
Lake permits	13,620	-	13,620
Total operating revenues	<u>1,974,395</u>	<u>23,630</u>	<u>1,998,025</u>
OPERATING EXPENSES			
Administration	251,753	-	251,753
Water treatment plant	393,574	-	393,574
Distribution and maintenance	97,935	-	97,935
Sewer collection	64,404	-	64,404
Lake	54,990	-	54,990
Wastewater treatment plant	115,633	-	115,633
Sanitation	165,900	-	165,900
Economic development	-	20,363	20,363
Amortization	12,251	5,000	17,251
Depreciation	273,971	33,280	307,251
Total Operating Expenses	<u>1,430,411</u>	<u>58,643</u>	<u>1,489,054</u>
Operating income (loss)	<u>543,984</u>	<u>(35,013)</u>	<u>508,971</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	7,947	444	8,391
Interest expense	(86,473)	(49,290)	(135,763)
Miscellaneous	15,624	1,607	17,231
Total non-operating revenue (expenses)	<u>(62,902)</u>	<u>(47,239)</u>	<u>(110,141)</u>
Income (loss) before transfers	481,082	(82,252)	398,830
Capital contributions	591,538	-	591,538
Transfers in	519,221	183,853	703,074
Transfers out	(897,395)	-	(897,395)
Change in net assets	694,446	101,601	796,047
Total net assets - beginning	8,339,952	1,548,748	9,888,700
Total net assets - ending	<u>\$ 9,034,398</u>	<u>\$ 1,650,349</u>	<u>\$ 10,684,747</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2012

	Okemah Utilities Authority	Okemah Economic Development Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,990,019	\$ 25,237	\$ 2,015,256
Payments to suppliers	(676,670)	(20,363)	(697,033)
Payments to employees	(467,519)	-	(467,519)
Receipts of customer meter deposits	29,555	-	29,555
Refunds of customer meter deposits	(22,995)	-	(22,995)
Interfund receipts/payments	165,676	11,087	176,763
Net cash provided by (used in) operating activities	1,018,066	15,961	1,034,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	519,221	183,853	703,074
Transfers to other funds	(897,395)	-	(897,395)
Net cash provided by (used in) noncapital financing activities	(378,174)	183,853	(194,321)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(2,202,157)	(9,971)	(2,212,128)
Receipt of capital contribution	591,538	-	591,538
Proceeds from debt	2,085,529	-	2,085,529
Principal paid on debt	(561,948)	(90,556)	(652,504)
Interest and fiscal agent fees paid on debt	(80,988)	(49,290)	(130,278)
Net cash provided by (used in) capital and related financing activities	(168,026)	(149,817)	(317,843)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	(314)	(64)	(378)
Interest and dividends	7,947	444	8,391
Net cash provided by investing activities	7,633	380	8,013
Net increase in cash and cash equivalents	479,499	50,377	529,876
Balances - beginning of year	942,130	152,192	1,094,322
Balances - end of year	\$ 1,421,629	\$ 202,569	\$ 1,624,198
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	680,913	161,716	842,629
Restricted cash and cash equivalents - current	608,016	6,853	614,869
Restricted cash and cash equivalents - noncurrent	132,700	34,000	166,700
Total cash and cash equivalents, end of year	1,421,629	202,569	1,624,198
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 543,984	\$ (35,013)	\$ 508,971
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	273,971	33,280	307,251
Amortization expense	12,251	5,000	17,251
Miscellaneous revenue	15,624	1,607	17,231
Change in assets and liabilities:			
Due from other funds	17,930	11,087	29,017
Due to other funds	147,746	-	147,746
Deposits subject to refund	6,560	-	6,560
Net cash provided by operating activities	\$ 1,018,066	\$ 15,961	\$ 1,034,027

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes three separate legal entities reported as the primary government.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities.
- **The Okemah Utilities Authority** – that operates the water, sewer, and sanitation services of the City through a public trust of which the City is the beneficiary. The City Council serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the City Council.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the City Council members serving as the trustees.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*, and includes all component units for which the City is financially accountable.

The component units are Public Trusts 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.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables

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- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits, and airport and CDBG capital grants
- Public safety: Fine revenue, operating grant
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales, interments, and private donations
- Culture and recreation: Swimming pool fees, library fines, and library operating grants
- Wastewater: OWRB loan forgiveness
- Economic development: CDBG and EDA capital grant

For business-type activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets

The City's governmental funds are comprised of the following:

Major Funds:

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- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Capital Improvement Fund – (Capital Project Fund) accounts for funds designated for capital outlay and debt service on capital related debt. One cent sales tax is being transferred to this fund for capital improvements as required by voter-restriction.

Non-Major Funds (Reported as Other Governmental Funds):

Special Revenue Funds:

- Rural Fire Fund - accounts for rural fire run fees and grants restricted for fire operations.
- Library Fund - accounts for all library revenue retained for library use only.
- Street and Alley Fund - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.

Capital Project Fund:

- Cemetery Perpetual Fund - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

The City's proprietary funds are comprised of the following:

Okemah Utilities Authority- split into separate accounts for internal reporting purposes as follows:

- Okemah Utilities Authority Gross Revenue Account – accounts for the operation of the water, sewer, and sanitation activities.
- Okemah Capital Reserve Account – accounts for money set aside by council as a savings tool.
- Okemah Bond Account – accounts for the transfer of one cent sales tax restricted for debt service on OUA debt.

Okemah Economic Development Authority:

- Okemah Economic Development Authority Fund – accounts for activities related to promoting economic development.

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2000, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2000 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40-50 years
- Improvements other than buildings 10-25 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 10-50 years
- Infrastructure 5-50 years

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be

repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

G. Fund Balances and Net Assets

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- 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 place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. 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. The City’s highest level of decision-making authority is made by 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. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- 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 to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any

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individual fund (excluding public trusts). The City had the following negative fund balances for the year ended June 30, 2012:

- Rural Fire Fund \$8,331

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or 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.

H. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets 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.

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2012, the City recognized \$21,182 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2012, the primary government held the following deposits and investments:

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Type	Credit Rating	Carrying Value
Deposits:		
Petty cash		\$ 995
Demand deposits		2,024,950
Time deposits - certificates of deposit		1,599,898
Investments:		
Cavanal Hill US Treasury Fund	AAA _m	292,002
Total deposits and investments		<u><u>\$ 3,917,845</u></u>
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 2,317,947
Investments		<u>1,599,898</u>
		<u><u>\$ 3,917,845</u></u>

Custody Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City had \$41,167 of uninsured deposits.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. All time deposits will mature within the next 12 months.

At June 30, 2012, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments 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 deposit 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. These investment limitations do not apply to the City's public trusts.

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As of June 30, 2012, the City's investments consisted of \$292,002 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AAAm as rated by Standard and Poor's.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2012, the City had no concentration of credit risk as defined above.

Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2012 are as follows:

	Current		Noncurrent
	Cash and cash equivalents	Investments	Cash and cash equivalents
Utility Deposits	\$ 12,439	\$ 69,860	\$ -
Taxable revenue note debt	6,853	-	34,000
Flow Equalization Revenue	189,995	-	-
OWRB debt service	405,582	-	132,700
 Total	 \$ 614,869	 \$ 69,860	 \$ 166,700

3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. For the year ended June 30, 2012, capital assets balances changed as follows:

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	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 412,500	\$ 32,208	\$ -	\$ 444,708
Construction in progress	10,729	198,587	10,729	198,587
Total capital assets not being depreciated	<u>423,229</u>	<u>230,795</u>	<u>10,729</u>	<u>643,295</u>
Other capital assets:				
Buildings	1,682,287	23,728	-	1,706,015
Improvements	1,537,114	27,262	-	1,564,376
Infrastructure	5,681,486	-	-	5,681,486
Machinery, furniture and equipment	1,607,566	94,858	-	1,702,424
Total other capital assets at historical cost	<u>10,508,453</u>	<u>145,848</u>	<u>-</u>	<u>10,654,301</u>
Less accumulated depreciation for:				
Buildings	1,079,267	23,761	-	1,103,028
Improvements	329,704	46,450	-	376,154
Infrastructure	3,472,765	77,882	-	3,550,647
Machinery, furniture and equipment	1,123,738	85,579	-	1,209,317
Total accumulated depreciation	<u>6,005,474</u>	<u>233,672</u>	<u>-</u>	<u>6,239,146</u>
Other capital assets, net	<u>4,502,979</u>	<u>(87,824)</u>	<u>-</u>	<u>4,415,155</u>
Governmental activities capital assets, net	<u>\$ 4,926,208</u>	<u>\$ 142,971</u>	<u>\$ 10,729</u>	<u>\$ 5,058,450</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	864,636	1,601,558	292,590	2,173,604
Total capital assets not being depreciated	<u>2,602,636</u>	<u>1,601,558</u>	<u>292,590</u>	<u>3,911,604</u>
Other capital assets:				
Buildings	8,453,367	6,695	-	8,460,062
Improvements	41,468	-	-	41,468
Machinery, furniture and equipment	550,676	180,941	-	731,617
Utility property	7,418,166	715,524	-	8,133,690
Total other capital assets at historical cost	<u>16,463,677</u>	<u>903,160</u>	<u>-</u>	<u>17,366,837</u>
Less accumulated depreciation for:				
Buildings	2,571,120	113,555	-	2,684,675
Improvements	27,714	1,460	-	29,174
Machinery, furniture and equipment	347,026	75,158	-	422,184
Utility Property Improvements	4,221,254	117,078	-	4,338,332
Total accumulated depreciation	<u>7,167,114</u>	<u>307,251</u>	<u>-</u>	<u>7,474,365</u>
Other capital assets, net	<u>9,296,563</u>	<u>595,909</u>	<u>-</u>	<u>9,892,472</u>
Business-type activities capital assets, net	<u>\$ 11,899,199</u>	<u>\$ 2,197,467</u>	<u>\$ 292,590</u>	<u>\$ 13,804,076</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:	
General government	64,860	Water	135,114
Public safety	55,697	Sewer	127,918
Highways and streets	94,889	Sanitation	10,939
Cemetery	2,961	Economic development	33,280
Culture and recreation	15,265		
	<u>\$ 233,672</u>		<u>\$ 307,251</u>

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4. Capital Lease Receivable

The Okemah Economic Development Authority (OEDA) and Sertco Industries entered into a building lease on October 14, 2010 for a period of twenty years. The monthly lease payments are \$2,083 but may be waived if Sertco fills a certain number of permanent positions within a specified time period. Sertco may exercise the right to purchase the property at any time during the lease for the unamortized portion of a \$500,000 CDBG grant used to construct and purchase the property. Since the lease was not the result of a cash transaction, an asset has not been recorded on the City's financial statements.

5. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2012, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease payable	\$ 255,764	\$ -	\$ 53,962	\$ 201,802	52,207
Total Governmental Activities	\$ 255,764	\$ -	\$ 53,962	\$ 201,802	\$ 52,207
Business-Type Activities:					
Notes Payable	\$ 3,487,675	\$ 2,085,529	\$ 632,903	\$ 4,940,301	478,360
Capital lease payable	31,494	-	19,601	11,893	11,893
Total Business-Type Activities	3,519,169	2,085,529	652,504	4,952,194	490,253
Total Long-Term Debt	\$ 3,774,933	\$ 2,085,529	\$ 706,466	\$ 5,153,996	\$ 542,460

Reconciliation to Statement of Net Assets:

Governmental Activities:	
Due within one year	\$ 52,207
Due in more than one year	149,595
Total Governmental Activities Long-term liabilities	\$ 201,802
Business-Type Activities:	
Due within one year	\$ 490,253
Due in more than one year	4,450,286
Add back net of unamortized premium	11,655
Total Business-Type Activities Long-term liabilities	\$ 4,952,194

Governmental activities long-term debt is payable from taxes and other general revenues for June 30, 2012.

Capital Lease Obligations:

\$108,917 lease obligation for purchase of Incode software, payable in monthly installments of \$2,153 with an annual interest rate of 4.25%, final payment due April 2013	\$ 21,159
\$231,000 lease obligation for the purchase of a fire pumper truck, payable in 28 quarterly installments of \$9,772 with an annual interest rate of 4.75%, final payment due August 2017	180,643
Total Capital Leases Payable	\$ 201,802
Current portion	52,207
Noncurrent portion	149,595
Total Capital Leases Payable	\$ 201,802

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Business-type activities long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

Okemah Utilities Authority:

Capital Lease Obligations:

\$91,855 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$1,724 with an annual interest rate of 4.78%, final payment due January 2013	\$	11,893
Total Capital Leases Payable		<u>\$ 11,893</u>
Current portion		11,893
Noncurrent portion		-
Total Capital Leases Payable		<u>\$ 11,893</u>

Notes Payable:

1998 Construction Clean Water SRF Promissory Note payable to Oklahoma Water Resources Board, original amount of \$3,300,000, dated June 8, 1998, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, interest rate at 2.86% with final payment due September 15, 2019.	\$	1,470,393
Oklahoma Department of Commerce note dated April 30, 1998, by Okemah Utilities Authority, authorized amount of \$175,000, payable in monthly installments of \$729, including principal with a 0% interest rate, with final payment due March 30, 2018.		50,312
2004 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$1,310,000, dated May 12, 2004, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, variable interest rate at 3.75%, with final payment due August 15, 2014.		420,000
2011 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$2,565,000 dated June 24, 2011, secured by and payable from utility revenues and pledged sales tax, interest rate of 2.22%, with final payment due March 15, 2032; remaining fund to be drawn at June 30, 2012 are \$479,471.		1,851,191
Total Notes Payable		<u>\$ 3,791,896</u>
Less: Unamortized Refunding Premium		(15,561)
Unamortized Note Premium		3,906
Total Notes Payable (Net of Unamortized Premium)		<u>\$ 3,780,241</u>
Current portion		383,084
Noncurrent portion		3,397,157
Total Notes Payable		<u>\$ 3,780,241</u>

Okemah Economic Development Authority:

Long-term debt commitments payable from net revenues generated by rental revenues and sales tax pledged to OEDA, and their outstanding balances at June 30, 2012, includes the following:

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Notes Payable:

Oklahoma Department of Commerce note dated November 2, 1999, by Okemah Economic Development Authority, authorized amount of \$400,000, payable in monthly installments of \$833, including principal with a 0% interest rate, with final payment due July 1, 2020 secured by and payable from rental agreements between the OEDA and Quantum Industries.

329,195

2004 Taxable Revenue Note payable to Bank of Oklahoma, original amount of \$1,360,000, dated April 1, 2004, by Okemah Economic Development Authority, secured by pledged sales tax, interest rate at 5.71%, due in monthly installments of \$10,820, with final balloon payment due April 1, 2014.

819,210

Total Notes Payable	\$ 1,148,405
Current portion	95,276
Noncurrent portion	1,053,129
Total Notes Payable	\$ 1,148,405

Long-term debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	Governmental Activities			
	Capital Lease obligations			
	Principal	Interest		
2013	\$ 52,207	\$ 8,405		
2014	32,549	6,537		
2015	34,123	4,963		
2016	35,765	3,321		
2017	37,502	1,584		
2018	9,656	116		
Totals	\$ 201,802	\$ 24,926		

<u>Year Ending June 30,</u>	Business Type Activities			
	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 11,893	\$ 187	\$ 478,360	\$ 133,058
2014	-	-	1,202,158	140,591
2015	-	-	479,458	92,008
2016	-	-	340,825	79,370
2017	-	-	347,566	70,144
2018-2022	-	-	1,459,118	222,699
2023-2027	-	-	641,250	112,027
2028-2031	-	-	471,038	26,830
Totals	\$ 11,893	\$ 187	\$ 5,419,773	\$ 876,727
Remaining fund to be drawn			(479,472)	\$ 4,940,301

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6. Net Assets and Fund Balances

Net assets are displayed in three components:

a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or 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.

Fund Balance:

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

	General Fund		Major Capital Project Fund		Other Governmental Funds		TOTAL	
			Capital Improvement					
Fund Balances:								
Restricted for:								
Capital projects	\$	-	\$	1,118,150	\$	-	\$	1,118,150
Library operations		-		-		34,735		34,735
Cemetery capital		-		-		147,454		147,454
Street and alley operations and capital		-		-		39,929		39,929
Sub-total Restricted		-		1,118,150		222,118		1,340,268
Assigned to:								
Capital projects		-		98,959		-		98,959
Library operations		-		-		3,874		3,874
Cemetery capital and operations		-		-		6,325		6,325
Street and alley operations and capital		-		-		822		822
Use of fund balance for subsequent budget		317,311		-		-		317,311
Sub-total Assigned		317,311		98,959		11,021		427,291
Unassigned:		353,540		-		(8,331)		345,209
TOTAL FUND BALANCES	\$	670,851	\$	1,217,109	\$	224,808	\$	2,112,768

7. Sales Tax Revenue

Sales tax revenue represents a 3.5 cent local tax on each dollar of taxable sales within the City. 1 cent is voter-restricted for debt service on OUA debt (per ordinance 99-02-01), 1 cent is voter-restricted for capital improvements and/or job growth if needed (per ordinance 99-02-01), and ½ cent voter-restricted for economic development (per ordinance 99-03-01). Ordinance 99-03-01 is the only ordinance with a termination date of December 31, 2019. 3 ½ cents of the sales tax is received and recorded in the General Fund, with 2 ½ cents transferred to the appropriate funds as noted above.

Pledge of Future Revenues

Sales Tax Pledge- The City has pledged 2.5 cents (or 71.4%) of future sales tax revenues to repay \$8,535,000 of 1998, 2004, and 2011 Series Oklahoma Water Resources Board Notes Payable and 2004 Taxable Revenue Notes Payable. Proceeds from the bonds and notes provided financing for the utility system and industrial park capital assets. The bonds are payable through 2019, 2014, 2032 and 2014, respectively. The total principal and interest payable for the remainder of the life of these notes is \$5,916,993. Total pledged sales tax for the year was \$819,759. Debt service payments of \$509,008 (excluding forgiveness of debt with federal grant funds) for the current fiscal year were 62% of the pledged sales taxes.

Utility Net Revenue Pledge- The City has also pledged future water and sewer net revenues to repay \$7,175,000 of 1998, 2004 and 2011 Series Oklahoma Water Resources Board Notes Payable. Proceeds from the bonds and notes provided financing for the utility system capital assets. The bonds are payable through 2019, 2014 and 2032, respectively. The total principal and interest payable for the remainder of the life of these notes is \$5,019,881. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$379,158 (excluding forgiveness of debt with federal grant funds) which was 75% of pledged net utility revenues of \$505,387.

8. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

9. Internal and Interfund Balances and Transfers

The City's policy is to eliminate interfund transfers and balances in the statements of activities and net assets 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.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012 were as follows:

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<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OUA Bond Fund	\$ 327,903	Sales tax transfer
General Fund	Capital Improvement Fund	327,903	Sales tax transfer
General Fund	OEDA	163,953	Sales tax transfer
General Fund	OEDA	7,900	Capital outlay
OUA	Capital Improvement Fund	309,441	Loan proceeds
OUA	General Fund	327,903	Return of sales tax
OUA	Capital Improvement Fund	12,916	Debt service
OUA	Capital Improvement Fund	11,335	Capital outlay
OUA	OUA Capital Reserve	54,000	Subsidy for debt
OUA	OUA Bond Fund	121,800	Subsidy for debt
OUA Bond	Capital Improvement Fund	60,000	Operational subsidy
Capital Improvement Fund	OUA	15,518	Debt service
Capital Improvement Fund	OEDA	12,000	Operational subsidy
Total		<u><u>\$ 1,752,572</u></u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,049,498	\$ (855,177)	\$ 194,321
Proprietary Funds	703,074	(897,395)	(194,321)
	<u><u>\$ 1,752,572</u></u>	<u><u>\$ (1,752,572)</u></u>	<u><u>-</u></u>

Reconciliation to Statement of Activities:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net transfers	\$ 194,321	\$ (194,321)
Reclass capital contribution as transfer	(357,200)	357,200
Transfer economic development grant from governmental activity to business-type activity	140,360	(140,360)
	<u><u>\$ (22,519)</u></u>	<u><u>\$ 22,519</u></u>

Balances:

Interfund receivable and payables at June 30, 2012 were comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	OUA Bond Fund	\$ 2,370	Transfers made to incorrect fund
OUA	Capital Improvement	16,595	Capital outlay posted to incorrect fund
General Fund	Capital Improvement	33,925	Grant funds posted to wrong fund and sales tax allocation
General Fund	Library Fund	946	Grant posted to wrong fund
General Fund	OEDA	1,184	Transfers made to incorrect fund
Rural Fire Fund	General Fund	8,331	To cover negative cash
OUA	General Fund	325,198	Payroll expenses
General Fund	Cemetery Fund	6,044	Portion of cemetery revenue not yet transferred
Total		<u><u>\$ 394,593</u></u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 391,039	\$ (52,800)	\$ 338,239
Proprietary Funds	3,554	(341,793)	(338,239)
Total	<u><u>\$ 394,593</u></u>	<u><u>\$ (394,593)</u></u>	<u><u>\$ -</u></u>

10. Risk Management

The City is 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 by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any

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significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

11. Pension Plan Participation

The City of Okemah participates in three pension or retirement plans:

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

Firefighter Pension System:

Plan Summary Information. The City of Okemah, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

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 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$600	\$600
2011	\$600	\$600
2012	\$720	\$720

OMRF Defined Benefit Plan:

The City contributes to the City of Okemah Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Firefighter Pension System. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan of Oklahoma City acts as administrator and securities custodian.

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Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	6.67% of covered payroll
-Employee Rate	3.00% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement with 7 years of service -Marital death benefit with 7 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.125% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 7 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

2. Actuarial Assumptions

Date of Last Actuarial Valuation	July 1, 2012
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by Age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	1994 Group Annuity Mortality
h. Asset Valuation Method	Actuarial method

For the year ended June 30, 2012, the City's employer contribution to the plan was \$42,019 which was equal to the actuarial required contribution. The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$33,459	\$33,459
2011	\$35,412	\$35,412
2012	\$42,019	\$42,019

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OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

OMRF Defined Contribution Plan:

The City has also provided a defined contribution plan and trust known as the City of Okemah Plan and Trust (the "Plan") in the form of The Oklahoma Municipal Retirement System 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 Bank One of Oklahoma City. The defined contribution plan is available to the City Manager. Benefits depend solely on amounts contributed to the plan plus investment earnings. The City Manager is eligible to participate upon employment, and is required to make contributions to the plan at 3.00%. Under the thrift option, the employee may contribute to the plan at varying rates. The City's contributions, if any are made, (and interest allocated to the employee's account) are vested at a rate of 100% upon participation. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2012, the City contributions were \$2,126 to the plan.

12. Commitments and Contingencies

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012, is summarized as follows:

- General Fund – accrued compensated absences \$38,036
- OUA – accrued compensated absences \$17,602

Outstanding Construction Contracts:

The City had the following outstanding construction contract commitments at June 30, 2012:

<u>Contractor/Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
A-Tech Paving/Resurfacing Sertco Road	\$592,093	\$592,093
A.O., Inc./Okemah Lake ADA Compliance	\$ 12,260	\$ 12,260
A.O., Inc./Sertco Building Project	\$ 92,000	\$ 92,000

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions 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 judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained

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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.

The Okemah Utilities Authority (Authority) has had a legal action filed against in since 2006 by Okfuskee County Rural Water District No. 3 (District) asserting that the Authority has been overcharging for water being sold to the District. The case was tried in 2007 and appealed. The Appellate Court upheld that statutes passed since the Contract between the parties signed in 1983 actually modified the Contract, and remanded the case to the District Court to determine the actual damages. A hearing on damages was held on May 21, 2012, and post hearing briefs by both parties were submitted on August 24, 2012. The District Court has yet to make its ruling. The District asserts that the Authority owes them \$400,000.00 plus attorney fees which may be as high as \$200,000. The Authority asserts that no damages are warranted. The Authority believes that the final award will be significantly lower than \$600,000.00.

Further, in July 2012, the District filed another suit against the Authority asking for permanent and mandatory injunctions against the Authority and its trustees prohibiting them from charging a rate not in compliance with the modified contract. Since the District Court has yet to determine the actual rate that should be charged under the modified contract, which is a main point of contention in the companion litigation described above, this action has been put on hold until the Court renders its decision in the companion litigation. The Authority is defending against this new action on the theory that, after the District Court renders its decision in the companion litigation, the injunction action will be unnecessary and moot. The District is seeking damages in this new action in the amount, if any, they are overcharged on the modified contract after January 1, 2012, and attorney's fees.

Federal and State Award Programs:

The City of Okemah participates in various federal or state grant/loan programs from year to year. In 2012, the City's involvement in federal and state award programs was significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule – General Fund (Modified Cash Basis) – Year Ended June 30, 2012

	<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	\$ 396,337	\$ 623,506	\$ 623,506	\$ -
Resources (Inflows):				
Taxes	1,022,400	1,172,400	1,314,535	142,135
Intergovernmental	76,090	76,090	78,282	2,192
Charges for services	18,650	18,650	25,830	7,180
Fines and forfeitures	14,500	27,500	16,089	(11,411)
Licenses and permits	6,500	6,500	8,068	1,568
Investment income	1,560	1,560	4,813	3,253
Miscellaneous	49,331	49,331	128,775	79,444
Transfers in	268,200	268,200	359,903	91,703
Total resources (Inflows)	<u>1,457,231</u>	<u>1,620,231</u>	<u>1,936,295</u>	<u>316,064</u>
Amounts available for appropriation	<u>1,853,568</u>	<u>2,243,737</u>	<u>2,559,801</u>	<u>316,064</u>
Charges to Appropriations (Outflows):				
General government	198,510	169,610	159,256	10,354
Police	301,195	309,195	297,158	12,037
Fire	63,704	28,204	18,005	10,199
Police Dispatcher	147,315	164,565	159,940	4,625
Streets	132,004	99,504	92,854	6,650
Animal Control	35,485	37,785	30,739	7,046
Cemetery	40,323	104,423	96,844	7,579
Parks and Recreation	5,350	5,750	4,611	1,139
Library	49,726	56,726	52,353	4,373
Civil Defense	39,978	55,578	50,995	4,583
Police - Cops in School	65,342	39,842	35,465	4,377
Swimming Pool	16,749	23,349	21,983	1,366
Code Enforcement	22,275	15,575	9,088	6,487
Transfers Out	670,500	860,000	859,659	341
Total Charges to Appropriations	<u>1,788,456</u>	<u>1,970,106</u>	<u>1,888,950</u>	<u>81,156</u>
Ending Budgetary Fund Balance	<u>\$ 65,112</u>	<u>\$ 273,631</u>	<u>\$ 670,851</u>	<u>\$ 397,220</u>

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedule is reported on the modified cash basis of accounting.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 20, 2010

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 6,599	\$ 40,751	\$ 32,692	\$ 80,042
Investments	-	31,064	-	115,043	146,107
Due from other funds	-	946	-	6,044	6,990
Total assets	<u>-</u>	<u>38,609</u>	<u>40,751</u>	<u>153,779</u>	<u>233,139</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	<u>8,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,331</u>
Total liabilities	<u>8,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,331</u>
Fund balances:					
Restricted	-	34,735	39,929	147,454	222,118
Assigned	-	3,874	822	6,325	11,021
Unassigned	(8,331)	-	-	-	(8,331)
Total fund balances (deficits)	<u>(8,331)</u>	<u>38,609</u>	<u>40,751</u>	<u>153,779</u>	<u>224,808</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 38,609</u>	<u>\$ 40,751</u>	<u>\$ 153,779</u>	<u>\$ 233,139</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2012

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
REVENUES					
Intergovernmental	\$ -	\$ 9,603	\$ 27,969	\$ -	\$ 37,572
Charges for services	1,900	475	-	6,044	8,419
Fines and forfeitures	-	365	-	-	365
Investment earnings	-	338	320	590	1,248
Miscellaneous	-	5,970	-	-	5,970
Total revenues	<u>1,900</u>	<u>16,751</u>	<u>28,289</u>	<u>6,634</u>	<u>53,574</u>
EXPENDITURES					
Current:					
Fire	4,979	-	-	-	4,979
Streets	-	-	42,104	-	42,104
Library	-	10,688	-	-	10,688
Capital Outlay	-	6,992	-	-	6,992
Total Expenditures	<u>4,979</u>	<u>17,680</u>	<u>42,104</u>	<u>-</u>	<u>64,763</u>
Excess (deficiency) of revenues over expenditures	<u>(3,079)</u>	<u>(929)</u>	<u>(13,815)</u>	<u>6,634</u>	<u>(11,189)</u>
Net change in fund balances	(3,079)	(929)	(13,815)	6,634	(11,189)
Fund balances (deficits) - beginning	(5,252)	39,538	54,566	147,145	235,997
Fund balances (deficits) - ending	<u>\$ (8,331)</u>	<u>\$ 38,609</u>	<u>\$ 40,751</u>	<u>\$ 153,779</u>	<u>\$ 224,808</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Schedule of Federal Awards – Year Ended June 30, 2012

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF COMMERCE:</u>				
Economic Development Administration Public Works and Economic Development Assistance	11.300	08-01-04608	770,000	41,224
			<u>770,000</u>	<u>41,224</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce: CDBG Construction of Building	14.228	14178 CDBG 09	500,000	98,943
			<u>500,000</u>	<u>98,943</u>
<u>ENVIRONMENTAL PROTECTION AGENCY:</u>				
Passed through Oklahoma Water Resources Board Clean Water State Revolving Fund	66.458	ORF-10-007	916,325	916,325
			<u>916,325</u>	<u>916,325</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,186,325</u>	<u>\$ 1,056,492</u>

Footnotes to Federal Awards Schedules:

1. The Schedule of Expenditures of Federal Awards is prepared on a basis consistent with the measurement of awards expended as defined in OMB Circular A-133. This may differ at times from the modified cash basis by accruing certain grant expenditures.

Schedule of State Awards (Modified Cash Basis) – Year Ended June 30, 2012

STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid	N/A	N/A	\$ 9,603	\$ 9,603
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	<u>4,413</u>	<u>4,413</u>
TOTAL STATE AWARDS			<u>\$ 14,016</u>	<u>\$ 14,016</u>

**CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2012**

Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2012

	<u>OKEMAH UTILITIES AUTHORITY</u>	<u>OKEMAH ECONOMIC DEVELOPMENT AUTHORITY</u>
GROSS REVENUE AVAILABLE:		
Charges for services (water and sewer revenues)	1,629,996	\$ -
Investment income	7,947	444
Sales tax appropriated and transferred from the City General Fund	327,903	163,952
Sales tax pledged by City	-	327,903 (1)
	<u>1,965,846</u>	<u>492,299</u>
OPERATING EXPENSES:		
Total Operating Expenses	<u>978,289</u>	<u>20,363</u>
Net Revenue Available for Debt Service	<u>\$ 987,557</u>	<u>\$ 471,936</u>
Debt Service Requirements:		
Maximum annual debt service - OWRB promissory note	\$561,888	-
Subsequent year annual debt service	-	\$129,848
	<u>\$561,888</u>	<u>129,848</u>
Computed Coverage	<u>176%</u>	<u>363%</u>
Coverage Requirement	<u>125%</u>	<u>125%</u>

NOTE:

(1) Sales tax pledged by the City to the OEDA includes 1 1/2 cent sales tax available for appropriation, but not necessarily transferred to the OEDA, according to the rate covenant in the Note Indenture.

Schedule of Reserve Requirement Compliance

	<u>OWRB SINKING RESERVE ACCOUNT</u>	<u>REVENUE NOTE SINKING RESERVE ACCOUNT</u>
Required Balance:		
2004 OWRB Promissory Note	\$131,000	-
2004 Series Taxable Revenue Note	-	\$22,494
	<u>131,000</u>	<u>22,494</u>
Balance in Reserve Account, June 30, 2012	<u>132,700</u>	<u>34,000</u>
Excess of Account Balance over Required Balance	<u>\$1,700</u>	<u>\$11,506</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

SINGLE AUDIT AND INTERNAL CONTROL AND COMPLIANCE



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

Honorable Mayor and City Council
City of Okemah, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2012. Our report includes a paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes a paragraph which disclaimed an opinion on management's discussion and analysis and budgetary comparison information—modified cash basis. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

(Continued)

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

Internal Control Over Financial Reporting, Continued

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 12-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 12-2.

We noted certain matters that we reported to management of the City in a separate letter dated November 13, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Finley & Cook, PLLC

Shawnee, Oklahoma
November 13, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
City of Okemah, Oklahoma

Compliance

We have audited the City of Okemah, Oklahoma's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 City'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 City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

(Continued)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Finley + Cook, PLLC

Shawnee, Oklahoma
November 13, 2012

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Noted

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Type of auditors' report issued on compliance for the major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

Federal CFDA#

Name of Federal Program

66.458

**Environmental Protection Agency Pass
thru Oklahoma Water Resources Board/
Clean Water State Revolving Fund**

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

Auditee qualified as low-risk auditee?

Yes No

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS

June 30, 2012

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

11-1. Budgetary Compliance

Auditors' Findings: For the year ended June 30, 2011, the City was not in compliance with the Municipal Budget Act of 1979 due to the fact that expenditures exceeded appropriations at the legal level of control for the General Fund as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund	Transfers Out	\$ 3,383

Auditors' Recommendation: Procedures should be in place to monitor and avoid such items.

Management's Response: As noted in the footnotes to the budgetary comparison schedules, the budgetary comparison schedules are prepared on a budgetary basis, which differs from the modified cash basis of accounting. The difference in the two methods is the primary reason for the above variances.

2012 Follow-up: This situation appears to be addressed.

11-2. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2011, the fund balance for the rural fire fund of the City had a deficit balance of \$5,252. This appears to be a violation of the fund balance requirements prescribed by Title 11, Section 17-211 of the Oklahoma Statutes.

Auditors' Recommendation: Management may want to consider approving a transfer of monies to alleviate this situation.

Management's Response: Management will consider additional transfers in 2013.

2012 Follow-up: This situation was noted during the year ended June 30, 2012.

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2012

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

12-1. Segregation of Duties

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Condition: The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

Cause: The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Management's Response: City management is in the process of hiring an additional person to help with the segregation of duties.

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2012

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT, CONTINUED

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

12-2. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2012, the fund balance for the rural fire fund of the City had a deficit balance of \$8,331. This appears to be a violation of the fund balance requirements prescribed by Title 11, Section 17-211 of the Oklahoma Statutes.

Auditors' Recommendation: Management may want to consider approving a transfer of monies to alleviate this situation.

Management's Response: Management will consider additional transfers in 2013.

**SECTION III—FINDINGS AND QUESTIONED COSTS—
MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.