THE CITY OF EUFAULA, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

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

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Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Honorable Mayor and Members of the City Council of the
City of Eufaula, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eufaula, 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position – modified cash basis and, where applicable, cash flows – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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 financial information presented as supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining nonmajor governmental fund financial statements and the debt service coverage information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole, on the basis of accounting described in Note 1.

Arledge & Associates, P.C.

Edmond, Oklahoma
January 23, 2013

The management of the City of Eufaula 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 as of and 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 analyses 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 $384,133, and the assets of the City exceed its liabilities at June 30, 2012, by $2,623,729 (net assets). Of this amount, $634,108 (unrestricted net assets) may be used to meet any of the government's ongoing obligations to citizens and creditors.

- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of $615,764.

- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was $288,474, or 11.9% of annual revenues.

ABOUT THE CITY

The City of Eufaula is an incorporated municipality with a population of approximately 2,639 located in McIntosh County in eastern Oklahoma. The City is a statutory aldermanic form of government and operates under State law and City ordinances that provide for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected for a four year term
- Judicial – the Municipal Judge is an 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 through its Public Works Authority, certain utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

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

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

- **The City of Eufaula** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*

- **The Eufaula Public Works Authority (EPWA)** – public trust created August 4, 1976, pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City, with the City Council members serving as the trustees – *reported as part of the primary government*

- **The Eufaula Economic Development Authority (EEDA)** – public trust created July 11, 2005, pursuant to 60 O.S. § 176 that operates the economic development services of the City, governed by trustees comprised of the entire City Council – *reported as part of the primary government*

- **The Eufaula Industrial Authority (EIA)** – public trust created April 2, 1980, pursuant to 60 O.S. § 176 that operates the industrial development services of the City, governed by trustees comprised of the entire City Council – *normally reported as part of the primary government.* The authority is inactive.

- **The Eufaula Recreation Authority (ERA)** – public trust created April 10, 1970, pursuant to 60 O.S. § 176 that operates the recreational services of the City, governed by five trustees comprised of bona fide resident citizens of McIntosh county, appointed by the City Council – *reported as a discretely presented component unit for reporting purposes*

- **The Eufaula Airport Authority (EAA)** – public trust created March 2, 1982, pursuant to 60 O.S. § 176 that operates the municipal airport services of the City, governed by seven trustees comprised of citizens appointed by the City Council – *normally reported as a discretely presented component unit for reporting purposes.* The authority is inactive.

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 trusts do 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 Eufaula (the "City"), the Eufaula Public Works Authority (the "Public Works Authority"), the Eufaula Economic Development Authority (the "Economic Development Authority") and the Eufaula Recreation Authority. Included in this report are government-wide statements for each of the three categories of activities – governmental, business-type and discretely presented component unit.

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. 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 Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" 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, and 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.

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, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain 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 - All 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 you determine (through a review of changes to fund balance) 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 - The City operates two proprietary funds, the Eufaula Public Works Authority (major fund), and the Eufaula Economic Development Authority (major fund). When the City, through the Public Works 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 Eufaula Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities, and the Eufaula Economic Development Authority that accounts for the operation of economic activities.

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 26-45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, combining non-major fund financial statements and a debt service coverage requirement schedule.

THE CITY AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased $384,133.

Following is a summary of net assets reported on a modified cash basis for the City of Eufaula.

Net Assets (Modified Cash Basis)
June 30, 2012

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current assets	$ 620	$ 296	109%	$ 1,283	$ 1,595	-20%	$ 1,903	$ 1,891	1%
Capital assets, net	1,913	1,993	-4%	7,597	7,048	8%	9,510	9,041	5%
Other non-current assets	-	-	0%	535	412	30%	535	412	30%
Total assets	2,533	2,289	11%	9,415	9,055	4%	11,948	11,344	5%
Current liabilities	110	133	-17%	360	313	15%	470	446	5%
Non-current liabilities	72	97	-26%	8,783	8,561	3%	8,855	8,658	2%
Total liabilities	182	230	-21%	9,143	8,874	3%	9,325	9,104	2%
Net assets									
Invested in capital assets, net of related debt	1,736	1,769	-2%	(901)	(1,105)	18%	835	664	26%
Restricted	317	63	403%	838	827	1%	1,155	890	30%
Unrestricted	298	227	31%	335	459	-27%	633	686	-8%
Total net assets	$ 2,351	$ 2,059	14%	$ 272	$ 181	50%	$ 2,623	$ 2,240	17%

Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2012

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for service	$ 174	$ 102	71%	$ 1,277	$ 1,198	7%	$ 1,451	$ 1,300	12%
Operating grants and contributions	221	24	821%	-	-	-	221	24	821%
Capital grants and contributions	54	181	-70%	164	-	100%	218	181	20%
Taxes	2,105	2,125	-1%	-	-	-	2,105	2,125	-1%
Intergovernmental revenue	66	62	6%	-	-	-	66	62	6%
Investment income	1	1	0%	1	2	-50%	2	3	-33%
Miscellaneous	81	67	21%	12	7	71%	93	74	26%
Total revenues	2,702	2,562	5%	1,454	1,207	20%	4,156	3,769	10%
Expenses									
General government	544	601	-9%	-	-	-	544	601	-9%
Public safety	871	829	5%	-	-	-	871	829	5%
Streets	177	178	-1%	-	-	-	177	178	-1%
Culture, parks and recreation	109	129	-16%	-	-	-	109	129	-16%
Cemetery	3	4	-25%	-	-	-	3	4	-25%
Airport	36	35	3%	-	-	-	36	35	3%
Tourism	4	2	100%	-	-	-	4	2	100%
Interest on long-term debt	12	8	50%	-	-	-	12	8	50%
Water	-	-	-	1,017	1,024	-1%	1,017	1,024	-1%
Sewer	-	-	-	552	473	17%	552	473	17%
Sanitation	-	-	-	340	332	2%	340	332	2%
Health	-	-	-	21	21	0%	21	21	0%
Economic development	-	-	-	87	139	-37%	87	139	-37%
Total expenses	1,756	1,786	-2%	2,017	1,989	1%	3,773	3,775	0%
Excess (deficiency) before transfers	946	776	22%	(563)	(782)	28%	383	(6)	6483%
Transfers	(654)	(895)	27%	654	895	-27%	-	-	
Change in net assets	292	(119)	345%	91	113	-19%	383	(6)	6483%
Beginning net assets	2,059	2,178	-5%	181	68	-166%	2,240	2,246	0%
Ending net assets	$ 2,351	$ 2,059	14%	$ 272	$ 181	-50%	$ 2,623	$ 2,240	17%

Governmental Activities

The City's governmental activities had a increase in net assets of $292,598. The increase is due in part to a FEMA reimbursement of $196,000 received in the current year.

TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
General government	$ 544	$ 601	-9%	($257)	($435)	41%
Public safety	871	829	5%	(746)	(734)	-2%
Highways and streets	177	178	-1%	(152)	(154)	1%
Culture and recreation	109	129	-16%	(109)	(125)	13%
Cemetery	3	4	-25%	9	14	36%
Airport	36	35	3%	(36)	(35)	-3%
Tourism	4	2	100%	(4)	(2)	-100%
Interest on long-term debt	12	8	50%	(12)	(8)	-50%
Total	1,756	$1,786	-2%	($1,307)	($1,479)	12%

Business-type Activities

The business-type activities had an increase in net assets of $91,535. Net revenue for water increased by $76,880 (16%) due in part mainly to increased water rates.

TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
Water	$ 1,017	$ 1,024	-1%	$ (409)	$ (486)	16%
Sewer	552	473	17%	(127)	(226)	44%
Sanitation	340	332	2%	(9)	(6)	50%
Health	21	21	0%	(21)	(21)	0%
Economic Development	87	139	-37%	(10)	(52)	81%
Total	$ 2,017	$ 1,989	1%	$ (576)	$ (791)	27%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of $615,764. For the year ended June 30, 2012, the General Fund's total fund balance increased by $67,349. The proprietary funds reported combined net assets of $272,350. The EPWA's total net assets increased by $99,755, while EEDA's total net assets decreased by $8,220.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues over final estimates by $8,544 or a 0.5% positive variance. General Fund actual expenditures were under final appropriations by $59,042 or a 3.7% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had approximately $9.5 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, park facilities, infrastructure, and utility systems. Below are details regarding the City's capital assets for the year ended June 30, 2012.[1]

The City of Eufaula's Capital Assets

TABLE 5
Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 100	$ 100	$ 41	$ 41	$ 141	$ 141
Buildings	260	257	1,902	1,972	2,162	2,229
Imp. other than buildings	626	667	-	-	626	667
Machinery, furniture and equipment	206	260	227	126	433	386
Infrastructure	665	709	-	-	665	709
Utility property	-	-	4,942	4,719	4,942	4,719
Water rights	-	-	257	106	257	106
Construction in progress	56	-	228	83	284	83
Totals	$ 1,913	$ 1,993	$ 7,597	$ 7,047	$ 9,510	$ 9,040

This year's more significant capital asset additions include the following:

- 709 acre ft of water storage rights for $151,190
- Caterpillar 420E Backhoe Loader for $93,713

[1] For more detailed information on capital asset activity please refer to pages 35-36, Note 3. Capital Assets and Depreciation

Debt Administration

At year-end, the City had $9,256,898 in long-term debt outstanding, reported on a modified cash basis, which represents a $214,182 increase from the prior year.

Long-term Debt

TABLE 6
Long-Term Debt
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2012	2011	2012	2011	2012	2011	2011-2012
Revenue bonds	$ -	$ -	$ 7,145	$ 7,360	$ 7,145	$ 7,360	-2.9%
Notes payable	-	-	1,934	1,459	1,934	1,459	32.6%
Capital leases	178	223	-	-	178	223	-20.2%
Totals	$ 178	$ 223	$ 9,079	$ 8,819	$ 9,257	$ 9,042	2.4%

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2012-2013 budget is consistent with prior years.

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 P.O. Box 684, Eufaula, Oklahoma 74432 or telephone at 918-689-2534.

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

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

	Governmental Activities	Business-type Activities	Total	Component Unit Recreation Authority
ASSETS				
Cash and cash equivalents	$ 620,206	$ 1,282,818	$ 1,903,024	$ 76,386
Capital assets:				
Land and construction in progress	156,100	525,532	681,632	6,000
Other capital assets, net of depreciation	1,757,272	7,071,763	8,829,035	33,152
Unamortized bond issuance costs	-	535,203	535,203	-
Total assets	2,533,578	9,415,316	11,948,894	115,538
LIABILITIES				
Payroll withholding payable	268	503	771	-
Deposits subject to refund	-	63,322	63,322	-
Due to bondholders	4,174	-	4,174	-
Long-term liabilities				
Due within one year	105,934	295,827	401,761	-
Due in more than one year	71,823	8,783,314	8,855,137	-
Total liabilities	182,199	9,142,966	9,325,165	-
NET ASSETS				
Invested in capital assets, net of related debt	1,735,615	(901,140)	834,475	39,152
Restricted for:				
Cemetery	16,906	-	16,906	-
Streets	646	-	646	-
Grants	146,051	-	146,051	-
Public safety	1,226	-	1,226	-
Capital improvements	152,169	-	152,169	-
Debt service	-	838,148	838,148	-
Unrestricted	298,766	335,342	634,108	76,386
Total net assets	$ 2,351,379	$ 272,350	$ 2,623,729	$ 115,538

See accompanying notes to these financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit Recreation Authority
Primary Government								
Governmental activities:								
General Government	$ 543,645	$ 59,549	$ 196,847	$ 30,657	$ (256,592)	$ -	$ (256,592)	$ -
Public Safety	871,809	103,330	-	22,913	(745,566)	-	(745,566)	-
Highways and Streets	176,590	-	24,403	-	(152,187)	-	(152,187)	-
Culture and Recreation	108,753	-	-	-	(108,753)	-	(108,753)	-
Cemetery	3,071	11,605	-	-	8,534	-	8,534	-
Airport	36,403	-	-	-	(36,403)	-	(36,403)	-
Tourism	4,019	-	-	-	(4,019)	-	(4,019)	-
Interest on Long-term Debt	11,583	-	-	-	(11,583)	-	(11,583)	-
Total governmental activities	1,756,873	174,484	221,250	53,570	(1,306,569)	-	(1,306,569)	-
Business-type activities:								
Water	1,017,489	608,623	-	-	-	(408,866)	(408,866)	-
Sewer	552,211	260,662	-	164,477	-	(127,072)	(127,072)	-
Sanitation	339,565	330,744	-	-	-	(8,821)	(8,821)	-
Health	20,937	-	-	-	-	(20,937)	(20,937)	-
Economic Development	87,084	77,201	-	-	-	(9,883)	(9,883)	-
Total business-type activities	2,017,286	1,277,230	-	164,477	-	(575,579)	(575,579)	-
Total primary government	$ 3,773,159	$ 1,451,714	$ 221,250	$ 218,047	(1,306,569)	(575,579)	(1,882,148)	
Component Unit:								
Recreation and tourism	$ 62,611	$ 36,476	$ -	$ -				(26,135)
General revenues:								
Taxes:								
Sales and use taxes					1,936,575	-	1,936,575	-
Franchise taxes and public service taxes					129,913	-	129,913	-
Hotel/motel taxes					-	-	-	46,715
E911 taxes					38,224	-	38,224	-
Intergovernmental revenue not restricted to specific programs					66,090	-	66,090	-
Unrestricted investment earnings					1,129	935	2,064	-
Miscellaneous					81,101	12,314	93,415	8,040
Transfers					(653,865)	653,865	-	-
Total general revenues and transfers					1,599,167	667,114	2,266,281	28,620
Change in net assets					292,598	91,535	384,133	28,620
Net assets - beginning					2,058,781	180,815	2,239,596	86,918
Net assets - ending					$ 2,351,379	$ 272,350	$ 2,623,729	$ 115,538

See accompanying notes to these financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 293,302	$ 40,985	$ 285,919	$ 620,206
Due from other funds	-	-	386	386
Total assets	$ 293,302	$ 40,985	$ 286,305	$ 620,592
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued payroll payable	$ 268	$ -	$ -	$ 268
Due to other funds	386	-	-	386
Due to bondholders	4,174	-	-	4,174
Total liabilities	4,828	-	-	4,828
Fund balances:				
Restricted	-	33,672	283,326	316,998
Assigned	-	7,313	2,979	10,292
Unassigned	288,474	-	-	288,474
Total fund balances	288,474	40,985	286,305	615,764
Total liabilities and fund balances	$ 293,302	$ 40,985	$ 286,305	$ 620,592

See accompanying notes to these financial statements.

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

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 2,066,488	$ -	$ -	$ 2,066,488
Intergovernmental	114,245	30,657	196,847	341,749
Charges for services	11,605	-	46,353	57,958
Fines and forfeitures	103,330	-	-	103,330
Licenses and permits	13,196	-	-	13,196
Investment income	922	62	145	1,129
Miscellaneous	111,093	2,000	6,232	119,325
Total revenues	2,420,879	32,719	249,577	2,703,175
EXPENDITURES				
Current:				
General government	513,902	-	73,796	587,698
Public Safety	807,788	40,191	1,529	849,508
Highway and streets	71,861	-	3,285	75,146
Culture and recreation	88,953	-	-	88,953
Cemetery	168	-	-	168
Tourism	4,019	-	-	4,019
Airport	-	-	2,354	2,354
Capital Outlay	52,130	-	30,753	82,883
Debt Service:				
Principal	45,710	-	13	45,723
Interest and other charges	6,860	-	4,723	11,583
Total expenditures	1,591,391	40,191	116,453	1,748,035
Excess (deficiency) of revenues over expenditures	829,488	(7,472)	133,124	955,140
OTHER FINANCING SOURCES (USES)				
Transfers in	1,123,600	3,600	136,443	1,263,643
Transfers out	(1,885,739)	-	(6,769)	(1,892,508)
Total other financing sources and uses	(762,139)	3,600	129,674	(628,865)
Net change in fund balances	67,349	(3,872)	262,798	326,275
Fund balances - beginning	221,125	44,857	23,507	289,489
Fund balances - ending	$ 288,474	$ 40,985	$ 286,305	$ 615,764

See accompanying notes to these financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	$	615,764
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.		1,913,372
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, 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.		(177,757)
Net Assets of Governmental Activities in the Statement of Net Assets	$	2,351,379

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	$	326,275
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		152,571
Depreciation expense		(231,971)
		(79,400)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		45,723
		45,723
Change in net assets of governmental activities	$	292,598

See accompanying notes to these financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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

	Enterprise Funds		
	Eufaula Public Works Authority	Eufaula Economic Development Authority	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	$ 330,150	$ 1,654	$ 331,804
Restricted:			
Cash and cash equivalents	951,014	-	951,014
Total current assets	1,281,164	1,654	1,282,818
Non-current assets:			
Capital assets:			
Land and construction in progress	525,532	-	525,532
Other capital assets,net of accumulated depreciation	5,608,510	1,463,253	7,071,763
Unamortized note issue costs	535,203	-	535,203
Total non-current assets	6,669,245	1,463,253	8,132,498
Total assets	7,950,409	1,464,907	9,415,316
LIABILITIES			
Current Liabilities:			
Payroll liabilities payable	397	106	503
Deposits subject to refund	63,322	-	63,322
Notes payable	21,545	39,282	60,827
Revenue bonds payable	235,000	-	235,000
Total current liabilities	320,264	39,388	359,652
Non-current liabilities:			
Notes payable	500,437	1,372,877	1,873,314
Revenue bonds payable	6,910,000	-	6,910,000
Total non-current liabilities	7,410,437	1,372,877	8,783,314
Total liabilities	7,730,701	1,412,265	9,142,966
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	(952,234)	51,094	(901,140)
Restricted for debt service	838,148	-	838,148
Unrestricted	333,794	1,548	335,342
Total net assets	$ 219,708	$ 52,642	$ 272,350

See accompanying notes to these financial statements.

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012

	Eufaula Public Works Authority	Eufaula Economic Development Authority	Totals
REVENUES			
Water	$ 563,700	$ -	$ 563,700
Sewer	260,662	-	260,662
Sanitation	330,744	-	330,744
Water and sewer taps	13,020	-	13,020
Rent	-	77,201	77,201
Penalties	31,903	-	31,903
Miscellaneous	12,285	-	12,285
Total operating revenues	1,212,314	77,201	1,289,515
OPERATING EXPENSES			
Administration	210,471	-	210,471
Water	552,031	-	552,031
Sewer	161,369	-	161,369
Sanitation	339,565	-	339,565
Health	12	-	12
Economic development	-	1,869	1,869
Depreciation	288,278	40,552	328,830
Amortization expense	22,703	-	22,703
Total operating expenses	1,574,429	42,421	1,616,850
Operating income (loss)	(362,115)	34,780	(327,335)
NON-OPERATING REVENUES (EXPENSES)			
Investment income	935	-	935
Miscellaneous revenue	-	29	29
Interest expense	(355,773)	(44,663)	(400,436)
Total non-operating revenue (expenses)	(354,838)	(44,634)	(399,472)
Income (loss) before transfers and capital contributions	(716,953)	(9,854)	(726,807)
Capital contributions	189,477	-	189,477
Transfers in	1,883,886	1,634	1,885,520
Transfers out	(1,256,655)	-	(1,256,655)
Change in net assets	99,755	(8,220)	91,535
Total net assets - beginning	119,953	60,862	180,815
Total net assets - ending	$ 219,708	$ 52,642	$ 272,350

See accompanying notes to these financial statements.

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

	Eufaula Public Works Authority	Eufaula Economic Development Authority	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 1,212,314	$ 77,201	$ 1,289,515
Payments to suppliers	(711,112)	-	(711,112)
Payments to employees	(551,939)	(1,763)	(553,702)
Receipts of customer meter deposits	21,323	-	21,323
Refunds of customer meter deposits	(12,869)	-	(12,869)
Other receipts/payments	-	29	29
Net cash provided by (used in) operating activities	(42,283)	75,467	33,184
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	1,883,886	1,634	1,885,520
Transfers to other funds	(1,256,655)	-	(1,256,655)
Net cash provided by (used in) noncapital financing activities	627,231	1,634	628,865
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(853,662)	-	(853,662)
Proceeds from debt	688,459	-	688,459
Principal paid on debt	(228,121)	(35,956)	(264,077)
Note issuance costs paid	(145,745)	-	(145,745)
Interest and fiscal agent fees paid on debt	(355,773)	(44,663)	(400,436)
Net cash provided by (used in) capital and related financing activities	(894,842)	(80,619)	(975,461)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	935	-	935
Net cash provided by investing activities	935	-	935
Net increase (decrease) in cash and cash equivalents	(308,959)	(3,518)	(312,477)
Balances - beginning of year	1,590,123	5,172	1,595,295
Balances - end of year	$ 1,281,164	$ 1,654	$ 1,282,818
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	$ 330,150	$ 1,654	$ 331,804
Restricted cash and cash equivalents - current	951,014	-	951,014
Total cash and cash equivalents, end of year	$ 1,281,164	$ 1,654	$ 1,282,818
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ (362,115)	$ 34,780	$ (327,335)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	288,278	40,552	328,830
Amortization expense	22,703	-	22,703
Miscellaneous revenue	-	29	29
Change in assets and liabilities:			
Payroll liabilities payable	-	106	106
Accrued payroll payable	397	-	397
Deposits subject to refund	8,454	-	8,454
Net cash provided by (used in) operating activities	$ (42,283)	$ 75,467	$ 33,184
Noncash activities:			
Contributed capital assets from governmental activities	$ 25,000	$ -	$ 25,000

See accompanying notes to these financial statements.

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 the primary government (City of Eufaula) and five component units.

- **The City of Eufaula** – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities
- **The Eufaula Public Works Authority** – that operates the water, wastewater and sanitation services of the City *(blended)*
- **The Eufaula Economic Development Authority** – that operates the economic development services within the City *(blended)*
- **The Eufaula Industrial Authority** – that operates the industrial development services within the City *(Authority currently inactive)*
- **The Eufaula Recreation Authority** – that operates the recreational services within the City *(discretely presented)*
- **The Eufaula Airport Authority** – that operates the municipal airport services of the City *(Authority currently inactive)*

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and, through its public trusts, certain utility services including water, wastewater, and sanitation, recreational, and economic development activities.

All of the component units (Authorities) except the Eufaula Recreation Authority and the Eufaula Airport Authority have the City Council as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

In determining the financial reporting entity, the City fully complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" that requires all component units of which the City is financially accountable be included in the financial report.

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 Authorities. 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/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, operating and capital grants
- Public safety: Fine revenue, fire runs, operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Culture and recreation: Recreational fees and operating grants
- Cemetery: Cemetery fees

For business-type activities, Financial Accounting Standard 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. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Governmental Funds:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Grant Fund (CDBG) – capital project fund, which accounts for funds of the Community Development Block Grant used for the Pur Ice building project

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

Special Revenue Funds:
- Street Fund – accounts for revenues received from excess of one-half percent sales tax above debt service requirements on the allocated bonds related to the 2002 defeased bonds to be used for street improvements
- Police Drug Fund – accounts for monies received from donations and drug seizures and to be used for law enforcement purposes only
- FEMA Fund – accounts for FEMA grant program activity. Used for expenditures and receipts associated with emergency situations
- Transportation Fund – accounts for revenues remaining from the transition of being city operated and contracted. Remaining proceeds are to be used by the contractor as deemed necessary

Capital Project Funds:
- Cemetery Perpetual Fund – accounts for 25 percent of cemetery revenues (12.5 percent required per State statute) restricted for cemetery capital improvements
- Airport Fund – accounts for revenue received and expenditures made for airport grant project
- Capital Improvement Fund – accounts for revenues received from the CIP fee and used for capital projects

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:

Major Funds:
- Eufaula Public Works Authority (EPWA) – accounts for the operation of the water, wastewater, and sanitation activities

- Eufaula Economic Development Authority (EEDA) – accounts for economic development activities

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 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, 1998. Prior to July 1, 2001, 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, 2001 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 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 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 funds 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 Statements:

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 placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws 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. The City currently has no fund balance that meets the definition of committed fund balance.
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 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 the unrestricted fund balance when an expense is incurred for the purposes for which both restricted and unrestricted fund balances 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.

Net Assets:

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 $2,064 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:

Primary Government:		
Type	**Credit Rating**	**Carrying Value**
Petty cash		$ 370
Deposits:		
Demand deposits		1,019,003
		1,019,373
Investments:		
Money Market Fund	AAA	883,651
		883,651
Total deposits and investments		$ 1,903,024
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		$ 1,903,024
		$ 1,903,024
Component Unit:		
Eufaula Recreational Authority:		
Demand deposits		$ 76,386

Custodial 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 either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was under collateralized by $479,326.

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. Title 60 public trusts are not limited by the same investment limitations of their municipal beneficiary. The investments held by the Public Works Authority are part of the 2005 revenue bond trustee accounts, which are covered and authorized under the said indenture.

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 based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. As noted in the schedule of deposits and investments above, at June 30, 2012, the investments were limited to shares of money market funds invested in U.S. Treasury securities which have an average maturity of less than one year.

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.

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 Cash and cash equivalents
2005 Sinking Fund	$ 213,648
2005 Sinking Fund Reserve	624,500
2005 Construction Fund	45,503
Meter deposits	67,363
Total	$ 951,014

3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital assets balances changed as follows:

	Balance at July 01, 2011	Additions	Disposals	Balance at June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 100,000	$ -	$ -	$ 100,000
Construction in progress	-	59,503	3,403	56,100
Total capital assets not being depreciated	100,000	59,503	3,403	156,100
Other capital assets:				
Buildings	2,334,896	24,855	-	2,359,751
Improvements	807,445	3,403	-	810,848
Infrastructure	1,474,967	54,331	-	1,529,298
Machinery, furniture and equipment	1,746,737	13,882	-	1,760,619
Total other capital assets at historical cost	6,364,045	96,471	-	6,460,516
Less accumulated depreciation for:				
Buildings	2,077,351	22,092	-	2,099,443
Improvements	140,906	43,541	-	184,447
Infrastructure	766,240	98,558	-	864,798
Machinery, furniture and equipment	1,486,776	67,780	-	1,554,556
Total accumulated depreciation	4,471,273	231,971	-	4,703,244
Other capital assets, net	1,892,772	(135,500)	-	1,757,272
Governmental activities capital assets, net	$ 1,992,772	$ (75,997)	$ 3,403	$ 1,913,372
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 40,703	$ -	$ -	$ 40,703
Water rights	106,117	151,191	-	257,308
Construction in progress	82,862	531,854	387,195	227,521
Total capital assets not being depreciated	229,682	683,045	387,195	525,532
Other capital assets:				
Buildings	2,802,256	-	-	2,802,256
Machinery, furniture and equipment	298,229	132,060	-	430,289
Utility property	6,838,458	450,753	-	7,289,211
Total other capital assets at historical cost	9,938,943	582,813	-	10,521,756
Less accumulated depreciation for:				
Buildings	829,627	69,842	-	899,469
Machinery, furniture and equipment	172,248	30,744	-	202,992
Utility Property Improvements	2,119,289	228,243	-	2,347,532
Total accumulated depreciation	3,121,164	328,829	-	3,449,993
Other capital assets, net	6,817,779	253,984	-	7,071,763
Business-type activities capital assets, net	$ 7,047,461	$ 937,029	$ 387,195	$ 7,597,295

	Balance at July 01, 2011	Additions	Disposals	Balance at June 30, 2012
Discretely Presented Component Unit:				
Capital assets not being depreciated:				
Land	$ 6,000	$ -	$ -	$ 6,000
Total capital assets not being depreciated	6,000	-	-	6,000
Other capital assets:				
Buildings	63,962	-	-	63,962
Improvements	381,632	-	-	381,632
Machinery, furniture and equipment	39,075	-	-	39,075
Total other capital assets at historical cost	484,669	-	-	484,669
Less accumulated depreciation for:				
Buildings	48,993	728	-	49,721
Improvements	365,117	1,794	-	366,911
Machinery, furniture and equipment	32,119	2,766	-	34,885
Total accumulated depreciation	446,229	5,288	-	451,517
Other capital assets, net	38,440	(5,288)	-	33,152
Component unit capital assets, net	$ 44,440	$ (5,288)	$ -	$ 39,152

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	$ 14,848	Water	$ 132,404
Public safety	58,927	Sewer	134,948
Highways and streets	101,444	Health	20,925
Culture and recreation	19,800	Economic development	40,552
Cemetery	2,903		$ 328,829
Airport	34,049		
	$ 231,971		

4. Long-Term Debt and Debt Service Requirements

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

Type of Debt	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Capital lease payable	$ 223,480	$ -	$ 45,723	$ 177,757	$ 105,934
Total Governmental Activities	$ 223,480	$ -	$ 45,723	$ 177,757	$ 105,934
Business-Type Activities:					
Notes Payable	$ 1,459,236	$ 688,459	$ 213,554	$ 1,934,141	60,827
Revenue bonds payable	7,360,000	-	215,000	7,145,000	235,000
Total Business-Type Activities	8,819,236	688,459	428,554	9,079,141	295,827
Total Long-Term Debt	$ 9,042,716	$ 688,459	$ 474,277	$ 9,256,898	$ 401,761

Reconciliation to Statement of Net Assets:	
Governmental Activities:	
Due within one year	$ 105,934
Due in more than one year	71,823
Total Governmental Activities Long-term liabilities	$ 177,757
Business-Type Activities:	
Due within one year	$ 295,827
Due in more than one year	8,783,314
Total Business-Type Activities Long-term liabilities	$ 9,079,141

Governmental Activities:

At June 30, 2012, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable

$190,000 lease obligation for purchase of fire truck, payable in monthly installments of $2,062, final payment due September 2016	$ 91,926
$100,075 lease obligation for emergency management equipment, payable in lump sum payment, due March 2013	81,116
$39,750 lease obligation for purchase of police cars, payable in monthly installments of $2,319, final payment due August 2012	4,715
Total Capital Leases Payable	$ 177,757
Current portion	105,934
Noncurrent portion	71,823
Total Capital Leases Payable	$ 177,757

Business-Type Activities:

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2012, includes the following:

Eufaula Public Works Authority:
Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to EPWA, and their outstanding balances at June 30, 2012, includes the following:

Long-Term Note Commitments

Note payable to Arvest Equipment Leasing, original amount of $34,131, payable in monthly installments of $643 with a 4.9% interest rate, final payment due January 2013.	$	3,793
Note payable to CAT Financial, original amount of $93,713, payable in monthly installments of $1,692 with a 3.2% interest rate, final payment due April 2017.		87,920
Note payable to Oklahoma Water Resources Board, original amount of $4,035,000, $3,440,254 available to be drawn down, payable in semi-annual installments each March and September 15 beginning March 2013, final installment due September 15, 2043 with a 2.06% interest rate and an administration fee of 0.5% payable semi-annually on the principal outstanding. OWRB awarded debt forgiveness of $164,477 in current year.		430,269
Total Notes Payable	$	521,982
Current portion		21,545
Noncurrent portion		500,437
Total Notes Payable	$	521,982

Revenue Bonds:

2005 Series Revenue Bonds, original issue amount of $8,250,000, dated December 1, 2005, issued by Eufaula Public Works Authority, secured by utility revenues and pledged sales tax, interest rate of 3.5% to 5.0%, final payment due December 2030.	$	7,145,000
Net Revenue Bonds Payable	$	7,145,000
Current portion		235,000
Noncurrent portion		6,910,000
Total Revenue Bonds Payable	$	7,145,000

Eufaula Economic Development Authority:

Long-term debt commitments payable from net revenues generated by the economic development resources of the EEDA, and their outstanding balances at June 30, 2012, includes the following:

Long-Term Note Commitments

Oklahoma Department of Commerce note dated February 22, 2007, authorized amount of $400,000, payable in monthly installments of $1,667, including principal with a 0% interest rate, with a final payment due February 2031, secured by the lease agreement described in Note 6. See Note 12 for additional information.	$	370,000
Note payable to Bank of Eufaula dated December 31, 2010, original amount $1,058,115, due in monthly installments of $5,052, interest rate of 4.0%, final baloon installment of $518,709 due March 2031, secured by the lease agreement described in Note 6. See Note 12 for additional information.		1,042,159
Total Note Payable	$	1,412,159
Current portion		39,282
Noncurrent portion		1,372,877
Total Loan Payable	$	1,412,159

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

Year Ended June 30,	Governmental Capital Lease Obligations Principal	Governmental Capital Lease Obligations Interest	Business-Type Notes Payable Principal	Business-Type Notes Payable Interest	Business-Type Revenue Bonds Principal	Business-Type Revenue Bonds Interest
2013	$105,934	$9,547	$60,827	$51,135	$235,000	$336,850
2014	21,237	3,510	63,196	53,603	170,000	328,644
2015	22,435	2,312	69,594	52,005	185,000	321,322
2016	23,700	1,047	71,205	50,393	200,000	313,306
2017	4,451	415	66,292	48,537	220,000	303,606
2018-2022	-	-	283,210	223,248	1,385,000	1,328,756
2023-2027	-	-	319,002	187,454	1,985,000	933,022
2028-2032	-	-	796,165	119,769	2,765,000	332,125
2033-2037	-	-	81,643	21,718	-	-
2038-2042	-	-	92,780	10,582	-	-
2043-2044	-	-	30,227	781	-	-
Total	$177,757	$16,831	$1,934,141	$819,225	$7,145,000	$4,197,631

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged all three and one-half cents (or 100%) of future sales tax revenues and net utility revenues to repay the $8,250,000 Series 2005 Utility System Refunding Revenue Bonds. Proceeds from the bonds provided financing for capital assets and refunded Series 1999, Series 2000, and Series 2002 Utility Revenue Bonds. The bonds are payable from pledged sales tax revenues and net utility revenues and are payable through 2031. The total principal and interest payable for the remainder of the life of these bonds is $11,342,631. Pledged sales taxes received in the current year were $1,849,587 and net utility revenues were a negative $50,199. Debt service payments of $569,416 for the current fiscal year were 31.6% of both pledged sales taxes and net utility revenues of $1,799,388.

5. Sales Tax Revenue

Sales tax revenue represents a 3 ½ cent tax on each dollar of taxable sales of which all 3 ½ cents are transferred to the Eufaula Public Works Authority to be used to secure debt payments. Any unused portion is transferred back to the General Fund.

6. Lease Agreements

EEDA constructed and then leased a facility to a third party for economic development purposes. Under terms of the lease, monthly rental payments of $7,018 are due through February 2013, with a final payment of $520,300 due March 2031. Total payments received during the year under the lease agreement totaled $77,201. See Note 12 for additional information.

7. Internal Balances and Transfers Between Funds and Legal Entities

Internal balances between funds are comprised of the following:

Due From	Due To	Amount	Nature of Balance
General Fund	Street Fund	$ 386	Revenue reclass
Total		$ 386	

Internal transfers between funds and legal entities are comprised of the following:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Eufaula Public Works Authority	$ 1,849,587	Sales tax transfer
General Fund	Eufaula Public Works Authority	27,530	Operational subsidy
General Fund	Cemetery Perpetual Care Fund	3,388	Required Cemetery Transfer
General Fund	Grant Fund	3,600	Grant money match
General Fund	Eufaula Economic Development Authority	1,634	Operational subsidy
Eufaula Public Works Authority	Capital Improvements Fund	133,055	Capital improvement project expenses
Eufaula Public Works Authority	General Fund	1,090,000	Sales tax transfer
Eufaula Public Works Authority	General Fund	33,600	Capital asset purchase
Eufaula Public Works Authority	FEMA Fund	6,769	Debt payment
Total		$ 3,149,163	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	$ 1,263,643	$ (1,892,508)	$ (628,865)
Proprietary Funds	1,885,520	(1,256,655)	628,865
	$ 3,149,163	$ (3,149,163)	$ -

Reconciliation to Statement of Activities:

Transfers net balance	(628,865)
Transfer of capital asset from governmental to business-type	(25,000)
	$ (653,865)

8. Fund Equity

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

	General Fund	Grant Fund	Other Governmental Funds	Total
Fund Balance:				
Restricted for:				
Grant purposes	$ -	$ 33,672	$ 112,379	$ 146,051
Street improvements	-	-	646	646
Law enforcement	-	-	1,226	1,226
Cemetery care	-	-	16,906	16,906
Capital improvements	-	-	152,169	152,169
	-	33,672	283,326	316,998
Assigned for:				
Grant purposes	-	7,313	-	7,313
Cemetery care	-	-	1,624	1,624
Airport	-	-	1,355	1,355
	-	7,313	2,979	10,292
Unassigned	288,474	-	-	288,474
Total Fund Balance	$ 288,474	$ 40,985	$ 286,305	$ 615,764

Restricted Net Assets – Governmental Activities:

The following table shows the net asset restricted for other purposes as shown in the Statement of Net Assets:

Fund	Restricted by	Amount
Street Fund	Enabling legislation	$ 646
Capital Improvements Fund	Enabling legislation	152,169
		$ 152,815
Cemetery Perpetual Care Fund	Statutory requirements	$ 16,906
Grant Fund	Other contracts	$ 33,672
Police Drug Fund	Other contracts	1,226
FEMA Fund	Other contracts	112,379
		$ 147,277

9. Risk Management

The primary government 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. These risks are managed by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for worker's compensation and property liability coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

10. Retirement Plan Participation

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

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multi-employer defined benefit pension plan

Oklahoma State Firefighters Pension System
Pursuant to the requirements of Title 11, section 22-102, the City of Eufaula participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by state law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions. For 2012, the City's annual required contribution was $1,140 for the OFPRS plan and was equal to the City's actual contribution.

A copy of the Firefighters Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 Lincoln Blvd. Suite 263, Oklahoma City, OK, 73105-3707.

OPPRS
The City of Eufaula, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS 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 a certain number of fulltime police officers. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2012, the City's annual required contribution was $38,196 for the OPPRS plan and was equal to the City's actual contribution.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 605
Oklahoma City, OK 73116-7335

OMRF Defined Benefit Plan

The City contributes to the City of Eufaula 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 Police and Firefighter Pension Systems. 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 Chase of Oklahoma City acts as administrator and securities custodian.

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	5.34% of covered payroll
-Employee Rate	3.75% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 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	1.875% 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 10 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.

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.

Summary of Contributions:

Oklahoma Municipal Retirement Fund			Oklahoma Police Pension and Retirement System			Oklahoma Firefighter's Pension and Retirement System		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2010	26,793	100%	2010	36,189	100%	2010	1,200	100%
2011	28,411	100%	2011	34,967	100%	2011	1,140	100%
2012	32,549	100%	2012	38,196	100%	2012	1,140	100%

11. 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 $27,571 for governmental activities and $23,089 for business-type activities.

Other Post-Employment Benefits:

For the year ended June 30, 2012, the City provided post-employment benefits (other than pension) to retired employees. The City accounts for these costs on a pay-as-you-go basis. These benefits are in the form of health insurance for retired employees. The retirees pay 100% of the City's established blended premium for active and retired employees.

Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Eufaula 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 not material. 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.

12. Subsequent Events

As discussed in Note 6, the City leases a facility to a third party for economic development purposes. Construction of the leased facility was financed with bank debt and a promissory note from the Oklahoma Department of Commerce (ODOC), which are described in Note 4. Both the bank debt and the ODOC note are secured by the lease agreement described in Note 6. Payments were collected by the City from the third party through May 2012 pursuant to the terms of the lease agreement. Subsequent to year end, the City determined that the third party would not make any further lease payments as required under the agreement. As a result, the City stopped making its related debt service payments on the facility to the bank effective July 2012. In December 2012, the bank initiated litigation against the City and the third party demanding immediate repayment of the bank loan plus accrued interest. The ultimate disposition of this matter cannot be determined at this time, and no adjustments have been made in the accompanying financial statements regarding this matter.

In August 2012, the City modified the terms of its loan with ODOC. Under terms of the modified loan, monthly payments of $1,667 are due beginning March 2013, with a 0% interest rate. The City has determined that any adjustment as a result of this matter would not be material and therefore no adjustments have been made in the accompanying financial statements regarding this matter.

SUPPLEMENTAL INFORMATION

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

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positve (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	$ -	$ -	$ 221,125	$ 221,125
Resources (Inflows):				
Taxes	223,050	223,050	216,901	(6,149)
Intergovernmental	58,700	58,700	86,715	28,015
Charges for services	14,175	14,175	11,605	(2,570)
Fines and forfeitures	75,000	75,000	72,722	(2,278)
Licenses and permits	10,000	10,000	13,196	3,196
Investment Income	160	160	922	762
Miscellaneous	80,525	80,525	111,093	30,568
Transfers in	1,133,000	1,133,000	1,090,000	(43,000)
Total Resources (Inflows)	1,594,610	1,594,610	1,603,154	8,544
Amounts available for appropriation	$1,594,610	$1,594,610	$1,824,279	229,669
Charges to Appropriations (Outflows):				
Administration	79,800	70,800	66,747	4,053
Tourism	5,100	4,600	4,019	581
Police	804,200	818,400	802,457	15,943
Fire	59,250	57,250	54,604	2,646
General government	449,010	468,611	447,155	21,456
Library	9,950	7,950	6,785	1,165
Cemetery	500	500	168	332
Summer recreation	10,000	10,000	10,000	-
Streets	44,000	49,000	41,861	7,139
Parks	78,800	77,300	72,168	5,132
Transportation	30,000	30,000	30,000	-
Transfers out	24,000	5,617	5,022	595
Total Charges to Appropriations	1,594,610	1,600,028	1,540,986	59,042
Ending Budgetary Fund Balance	$ -	$ (5,418)	$ 283,293	$ 288,711

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on a budgetary basis which differs from the modified cash basis within the basic financial statements.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.

3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

	General Fund
Resources budgetary basis	$1,603,154
Add sales tax budgeted as transfers	1,849,587
Add cigarette tax budgeted as transfers	27,530
Add court fund revenues	30,608
Deduct transfers in	(1,090,000)
Revenue - modified cash basis	$2,420,879

Charges to appropriations budgetary basis	$1,540,986
Add capital outlay from business-type activities	33,600
Add court fund expenses	21,827
Deduct transfers out	(5,022)
Expenditures - modified cash basis	$1,591,391

Combining Balance Sheet – Non-Major Governmental Funds (Modified Cash Basis) – June 30, 2012

	Special Revenue Funds			Capital Project Funds			
	Street Fund	Police Drug Fund	FEMA Fund	Cemetery Perpetual Fund	Airport Fund	Capital Improvements Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 260	$ 1,226	$ 112,379	$ 18,530	$ 1,355	$ 152,169	$ 285,919
Due from other funds	386	-	-	-	-	-	386
Total assets	$ 646	$ 1,226	$ 112,379	$ 18,530	$ 1,355	$ 152,169	$ 286,305
LIABILITIES AND FUND BALANCES							
Liabilities:							
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fund balances:							
Restricted	646	1,226	112,379	16,906	-	152,169	283,326
Assigned	-	-	-	1,624	1,355	-	2,979
					-	-	
Total fund balances	646	1,226	112,379	18,530	1,355	152,169	286,305
Total liabilities and fund balances	$ 646	$ 1,226	$ 112,379	$ 18,530	$ 1,355	$ 152,169	$ 286,305

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

	Special Revenue Funds			Capital Project Funds			
	Street Fund	Police Drug Fund	FEMA Fund	Cemetery Perpetual Fund	Airport Fund	Capital Improvements Fund	Total-Other Governmental Funds
REVENUES							
Intergovernmental	$ -	$ -	$ 196,847	$ -	$ -	$ -	$ 196,847
Charges for services	-	-	-	-	-	46,353	46,353
Investment income	-	-	-	34	-	111	145
Miscellaneous	379	1,952	-	-	3,901	-	6,232
Total revenues	379	1,952	196,847	34	3,901	46,464	249,577
EXPENDITURES							
Current:							
General government	-	-	73,796	-	-	-	73,796
Public Safety	-	1,529	-	-	-	-	1,529
Highways and streets	3,285	-	-	-	-	-	3,285
Airport	-	-	-	-	2,354	-	2,354
Debt Service							
Principal	-	-	13	-	-	-	13
Interest and other charges	-	-	4,723	-	-	-	4,723
Capital Outlay	-	-	-	-	3,403	27,350	30,753
Total Expenditures	3,285	1,529	78,532	-	5,757	27,350	116,453
Excess (deficiency) of revenues over expenditures	(2,906)	423	118,315	34	(1,856)	19,114	133,124
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	3,388	-	133,055	136,443
Transfers out	-	-	(6,769)	-	-	-	(6,769)
Total other financing sources and uses	-	-	(6,769)	3,388	-	133,055	129,674
Net change in fund balances	(2,906)	423	111,546	3,422	(1,856)	152,169	262,798
Fund balances - beginning	3,552	803	833	15,108	3,211	-	23,507
Fund balances - ending	$ 646	$ 1,226	$ 112,379	$ 18,530	$ 1,355	$ 152,169	$ 286,305

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

Gross Revenue Available for Debt Service:	
Operating revenues of leased systems	$1,212,314
Sales tax pledged and transferred	1,849,587
Interest income	935
Total Gross Revenues Available	3,062,836
System Operating Expenses	1,263,448
Net Revenues Available for Debt Service	$1,799,388
Debt Service Requirements:	
Average annual debt service - 2005 Revenue Bonds	$591,952
Total Debt Service Requirements	$591,952
Coverage	304%
Coverage Requirement	125%

Schedule of Debt Reserve Requirement Compliance

	RESERVE ACCOUNT
Required Balance, June 30, 2012	$624,500
Balance in Reserve Accounts, June 30, 2012	$624,500
Excess (Deficiency)	-

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Awards Expended
FEDERAL AWARDS:				
U.S. DEPARTMENT OF THE INTERIOR:				
Passed through the Oklahoma Department of Wildlife Conservation:				
Boating Access Project	15.605	F06AF00004	$ 25,200	$ 25,200
ENVIRONMENTAL PROTECTION AGENCY:				
Passed through the Oklahoma Water Resources Board:				
Clean Water State Revolving Fune	56.458 (ARRA)	ORF-11-0009-CW	$ 170,583	$ 170,583
U.S. DEPARTMENT OF TRANSPORTATION:				
Passed through the Oklahoma Highway Safety Office:				
Highway safety grant	20.600	K8-12-03-16-04	$ 12,000	$ 10,082
Highway safety grant	20.600	PT-11-03-07-03	20,000	3,631
			$ 32,000	$ 13,713
FEDERAL EMERGENCY MANAGEMENT AGENCY:				
Passed through the Oklahoma Department of Civil Emergency Management:				
Flood Disaster	97.036	FEMA-DR-1988	$ 196,847	$ 196,847
U.S. DEPARTMENT OF JUSTICE:				
Passed through the Oklahoma District Attorneys Council:				
District Attorney's Grant	16.738	J09-10-053	$ 3,540	$ 3,540
U.S. DEPARTMENT OF TRANSPORTATION:				
Passed through the Oklahoma Department of Transportation:				
Federal Highway Administration Utility Relocation	20.200	STPY-146C(064) UT	$ 598,891	$ 17,218
Total Federal Awards			$1,027,061	$ 427,101
STATE AWARDS:				
OKLAHOMA DEPARTMENT OF AGRICULTURE:				
Rural Fire Protection	N/A	12RF802012	$ 16,978	$ 16,978
Forestry Grant	N/A	N/A	15,300	1,879
Fire Agriculture Recovery Grant	N/A	N/A	6,323	6,216
			$ 38,601	$ 25,073
OKLAHOMA ARTS COUNCIL:				
Arts Council Grant	N/A	N/A	$ 4,000	$ 4,000
OKLAHOMA DEPARTMENT OF TRANSPORTATION:				
Utility Relocation	N/A	STPY-146C(064) UT	$ 149,723	$ 4,304
EASTERN OKLAHOMA DEVELOPMENT DISTRICT:				
2009 REAP	N/A	2009 REAP	$ 20,000	$ 2,802
2011 REAP	N/A	2011 REAP Fund 4905	25,000	25,000
			$ 45,000	$ 27,802
FEDERAL EMERGENCY MANAGEMENT AGENCY:				
Passed through the Oklahoma Department of Civil Emergency Management:				
Fire Grant	N/A	N/A	$ 1,953	$ 946
Total State Awards			$ 239,277	$ 62,125

INTERNAL CONTROL AND COMPLIANCE

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Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor and Members of the City Council of the
City of Eufaula, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eufaula, 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 January 23, 2013. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 12-1. The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, the City Council, management, 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
January 23, 2013

CITY OF EUFAULA, OKLAHOMA

SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Finding 12-1; Deposits with Financial Institutions

Criteria: Oklahoma state statutes require that all uninsured deposits of municipal funds in financial institutions must be secured by the financial institution with acceptable collateral.

Condition: As of June 30, 2012, deposits totaling approximately $479,000 were not insured or collateralized as required by state law.

Cause: The City maintains in excess of twenty accounts. We rely on the bank to assist us in identifying any major changes in cumulative deposits.

Effect: Because of the failure to adequately collateralize its deposits, the City was exposed to potential losses resulting from custodial credit risk up to $479,000 as of June 30, 2012.

Recommendation: We recommend that the City have procedures in place to ensure that all applicable deposits are adequately insured or collateralized throughout the year.

City's Response: Upon identification, the City contacted the bank and received additional pledged collateral in the amount of $1,000,000 in August 2012. The City will implement additional monitoring procedures to more accurately ensure collateralization is maintained throughout the year.