
THE CITY OF TECUMSEH

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT THEREON
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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**THE CITY OF TECUMSEH
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	Total 2012
ASSETS			
Current assets:			
Cash and demand deposits	875,341	513,072	1,388,413
Certificates of deposit	376,068	1,507,416	1,883,484
Restricted cash and investments	52,957	1,346,067	1,399,024
Accounts receivable	97,134	889,576	986,710
Allowance for doubtful accounts	0	(403,454)	(403,454)
Prepaid expenses	39,377	19,624	59,001
Internal balances	5,034	(5,034)	0
Grants receivable	66,483	0	66,483
Total current assets	1,512,394	3,867,267	5,379,661
Noncurrent assets:			
Capital assets:			
Depreciable property and equipment	6,829,395	14,080,542	20,909,937
Accumulated depreciation	(2,522,964)	(5,091,880)	(7,614,844)
Land	256,805	186,216	443,021
Water rights	0	2,624,609	2,624,609
Construction in progress	5,542	323,897	329,439
Net capital assets	4,568,778	12,123,384	16,692,162
Total assets	6,081,172	15,990,651	22,071,823
LIABILITIES			
Current liabilities:			
Accounts payable	19,910	216,103	236,013
Payroll payable	28,875	15,286	44,161
Sales tax payable	0	7,195	7,195
Current portion of notes payable	0	516,517	516,517
Accrued interest payable	0	21,333	21,333
Total current liabilities	48,785	776,434	825,219
Noncurrent liabilities:			
Compensated absences	101,240	59,300	160,540
Refundable deposits	0	391,943	391,943
Notes payable, less current portion	0	8,446,014	8,446,014
Total noncurrent liabilities	101,240	8,897,257	8,998,497
Total liabilities	150,025	9,673,691	9,823,716
DEFERRED INFLOWS OF RESOURCES			
Grant revenues for future periods	65,161	0	65,161
NET POSITION			
Invested in capital assets, net of related debt	4,568,778	3,160,853	7,729,631
Restricted for:			
Fire department	36,773	0	36,773
Workers compensation	13,329	0	13,329
Retirement plan	2,855	0	2,855
Streets	245,808	0	245,808
Cemetery	364,862	0	364,862
Debt	0	946,068	946,068
Unrestricted	633,581	2,210,039	2,843,620
TOTAL NET POSITION	5,865,986	6,316,960	12,182,946

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total 2012
Governmental activities:							
General government	(475,020)	12,728	25,749	0	(436,543)	0	(436,543)
Court	(48,494)	248,853	0	0	200,359	0	200,359
Police	(798,910)	40,410	45,049	0	(713,451)	0	(713,451)
Fire	(383,267)	5,850	68,600	0	(308,817)	0	(308,817)
Code enforcement	(161,529)	52,051	0	0	(109,478)	0	(109,478)
Emergency management	(8,186)	0	0	0	(8,186)	0	(8,186)
Streets	(323,450)	0	73,325	30,000	(220,125)	0	(220,125)
Cemetery	(145,138)	115,161	0	0	(29,977)	0	(29,977)
Park	(143,399)	0	0	13,042	(130,357)	0	(130,357)
Total governmental activities	(2,487,393)	475,053	212,723	43,042	(1,756,575)	0	(1,756,575)
Business-type activities:							
Sewer *	(982,817)	541,498	0	0	0	(441,319)	(441,319)
Electric **	(2,756,616)	3,840,925	34,134	0	0	1,118,443	1,118,443
Water ***	(1,342,669)	1,001,798	0	0	0	(340,871)	(340,871)
Trash	(428,011)	436,927	0	0	0	8,916	8,916
Economic development	(10,476)	67,168	0	0	0	56,692	56,692
Total business-type activities	(5,520,589)	5,888,316	34,134	0	0	401,861	401,861
Total all activities	(8,007,982)	6,363,369	246,857	43,042	(1,756,575)	401,861	(1,354,714)
General revenues:							
Taxes:							
Sales taxes levied for general purposes					597,690	0	597,690
Sales taxes levied for capital improvements					347,962	0	347,962
Payments in lieu of taxes for general purposes					104,511	0	104,511
Franchise and public service taxes					78,951	0	78,951
Fees and miscellaneous					51,242	388,057	439,299
Investment income					4,836	26,001	30,837
Transfers					1,000,000	(1,000,000)	0
Total general revenues and transfers					2,185,192	(585,942)	1,599,250
Change in net assets					428,617	(184,081)	244,536
Beginning net position					5,506,137	6,546,663	12,052,800
Prior period adjustment					(68,768)	(45,622)	(114,390)
Ending net position					5,865,986	6,316,960	12,182,946

* Includes \$376,450 interest

** Includes \$17,622 interest

*** Includes \$17,622 interest

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Other Funds	Total 2012
ASSETS			
Cash and demand deposits	446,644	428,697	875,341
Certificates of deposit	200,000	176,068	376,068
Restricted cash and investments	52,957	0	52,957
Revenue receivable	91,399	5,735	97,134
Prepaid expenses	39,377	0	39,377
Due from other funds	3,408	1,626	5,034
Grants receivable	66,483	0	66,483
Total assets	900,268	612,126	1,512,394
LIABILITIES			
Accounts payable	18,454	1,456	19,910
Payroll payable	28,875	0	28,875
Total liabilities	47,329	1,456	48,785
DEFERRED INFLOWS OF RESOURCES			
Grant revenues for future periods	65,161	0	65,161
FUND BALANCE			
Non-Spendable			
Prepaid expenses	39,377	0	39,377
Restricted for:			
Fire department	36,773	0	36,773
Workers compensation	13,329	0	13,329
Retirement plan	2,855	0	2,855
Streets	0	245,808	245,808
Cemetery	0	364,862	364,862
Unrestricted			
Unassigned	695,444	0	695,444
Total fund balance	787,778	610,670	1,398,448
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	900,268	612,126	1,512,394
Reconciliation of general fund balance to net position of governmental activities:			
Fund balance	787,778	610,670	1,398,448
Capital assets	7,091,742	0	7,091,742
Accumulated depreciation	(2,522,964)	0	(2,522,964)
Compensated absences	(101,240)	0	(101,240)
Net position	5,255,316	610,670	5,865,986

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Other Funds	Total 2012
REVENUES			
Taxes	969,439	55,165	1,024,604
Payments in lieu of taxes	104,511	0	104,511
Intergovernmental	67,190	58,304	125,494
Grants	130,271	0	130,271
Fines and fees	248,853	0	248,853
Licenses and permits	52,051	0	52,051
Rents and royalties	12,728	0	12,728
Cemetery fees	89,394	25,767	115,161
Interest	2,466	2,370	4,836
Other revenues	97,501	0	97,501
TOTAL REVENUES	1,774,404	141,606	1,916,010
EXPENDITURES			
General government	423,878	0	423,878
Court	48,494	0	48,494
Police	773,612	0	773,612
Fire	315,398	0	315,398
Code enforcement	161,529	0	161,529
Emergency management	698	0	698
Streets	203,070	49,777	252,847
Cemetery	139,555	0	139,555
Park	112,429	0	112,429
Capital outlay	871,890	0	871,890
TOTAL EXPENDITURES	3,050,553	49,777	3,100,330
REVENUES OVER (UNDER) EXPENDITURES	(1,276,149)	91,829	(1,184,320)
OTHER FINANCING SOURCES (USES)			
Interfund transfers	1,013,500	(13,500)	1,000,000
NET CHANGE IN FUND BALANCES	(262,649)	78,329	(184,320)
BEGINNING FUND BALANCE	1,017,955	532,341	1,550,296
Prior period adjustments	32,472	0	32,472
ENDING FUND BALANCE	787,778	610,670	1,398,448
Reconciliation of the change in the general fund balance to the change in net position of governmental activities:			
Net change in fund balances - total governmental funds	(262,649)	78,329	(184,320)
Capital asset purchases capitalized	871,890	0	871,890
Depreciation expense	(258,953)	0	(258,953)
Change in net position of governmental activities	350,288	78,329	428,617

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2012
ASSETS			
Current assets:			
Cash and cash equivalents	240,049	273,023	513,072
Certificates of deposit	1,400,000	107,416	1,507,416
Restricted cash and investments	1,346,067	0	1,346,067
Accounts receivable	889,576	0	889,576
Allowance for doubtful accounts	(403,454)	0	(403,454)
Prepaid expenses	19,624	0	19,624
Total current assets	<u>3,491,862</u>	<u>380,439</u>	<u>3,872,301</u>
Noncurrent assets:			
Capital assets:			
Depreciable property and equipment	14,080,542	0	14,080,542
Accumulated depreciation	(5,091,880)	0	(5,091,880)
Land	44,951	141,265	186,216
Water rights	2,624,609	0	2,624,609
Construction in progress	323,897	0	323,897
Net capital assets	<u>11,982,119</u>	<u>141,265</u>	<u>12,123,384</u>
Total assets	<u>15,473,981</u>	<u>521,704</u>	<u>15,995,685</u>
LIABILITIES			
Current liabilities:			
Accounts payable	216,103	0	216,103
Payroll payable	15,286	0	15,286
Sales tax payable	7,195	0	7,195
Due to other funds	0	5,034	5,034
Current portion of debt	516,517	0	516,517
Accrued interest payable	21,333	0	21,333
Total current liabilities	<u>776,434</u>	<u>5,034</u>	<u>781,468</u>
Noncurrent liabilities:			
Compensated absences	59,300	0	59,300
Refundable deposits	391,943	0	391,943
Debt, less current portion	8,446,014	0	8,446,014
Total noncurrent liabilities	<u>8,897,257</u>	<u>0</u>	<u>8,897,257</u>
Total liabilities	<u>9,673,691</u>	<u>5,034</u>	<u>9,678,725</u>
NET POSITION			
Invested in capital assets, net of related debt	3,019,588	141,265	3,160,853
Restricted for debt service	946,068	0	946,068
Unrestricted	1,834,634	375,405	2,210,039
Total net position	<u>5,800,290</u>	<u>516,670</u>	<u>6,316,960</u>

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2012
OPERATING REVENUES			
Electric	3,840,925	0	3,840,925
Sewer	541,498	0	541,498
Trash	436,927	0	436,927
Water	1,001,798	0	1,001,798
Connection fees	22,308	0	22,308
Late payment fees	128,350	0	128,350
Other income	271,533	67,168	338,701
Total operating revenues	6,243,339	67,168	6,310,507
OPERATING EXPENSES			
Administration	506,240	3,633	509,873
Sewer treatment plant	369,071	0	369,071
Sewer & water lines	422,940	0	422,940
Electric	2,612,434	0	2,612,434
Water treatment plant	881,282	0	881,282
Trash	301,451	0	301,451
Economic development	0	6,843	6,843
Total operating expenses	5,093,418	10,476	5,103,894
OPERATING INCOME (LOSS)	1,149,921	56,692	1,206,613
NON-OPERATING REVENUES (EXPENSES)			
Interest income	25,387	614	26,001
Interest expense	(411,694)	0	(411,694)
Trustee fees	(5,000)	0	(5,000)
Total non-operating revenues (expenses)	(391,307)	614	(390,693)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	758,614	57,306	815,920
Interfund transfers	(950,000)	(50,000)	(1,000,000)
CHANGE IN NET POSITION	(191,386)	7,306	(184,080)
BEGINNING NET POSITION	6,037,298	509,364	6,546,662
Prior period adjustments	(45,622)	0	(45,622)
ENDING NET POSITION	5,800,290	516,670	6,316,960

The accompanying notes are an integral part of these financial statements.

**THE CITY OF TECUMSEH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2012	
Cash flows from operations:				
Cash received from:				
Customers	6,171,230	0	6,171,230	
Other operating receipts	54,134	70,815	124,949	
Cash payments for:				
Goods and services	(4,172,225)	(6,876)	(4,179,101)	
Employees	(572,024)	(3,600)	(575,624)	
Net cash provided from operations	1,481,115	60,339	1,541,454	
Cash flows from capital financing activities:				
Capital expenditures	(335,658)	(140,174)	(475,832)	
Net transfers to restricted accounts	(791,175)	0	(791,175)	
Net cash from capital financing activities	(1,126,833)	(65,182)	(1,192,015)	
Cash flows from non-capital financing activities:				
Interfund transfers	(950,000)	(50,000)	(1,000,000)	
Net cash from non-capital financing activities	(950,000)	(50,000)	(1,000,000)	
Cash flows from investing activities:				
Purchase certificates of deposit	400,000	0	400,000	
Interest income	2,292	502	2,794	
Net cash provided from investing activities	402,292	502	402,794	
Net increase (decrease) in cash	(193,426)	(54,341)	(247,767)	
Beginning cash	433,475	327,364	760,839	
Ending cash	240,049	273,023	513,072	
Reconciliation of income from operations to net cash from operations:				
Operating income (loss)	1,149,921	56,692	1,206,613	
Adjustments to income from operations:				
Depreciation and amortization	419,215	0	419,215	
Change in assets and liabilities:				
(Increase) decrease in receivables	(38,301)	3,647	(34,654)	
Increase (decrease) in payables	(49,720)	0	(49,720)	
Net cash provided by operations	1,481,115	60,339	1,541,454	
** Activity in debt service accounts:				
Beginning cash and investments	918,013	0	178,827	1,096,840
From operating accounts	8,023,606	684,512	215,069	8,923,187
Principal payments	(8,520,000)	0	(97,513)	(8,617,513)
Interest payments	(416,265)	0	(35,244)	(451,509)
Bank fees	(5,000)	0	0	(5,000)
Investment income	63	0	0	63
Ending cash and investments	417	684,512	261,139	946,068

** Activity in restricted accounts is presented as supplemental information.

The accompanying notes are an integral part of these financial statements.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

1. Summary of Significant Accounting Policies

The City of Tecumseh, Oklahoma, is a Home Rule City under Article 18, Section 3a of the Oklahoma constitution with its charter being approved April 10, 1969. The City operates under a council-manager form of government and provides the following services directly or through its component units: police, fire, streets, general administration, electric, sewer, trash, water, and economic development.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

For the fiscal year ended December 31, 2012, the City implemented the new financial reporting requirements of the following GASB statements:

GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in other pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, relating to proprietary fund accounting, eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in the statement of financial position. This Statement amends the net asset reporting requirements of other pronouncements by incorporating deferred outflows and inflows into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows and inflows of resources; and recognizes certain items currently being reported as assets and liabilities as outflows and inflows of resources.

The more significant accounting policies established in GAAP and used by the City are discussed below.

1A. Financial Reporting Entity

In evaluating how to define the City for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criteria for including a potential component unit within the reporting entity are the governing body's ability to exercise oversight control. The most significant manifestation of this ability is financial interdependency. Other considerations include, but are not limited to, selection of the governing authority, designation of management, the ability to significantly influence operations, and

The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012

accountability for financial matters. The other criterion is the existence of special financing relationships regardless of the ability to exercise control.

1B. Blended Component Units

The Tecumseh Utility Authority (TUA) was established June 4th, 1959, to provide utility services to the citizens of the City. TUA is a legally separate entity established pursuant to the provisions of Title 60, Oklahoma Statutes 1971, section 176 to 180.3 of the Oklahoma Trust Act. The council members of the City are the trustees of the TUA, and the City is the beneficiary of the TUA. For financial reporting purposes, the TUA is reported as if it were part of the City's operations. The TUA does not present separate financial statements.

The Tecumseh Growth and Development Authority (TGDA) was established May 6, 1974, to develop and encourage industry in the City of Tecumseh. TGDA is a legally separate entity established pursuant to the provisions of Title 60, Oklahoma Statutes 1971, section 176 to 180.3 of the Oklahoma Trust Act. The trustees are appointed by the city council, with the mayor always being one trustee. The City is the beneficiary of the TGDA. For financial reporting purposes, the TGDA is reported as if it were part of the City's operations. The TGDA does not present separate financial statements.

1C. Related Organization

The Tecumseh Housing Authority (THA) is excluded from the reporting entity because the City's accountability does not extend beyond appointing the board of trustees. The THA administers federal and/or other funding for improvements in housing conditions in the City. The THA issues separate financial reports, copies of which may be obtained from the THA.

1D. Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police, fire, streets, and general government administration are classified as governmental activities. The City's utility services and economic development are classified as business-type activities.

1E. Government-wide Financial Statements

In the government wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's Net Position are reported in three parts – invested in capital assets, net of related debt; restricted Net Position, and unrestricted Net Position.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, permits, and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's Net Position resulting from the current year's activities.

1F. Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the City:

Governmental Funds

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period.

Proprietary Funds

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in Net Position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City maintains three proprietary funds, all of which are enterprise funds. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

1G. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

Accrual Basis

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis

The governmental fund financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

1H. Cash and Cash Equivalents

The City has defined cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1I. Investments

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

1J. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

1K. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

1L. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on these assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	5 years
Buildings and equipment	25 to 40 years
Vehicles and equipment	5 to 15 years
Infrastructure	40 years

GASB-34 required the City to report and depreciate new infrastructure assets effective with the 2004 year. Infrastructure assets include roads, sidewalks, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has been reported in the financial statements. Retroactive reporting is not required.

1M. Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment and subject to certain limitations. These compensated absences are expensed as earned.

1N. Revenues and Expenditures

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are non-operating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

2. Deposits and Investments

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

Custodial Credit Risk

Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name; or collateralized without a written or approved collateral agreement.

The TUA has investments of \$918,013 at a trustee bank as required by its 2004 bond indenture. These investments consist of short-term treasury funds and are not insured or collateralized, but are invested in the same securities that would be used for collateral.

3. Restricted Cash and Investments

The TUA 2012 bond indenture requires the TUA to maintain a principal fund, an interest fund, and a sinking fund reserve for debt service at a trustee bank. Balances in these accounts at December 31 were \$6,244, \$13,692, and \$664,575 respectively, for a total of \$684,512.

The 2008 meter project lease-purchase equipment surcharge of \$6 per meter per month is deposited into a revenue fund account from which the lease payments are drafted. At year end the balance of that account was \$261,139.

Meter deposits of \$391,943 are secured by \$400,000 of certificates of deposit.

4. Risk Management

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended, no claims were made.

5. Long-term Debt

<u>Business-type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding</u>	<u>Security</u>
Sewer system	1.75 - 2.35%	11/01/26	8,190,000	8,190,000	utility revenues
Water/Electric	3.95%	06/01/23	1,138,661	821,123	utility fee

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

Long-term debt activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Sewer system bonds payable	8,520,000	0	(8,520,000)	0	0
Sewer system bonds payable	0	8,190,000	0	8,190,000	415,000
Meter project note payable	918,636	0	(97,513)	821,123	101,517
	<u>9,438,636</u>	<u>8,190,000</u>	<u>(8,617,513)</u>	<u>9,011,123</u>	<u>516,517</u>

December 18, 2012, the TUA issued \$8,190,000 in revenue bonds with a variable interest rates from 1.75% to 2.35% and maturing November 1, 2026. The bonds were issued with a discount of \$48,592 which is being amortized over the life of the bonds beginning in 2013. Proceeds from the bonds were used to refund \$8,160,000 of bonds issued in 2004 with interest rates of 3% to 4.75%, resulting in interest savings in excess of \$1,000,000. The bonds are secured by all utility revenues and City sales taxes of 1%. Further, the TUA is required to maintain sufficient utility rates so that net revenues meet or exceed 1.25 times the maximum annual debt service of \$655,740, which is \$819,675. For the year just ended, the TUA did meet these requirements.

June 30, 2008, the TUA entered into a lease purchase agreement for a new metering system for its electrical and water utility systems. The lease is for a maximum of \$1.2 million, with \$800,000 due over 10 years and \$400,000 due over 15 years. The lease carries an annual interest rate of 3.95% with a .05% administration fee. A monthly fee of \$6 per meter was established to retire the debt. Such fees are transferred to a debt service fund monthly and must be sufficient to maintain 120% of the annual lease payments. For the year just ended, the TUA did meet these requirements.

Debt service requirements to maturity for all debt are as follows:

	Principal	Interest
2013	516,517	188,008
2014	565,686	190,467
2015	585,026	176,877
2016	599,544	162,825
2017	619,248	148,371
2018-2022	3,002,549	541,783
2023-2026	3,122,553	193,083
	<u>9,011,123</u>	<u>1,601,414</u>

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

6. Capital Assets

Capital asset activity for the year just ended is summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance	Beginning Depreciation	Additions	Disposals	Ending Depreciation	Book Value
Governmental Activities									
Non-depreciable									
Construction in progress	221,520	5,542	(221,520)	5,542	0	0	0	0	5,542
Land	0	197,555	0	197,555	0	0	0	0	197,555
Total non-depreciable	221,520	203,097	(221,520)	203,097	0	0	0	0	203,097
Depreciable									
Land improvements	59,250	0	0	59,250	59,250	0	0	59,250	0
Buildings & bldg equipment	2,408,660	149,169	0	2,557,829	922,601	73,401	0	996,001	1,561,828
Equipment	1,879,997	158,260	0	2,038,257	1,141,218	103,796	0	1,245,014	793,243
Roads, bridges, sidewalks	1,650,425	582,885	0	2,233,309	140,943	81,755	0	222,698	2,010,611
Total depreciable	5,998,332	890,313	0	6,888,645	2,264,011	258,952	0	2,522,964	4,365,681
Total governmental	6,219,853	1,093,410	(221,520)	7,091,743	2,264,011	258,952	0	2,522,964	4,568,779
Business-type Activities									
Non-depreciable									
Construction in progress	234,912	107,545	(18,560)	323,897	0	0	0	0	323,897
Water rights	2,624,609	0	0	2,624,609	0	0	0	0	2,624,609
Land	96,027	166,216	(76,027)	186,216	0	0	0	0	186,216
Total non-depreciable	2,955,548	273,761	(94,587)	3,134,722	0	0	0	0	3,134,722
Depreciable									
Buildings & bldg equipment	101,000	0	0	101,000	63,220	2,440	0	65,660	35,340
Equipment	1,962,822	71,898	0	2,034,720	728,422	115,470	0	843,892	1,190,828
Utility systems	11,662,502	282,320	0	11,944,822	3,881,023	301,305	0	4,182,328	7,762,494
Total depreciable	13,726,324	354,218	0	14,080,542	4,672,665	419,215	0	5,091,880	8,988,661
Total business-type	16,681,872	627,979	(94,587)	17,215,263	4,672,665	419,215	0	5,091,880	12,123,383

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

Depreciation for the year was:

Governmental Activities		Business-type Activities	
General government	417	Administration	2,342
Building maintenance	50,724	Public works department	2,000
Police department	25,298	Sewer treatment plant	108,721
Fire department	67,869	Sewer & water lines	167,393
Code enforcement	0	Electric department	120,340
Emergency management	7,488	Water treatment plant	18,418
Street department	70,603	Economic development	0
Cemetery department	5,583		<u>419,215</u>
Park department	30,970		
	<u>258,952</u>		

7. Water Rights

The Pottawatomie County Development Authority (PCDA), Shawnee Municipal Authority (SMA), and TUA, entered into an agreement dated July 1, 1990, for construction of a reservoir for flood prevention, municipal water supply, and water-based recreation. The PCDA holds title to the reservoir and the SMA operates the reservoir and public raw water supply system. The SMA owns 85% of the water rights and the TUA owns 15% of the water rights. The project was financed with a grant of approximately \$3,267,840 from the Soil Conservation Service of the United States Department of Agriculture and by tax-exempt public purpose bonds of \$18,180,000.

The SMA was to treat the water, retain its share, and deliver the TUA's 15% share to the TUA. To date, the TUA has not received any of the water.

8. Pension Plans

Defined Contribution Pension Plans

Eligible city employees participate in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF to the respective employer entities. All full-time regular employees of the city, other than the city manager, who are not covered by another plan, are eligible to participate in the OMRF and are fully vested after 10 years. Covered employees are required to contribute 4% of their gross payroll which the city pays for them. City contributions are variable and were 6% for the current year. Required employee contributions are 4%, with contributions over 4% optional. The payroll for city employees for the year was \$1,636,796. The payroll for city employees covered by the OMRF for the year was \$1,055,512. Actual city and employee contributions for the year were \$63,313 and \$43,688 respectively.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

The city manager participates in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF CMO), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF CMO to the respective employer entities. The city manager is required to contribute 7.5% of his gross payroll which the city pays for him. City contributions are variable and are currently 7.5%. City manager contributions over 7.5% are optional. Covered payroll for the city manager for the year was \$56,298. Actual city and city manager contributions for the year were \$4,222 each.

Defined Benefit Pension Plans

Oklahoma Firefighters Pension and Retirement System (OFFPRS)

Plan Description. The city contributes to the Oklahoma Firefighters Pension and Retirement System (OFFPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OFFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OFFPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The OFFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the city is required to contribute \$60 per volunteer per year. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year ended December 31, 2012, 2011 and 2010 was \$960, \$1,140 and \$1,140 respectively, equal to the required contribution for each year.

Funding Policy. Paid firefighters are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year was \$18,553, equal to the required contribution for the year. Employees contributed \$11,418. Eligible payroll was \$142,719.

Oklahoma Police Pension and Retirement System (OPPRS)

Plan Description. The city contributes to the Oklahoma Police Pension and Retirement System (OPPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OPPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 50-103.1 et. seq. The OPPRS issues a publicly available financial report that includes financial statements and required

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

supplementary information for the plan and may be obtained from their offices at 1001 NW 63rd St., Suite 305, Oklahoma City, OK 73116, or by calling 1-800-347-6552.

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OPPRS for the year was \$33,900, equal to the required contribution for the year. Employees contributed \$20,862. Eligible payroll was \$260,770.

9. Deferred Compensation Plan

The City provides a deferred compensation plan for its employees in accordance with Section 457 of the Internal Revenue Code that allows any employee to voluntarily defer receipt of up to 33 1/3% of gross compensation, not to exceed \$7,500 per year. Such deferred amount may be distributed to the employee upon retirement or other termination of employment, disability, death, or certain defined instances of financial hardship. All amounts of deferred compensation, property rights, and income attributable to such deferred compensation is the property of the City until paid to the employee or other beneficiary.

10. Workers' Compensation Plan

The City participates in the Oklahoma Municipal Assurance Group (OMAG) Workers' Compensation Plan (the Plan). The Plan became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 am July 1 in any year and ends at midnight June 30 of the following year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any Loss Funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the plan. City funds on deposit with OMAG at year end were \$13,329.

**The City of Tecumseh
Notes to the Financial Statements
As of and for the Year Ended December 31, 2012**

11. Budgets and Budgetary Accounting

The board of trustees adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for fund financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used.

12. Inter-fund Activity

	General Fund	Cemetery Trust Fund	Utility Fund	TGDA Fund	Net Transfers
Operating	950,000	0	(950,000)	0	0
Capital	63,500	(13,500)		(50,000)	0
	<u>1,013,500</u>	<u>(13,500)</u>	<u>(950,000)</u>	<u>(50,000)</u>	<u>0</u>

General Fund	Cemetery Care Fund	TGDA Fund	Net Internal Balances
3,408	1,626	(5,034)	0

13. Subsequent Events

Management performed an evaluation of the City's activity through June 24, 2013, the date the audit report was available to be released, and has concluded that there are no significant subsequent events requiring disclosure through that date.

**CITY OF TECUMSEH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Accrual Basis)**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	BEGINNING DEFERRED REVENUE	REVENUES	EXPENSES	ENDING DEFERRED REVENUE
U.S. Department of Transportation <i>Oklahoma Department of Tourism</i> Recreational Trails Program	20.219	NRT-RT10(100)OTRD 10-0	0	13,042	13,042	0
<i>Oklahoma Highway Safety Office</i> State and Community Highway Safety	20.600	PT-13-03-21-03	0	2,766	2,766	0
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	K8-12-03-44-02	0	7,476	7,476	0
NHTSA Discretionary Safety Grants	20.614	CE-12-03-32-02	0	1,900	1,900	0
NHTSA Discretionary Safety Grants	20.614	CE-13-03-42-03	0	433	433	0
Total 20.614			0	2,333	2,333	0
Total U.S. Department of Transportation			0	25,617	25,617	0
U.S. Department of Justice - Bureau of Justice Assistance N/A Public Safety Partnership and Community Policing Grants	16.710	2010-UM-WX-0258	57,731	32,475	32,475	25,256
U.S. Department of Homeland Security <i>Oklahoma Department of Civil Emergency Management</i> Assistance to Firefighters Grant - SAFER	97.044	EMW-2007-FF-00183	35,067	10,699	10,699	24,368
Assistance to Firefighters Grant - FF equipment	97.044	EMW-2009-FO-00535	3,735	0	0	3,735
Total 97.044			38,802	10,699	10,699	28,103
State Homeland Security Program	97.073	251.007	0	9,976	9,976	0
Total Department of Homeland Security			38,802	20,675	20,675	28,103
TOTAL FEDERAL AWARDS			96,533	78,767	78,767	53,359

CITY OF TECUMSEH
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Accrual Basis)

STATE GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	GRANTOR'S NUMBER	BEGINNING DEFERRED REVENUE	REVENUES	EXPENSES	ENDING DEFERRED REVENUE
<hr/>					
Oklahoma Department of Commerce <i>Central Oklahoma Economic Development District</i> Rural Economic Action Plan (REAP)	2011-2012 REAP Fund 29	0	30,000	30,000	0
Community Expansion of Nutrition Assistance (CENA)	2011-2012 CENA Fund 025	0	2,000	2,000	0
Total Oklahoma Department of Commerce		<u>0</u>	<u>32,000</u>	<u>32,000</u>	<u>0</u>
Oklahoma Department of Agriculture N/A <i>Rural Fire Defense</i>		0	4,484	4,484	0
Oklahoma Department of Civil Emergency Management N/A					
Public Assistance Grants	97.036 PA-06-OK-1917-RPA-0018	0	304	304	0
Public Assistance Grants	97.036 PA-06-OK-1917-RPA-00042	0	10,659	10,659	0
Public Assistance Grants	97.036 PA-06-OK-1917-RPA-00049	0	10,179	10,179	0
Public Assistance Grants	97.036 PA-06-OK-1917-RPA-00050	0	11,780	11,780	0
Public Assistance Grants	97.036 PA-06-OK-1883-PW-00047	0	12,519	12,519	0
Public Assistance Grants	97.036 PA-06-OK-1883-PW-00721	0	0	0	0
Public Assistance Grants	97.036 PA-06-OK-1883-PW-00596	0	0	0	0
Public Assistance Grants	97.036 PA-06-OK-1876-PW-00065	0	777	777	0
Public Assistance Grants	97.036 PA-06-OK-1883-PW-00049	0	2,938	2,938	0
Total Oklahoma Department of Civil Emergency Management		<u>0</u>	<u>49,156</u>	<u>49,156</u>	<u>0</u>
TOTAL STATE AWARDS		<u>0</u>	<u>85,640</u>	<u>85,640</u>	<u>0</u>

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tecumseh, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tecumseh, Oklahoma, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Oklahoma, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tecumseh, Oklahoma's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 24, 2013, on our consideration of the City of Tecumseh, Oklahoma'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 in considering City of Tecumseh, Oklahoma's internal control over financial reporting and compliance.

Handwritten signature of Carol J. Russell in cursive, followed by the text "COA Inc." in a serif font.

Oklahoma City, Oklahoma
June 24, 2013

Casey J. Russell CPA, Inc.

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

To the City Council
City of Tecumseh, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tecumseh, Oklahoma, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Tecumseh, Oklahoma's basic financial statements, and have issued our report thereon dated June 24, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

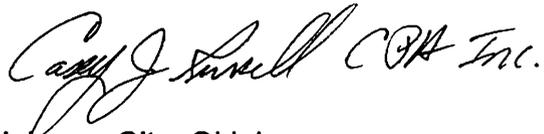
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tecumseh, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Cary J. Russell CPA Inc. in cursive script.

Oklahoma City, Oklahoma
June 24, 2013