

CITY OF BROKEN BOW, OKLAHOMA



ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2010

CITY OF BROKEN BOW, OKLAHOMA
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JUNE 30, 2010

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RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Broken Bow, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Broken Bow, Oklahoma'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 the 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.

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, each major fund, and the aggregate remaining fund information of the City of Broken Bow, Oklahoma, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2011, on our consideration of the City of Broken Bow, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 40 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 about 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 of Broken Bow, Oklahoma's financial statements as a whole. The other supplementary information as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information as listed in the table of contents 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.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
August 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Broken Bow, Oklahoma's annual financial report, management provides narrative discussion and analysis of the financial activities for the fiscal year ended **June 30, 2010** and 2009. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

Financial Highlights

The City's net assets (assets minus liabilities) were **\$23,854,631 in 2010** and \$22,889,119 in 2009, as restated.

Total net assets are comprised of the following:

- 1) Capital assets, net of related debt, which was **\$16,164,640 in 2010** and \$15,161,394 in 2009 and includes property and equipment, net of accumulated depreciation, increased for assets set aside in bond proceeds accounts for the purchase or construction of capital assets and reduced for outstanding debt related to the purchase or construction of capital assets.
- 2) Restricted net assets were **\$489,224 in 2010** and \$468,489 in 2009 and were restricted by enabling legislation.
- 3) Unrestricted net assets were **\$7,200,767 in 2010** and \$6,837,780 in 2009, and represent the portion of net assets available to maintain the City's continuing obligations to citizens and unsecured creditors.

Total liabilities of the City were **\$21,893,904 in 2010** and \$23,337,393 in 2009. This includes bonds payable, notes payable and capital lease obligations of **\$20,292,432 in 2010** and \$21,067,886 in 2009, accrued landfill closure and post-closure costs of **\$963,654 in 2010** and \$1,374,034 in 2009 and accrued compensated absences of **\$27,627 in 2010** and \$42,327 in 2009.

Program revenues of the City were **\$5,241,528 in 2010** and \$7,952,925 in 2009. General revenues of the City were **\$2,506,145 in 2010** and \$2,931,728 in 2009. Of the total general revenues, tax revenues (sales, property and franchise) were **\$1,850,309 in 2010** and \$1,846,589 in 2009.

The City's governmental funds reported a total ending fund balance of **\$1,544,934 in 2010** and \$1,428,951 in 2009, and all of this was classified as unreserved fund balance.

At the end of the current fiscal year, unreserved fund balance for the General Fund, the main operating governmental fund of the City, was **\$998,329 or 34% in 2010** and \$917,852 or 26% in 2009 of total General Fund expenditures.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also provides additional information to supplement the basic financial statements.

Government-wide financial statements. The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Primary governmental activities include general government, public safety, public services, and culture and recreation. Business-type activities include water, wastewater utilities, electricity and solid waste management.

The City's financial reporting includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Most of these legally separate organizations operate like City departments, serve as financing vehicles for City services (revenue bond issuers), or are governed by a board of trustees wholly comprised of the City's Mayor and Council. These organizations are blended into the primary government for financial reporting purposes.

Fund financial statements. A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus presents the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison statement is included for the General Fund as required supplementary information. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two types of proprietary funds. *Enterprise funds* essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail. *Internal service funds* report services provided within the city organization. Currently the City of Broken Bow does not have internal service funds.

Fiduciary funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Notes to the financial statements. The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and a budgetary comparison statement for the General Fund. Supplementary information follows the notes to the financial statements.

Financial Analysis of the City as a Whole

The City's net assets are \$23,854,631 and \$22,467,663 at June 30, 2010 and 2009, respectively. The following table provides a summary of the City's net assets:

Summary of Net Assets at June 30, 2010

	Governmental Activities	Business-type Activities	Totals
Current and other assets	2,085,021	7,206,441	9,291,277
Capital assets	8,372,252	28,084,821	36,457,073
Total Assets	10,457,273	35,291,262	45,748,350
Current liabilities	383,156	1,137,754	1,520,910
Long term liabilities	388,877	19,984,117	20,372,994
Total Liabilities	772,033	21,121,871	21,893,904
Net assets:			
Invested in capital assets, net of debt	7,812,820	8,244,532	16,057,352
Restricted	489,224	-	489,224
Unrestricted	1,383,196	5,924,859	7,308,055
Total Net Assets	9,685,240	14,169,391	23,854,631

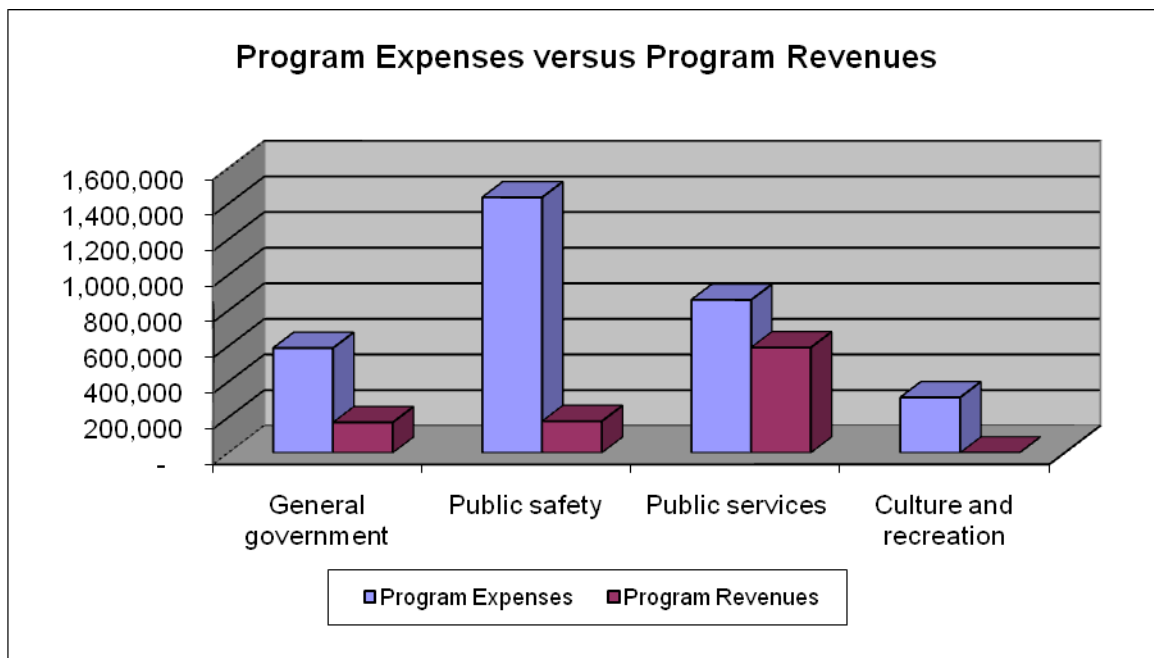
Summary of Net Assets at June 30, 2009

	Governmental Activities	Business-type Activities	Totals
Current and other assets	1,946,463	7,629,313	9,575,776
Capital assets	8,442,339	27,786,941	36,229,280
Total Assets	10,338,802	35,416,254	45,805,056
Current liabilities	340,405	2,630,286	2,970,691
Long term liabilities	615,457	19,751,245	20,366,702
Total Liabilities	955,862	22,381,531	23,337,393
Net assets:			
Invested in capital assets, net of debt	7,660,542	7,500,852	15,161,394
Restricted	468,489	-	468,489
Unrestricted	1,303,909	5,533,871	6,837,780
Total Net Assets	9,432,940	13,034,723	22,467,663

The City reported positive balances in net assets for both governmental and business-type activities.

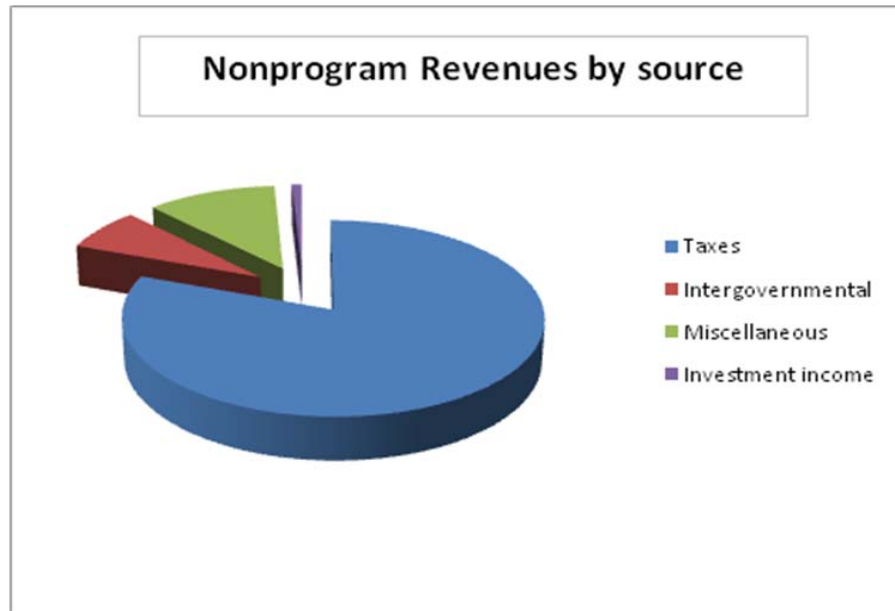
Governmental activities. The graph below shows the major governmental activities and their associated program revenues for the year ended **June 30, 2010**. You can see that governmental activities are financed almost entirely by taxes rather than user fees. You can also see that public safety activities (police, fire and courts) account for approximately **\$1.434 million** of total expenses and public service activities (sanitation, streets and other public services) account for approximately **\$858 thousand** of the total **\$3.192 million** in governmental expenditures. Infrastructure construction for streets and utility systems were funded by capital grants that are reflected as program revenues in governmental funds

Program Expenses versus Program Revenues - Governmental Activities



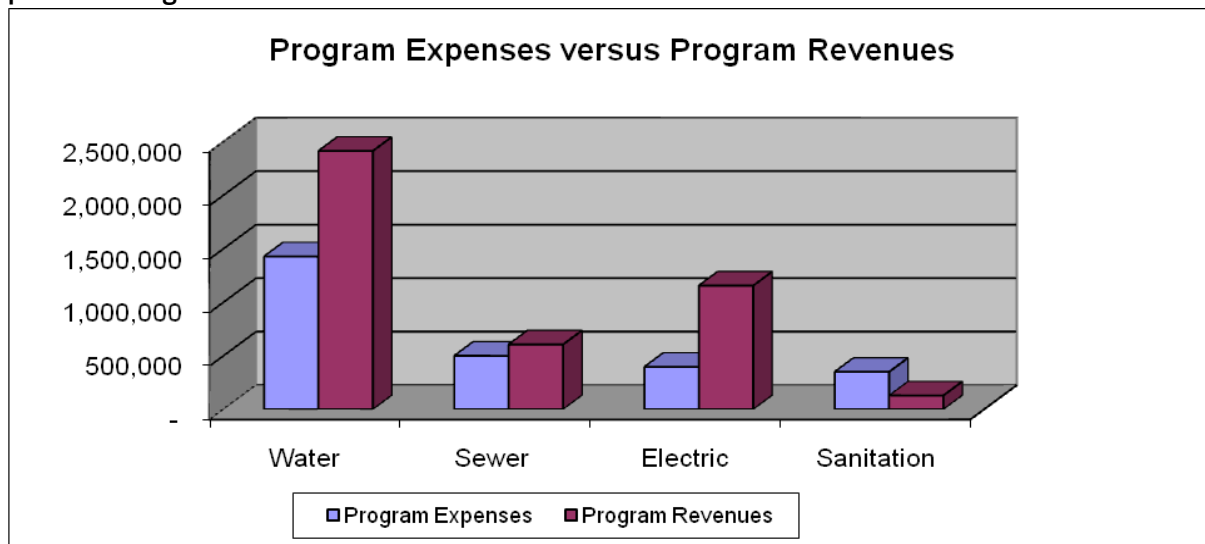
Non-Program Revenue by Source - Governmental Activities

The next graph shows non-program revenue by source. Sales and use taxes account for over 90 percent of non-program revenue.



Business-type activities

The graph below shows the major business-type activities and their associated program revenues. Business-type activities are financed almost entirely by user fees. All five business-type activities provided a positive change in net assets in 2010.



A positive change in net assets in business-type activities helps fund governmental activities.

Financial Analysis of the Government's Funds

The City of Broken Bow uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Broken Bow's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is used to assess Broken Bow's financing needs. Unreserved fund balance is used to measure net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, total governmental fund balance is **\$1,544,934**, which was an increase of **\$115,983** from the previous year, which was **\$1,428,951**. The entire amount of fund balance at June 30, 2009 is unrestricted; however, **\$546,605** is reserved for specific governmental fund purposes.

The General Fund is the chief operating fund of the City. Most governmental activities are funded through this fund. Fund balance of the General Fund was **\$998,329 at June 30, 2010** and \$917,852 at June 30, 2009 and the entire amount of fund balance in both years was unreserved. The General Fund fund balance increased by **\$80,477 during the year ended June 30, 2010**.

General Fund Budgetary Highlights

General fund revenues were **\$517,415** more than the amount the City budgeted for the fiscal year ended June 30, 2010.

Overall expenditures were **\$1,418,402 less** than budgeted expenditures.

The City budgeted \$600,950 for operating transfers in, mainly from enterprise funds, and the City transferred \$382,214 less than that during the fiscal year.

Capital Asset and Debt Administration

Capital assets. The City of Broken Bow's investment in capital assets (net of accumulated depreciation) for both governmental and business-type activities **as of June 30, 2010, totals \$36,457,073**. This investment includes land, buildings, equipment, park facilities, street and drainage improvements, water system and wastewater system improvements, and electric system improvements and some construction in progress.

Capital asset additions during the year totaled **\$1,119,783** and included the following:

- Purchase of a miscellaneous equipment and other capital assets totaling **\$158,474**.
- Purchase of land for the baseball complex and parks totaling **\$65,655**.
- Land improvements to the baseball complex and asphalt for a street improvement totaling **\$123,291**.
- Construction of infrastructure for the utility system totaling **\$772,363**, which includes construction of the water plant, sewer plant and booster pump.

Long-term debt. The City's issued \$337,105 in debt during 2010 and retired \$1,127,259 in debt during the year. The City had long-term bonds (revenue and general obligation), capital lease obligations and notes payable of **\$20,292,432** outstanding at **June 30, 2010**.

Economic Factors and Next Year's Budget

The City of Broken Bow is in far southeastern Oklahoma. The City is located on the edge of the Ouachita National Forest and is considered an excellent development area for large manufacturers due to its abundance of natural resources, easily accessible transportation routes and the low cost of its labor force.

The City of Broken Bow and surrounding areas are home to large corporate employers such as Huber Wood Products, Weyerhaeuser, Georgia Pacific, Pan Pacific and Tyson Foods. The City is receiving water and electric utility revenues from some of these entities. The City believes that retail sales and resulting sales tax revenues will increase because of the jobs added to the local economy by some of these employers.

The Broken Bow City Council is aware that the economic conditions of the region are important in the budgeting process. The Council is also aware that quality municipal services are important to its citizens. Due to economic factors in the region, the City anticipates minimal increases in revenues and expenditures for services.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors 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 of Broken Bow's Finance Department.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,649,192	\$ 2,411,962	\$ 4,061,154
Investments	-	-	-
Accounts receivable (net)	-	445,615	445,615
Taxes receivable	219,140	-	219,140
Unbilled receivables	-	183,283	183,283
Other receivables	159,872	-	159,872
Prepaid expense	12,455	2,106	14,561
Inventories	-	55,000	55,000
Other investments	-	20,261	20,261
Internal balances	44,362	(44,362)	-
Restricted assets:			
Cash	-	2,554,128	2,554,128
Investments	-	276,095	276,095
Unamortized debt issuance costs	-	1,132,164	1,132,164
Other assets	-	170,189	170,189
Capital assets (net)	8,372,252	28,084,821	36,457,073
Total assets	<u>10,457,273</u>	<u>35,291,262</u>	<u>45,748,535</u>
LIABILITIES			
Accounts payable	186,420	237,926	424,346
Accrued compensated absences, current	26,181	1,446	27,627
Interest payable	-	107,288	107,288
Customer deposits payable, current	-	14,748	14,748
Capital lease obligation, current	42,599	-	42,599
Notes payable, current	127,956	396,346	524,302
Bonds payable, current	-	380,000	380,000
Customer deposits payable	-	63,809	63,809
Accrued landfill closure and post-closure costs	-	963,654	963,654
Capital lease obligation, non-current	77,074	-	77,074
Notes payable, non-current	311,803	11,356,654	11,668,457
Bonds payable, non-current	-	7,600,000	7,600,000
Total liabilities	<u>772,033</u>	<u>21,121,871</u>	<u>21,893,904</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,812,820	8,351,820	16,164,640
Restricted for:			
Enabling legislation	489,224	-	489,224
Unrestricted	1,383,196	5,817,571	7,200,767
Total net assets	<u>\$ 9,685,240</u>	<u>\$ 14,169,391</u>	<u>\$ 23,854,631</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 588,354	\$ 105,285	\$ 65,161	\$ -	\$ (417,908)
Public safety:					
Police	926,808	177,070	-	-	(749,738)
Municipal court	29,382	-	-	-	(29,382)
Fire	478,602	-	-	-	(478,602)
Public services	858,684	591,431	-	-	(267,253)
Cultural and recreation:	310,962	-	-	-	(310,962)
Total Governmental activities	<u>3,192,792</u>	<u>873,786</u>	<u>65,161</u>	<u>-</u>	<u>(2,253,845)</u>
Business-type activities:					
Water	1,427,589	2,413,518			985,929
Sewer	499,352	605,193			105,841
Electric	396,302	1,155,160			758,858
Sanitation	349,291	128,709			(220,582)
Interest on long term debt	803,033	-			(803,033)
Total Business-type activities	<u>3,475,567</u>	<u>4,302,581</u>	<u>-</u>	<u>-</u>	<u>827,014</u>
TOTAL	<u>\$ 6,668,359</u>	<u>\$ 5,176,367</u>	<u>\$ 65,161</u>	<u>\$ -</u>	<u>\$ (1,426,831)</u>

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense) revenue	\$ (2,253,845)	\$ 827,014	\$ (1,426,831)
General revenues:			
Taxes	1,850,309	-	1,850,309
Investment income	19,984	77,053	97,037
Intergovernmental	163,875	-	163,875
Miscellaneous	257,595	23,527	281,122
Transfers	214,382	(214,382)	-
Total general revenues and transfers	<u>2,506,145</u>	<u>(113,802)</u>	<u>2,392,343</u>
Change in net assets	252,300	713,212	965,512
Net assets-beginning, restated	9,432,940	13,456,179	22,889,119
Net assets-ending	<u>\$ 9,685,240</u>	<u>\$ 14,169,391</u>	<u>\$ 23,854,631</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 812,357	\$ 447,766	\$ 1,260,123
Taxes receivable	219,140	-	219,140
Other receivables	49,862	67,722	117,584
Due from other funds	45,390	44,778	90,168
Total assets	<u>\$ 1,126,749</u>	<u>\$ 560,266</u>	<u>\$ 1,687,015</u>
LIABILITIES			
Accounts payable	\$ 83,936	\$ 12,339	\$ 96,275
Due to other funds	44,484	1,322	45,806
Total liabilities	<u>128,420</u>	<u>13,661</u>	<u>142,081</u>
FUND BALANCES			
Unreserved, reported in:			
General fund	998,329	-	998,329
Special revenue funds	-	546,605	546,605
Total fund balances	<u>998,329</u>	<u>546,605</u>	<u>1,544,934</u>
Total liabilities and fund balances	<u>\$ 1,126,749</u>	<u>\$ 560,266</u>	<u>\$ 1,687,015</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total fund balance - all governmental funds	\$ 1,544,934
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$11,026,232, net of accumulated depreciation of \$2,653,989, are not financial resources and, therefore, are not reported in the funds.	8,372,243
Long-term liabilities of \$585,626 are not due and payable in the current period and are not reported in the funds.	(585,627)
Internal service funds are combined with governmental activities in the government wide financials	353,689
Net assets of governmental activities	<u><u>\$ 9,685,239</u></u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 1,497,811	\$ 352,498	\$ 1,850,309
Intergovernmental	163,875	-	163,875
Charges for services	591,431	-	591,431
Fines and forfeitures	177,070	-	177,070
Licenses and permits	105,285	-	105,285
Investment income	12,297	7,687	19,984
Grant Revenue	-	65,161	65,161
Miscellaneous	218,980	38,615	257,595
Total revenues	<u>2,766,749</u>	<u>463,961</u>	<u>3,230,710</u>
EXPENDITURES			
General government	279,745	271,064	550,809
Public safety			
Police	816,563	-	816,563
Municipal court	25,872	-	25,872
Fire	415,784	-	415,784
Public services	942,298	-	942,298
Cultural and recreation	121,693	153,827	275,520
Capital outlay	303,053	4,849	307,902
Total expenditures	<u>2,905,008</u>	<u>429,740</u>	<u>3,334,748</u>
Excess (deficiency) of revenues over expenditures	<u>(138,259)</u>	<u>34,221</u>	<u>(104,038)</u>
OTHER FINANCING SOURCES (USES)			
New debt proceeds		-	-
Interfund transfers	218,736	1,264	220,000
Transfers out		-	-
Total other financing sources and uses	<u>218,736</u>	<u>1,264</u>	<u>220,000</u>
Net change in fund balances	80,477	35,485	115,962
Fund balances, July 1, 2009	917,852	511,119	1,428,971
Fund balances, June 30, 2010	<u>\$ 998,329</u>	<u>\$ 546,604</u>	<u>\$ 1,544,933</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$	115,962
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is amount by which depreciation expense (\$377,989) exceeded capital outlay expense (\$304,003) in the current period.		(73,986)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		223,433
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Payments for self-insured health and dental insurance premiums were not fully expended and this is the amount of premiums credited back to governmental activities.		(13,109)
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Change in net assets of governmental activities	\$	252,300
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CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,294,729	\$ 117,233	\$ 2,411,962	\$ 389,069
Investments	-	-	-	-
Accounts receivable, net	410,385	35,181	445,566	42,311
Unbilled receivables	183,283	-	183,283	-
Prepaid expense	2,106	-	2,106	12,455
Inventories	55,000	-	55,000	-
Other investments	20,261	-	20,261	-
Due from other funds	-	77,200	77,200	-
Total current assets	2,965,764	229,614	3,195,378	443,835
Restricted assets				
Cash	1,404,693	1,149,435	2,554,128	-
Investments	276,095	-	276,095	-
Total restricted assets	1,680,788	1,149,435	2,830,223	-
Non-current assets				
Interfund note receivable	-	251,390	251,390	-
Unamortized bond discount	-	-	-	-
Unamortized debt issuance costs	1,132,164	-	1,132,164	-
Other assets	170,189	-	170,189	-
Capital assets	-	-	-	-
Nondepreciable				
Land	129,652	-	129,652	-
Construction-in-progress	13,634,520	-	13,634,520	-
Depreciable				
Buildings and improvements	351,905	33,751	385,656	-
Property and equipment	533,612	1,239,686	1,773,298	-
Land improvements	-	1,015,620	1,015,620	-
Electric system	1,329,466	-	1,329,466	-
Gravity flow water system	16,157,852	-	16,157,852	-
Sewer system	1,727,241	-	1,727,241	-
Less accumulated depreciation	(6,915,856)	(1,152,628)	(8,068,484)	-
Capital assets, net	26,948,392	1,136,429	28,084,821	-
Total non-current assets	28,250,745	1,387,819	29,638,564	-
Total assets	32,897,297	2,766,868	35,664,165	443,835
LIABILITIES				
Current liabilities				
Accounts payable	152,589	85,287	237,876	90,146
Accrued compensated absences, current	-	1,446	1,446	-
Accrued landfill closure and post-closure costs	-	963,654	963,654	-
Due to other funds	110,942	10,620	121,562	-
Interest payable	-	-	-	-
Customer deposits payable, current	14,748	-	14,748	-
Interfund note payable, current	18,922	-	18,922	-
Bonds payable, current	380,000	-	380,000	-
Notes payable, current	377,424	18,922	396,346	-
Total current liabilities	1,054,625	1,079,929	2,134,554	90,146
Liabilities payable from restricted assets				
Bond interest payable, current	107,288	-	107,288	-
Total liabilities payable from restricted assets	107,288	-	107,288	-
Noncurrent liabilities				
Customer deposits payable	63,809	-	63,809	-
Interfund note payable, non-current	232,468	-	232,468	-
Notes payable, non-current	11,124,186	232,469	11,356,655	-
Bonds payable, non-current	7,600,000	-	7,600,000	-
Total noncurrent liabilities	19,020,463	232,469	19,252,932	-
Total liabilities	20,182,376	1,312,398	21,494,774	90,146
NET ASSETS				
Invested in capital assets, net of related debt	7,215,392	1,136,428	8,351,820	-
Unreserved	5,499,529	318,042	5,817,571	353,689
Total net assets	\$ 12,714,921	\$ 1,454,470	\$ 14,169,391	\$ 353,689

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
OPERATING REVENUES				
Water revenues	\$ 2,392,092	\$ -	\$ 2,392,092	\$ -
Sewer revenues	583,767	-	583,767	-
Electric revenues	1,133,734	-	1,133,734	-
Sanitation revenues	-	128,709	128,709	-
Other operating revenues	51,432	12,847	64,279	545,773
Total operating revenues	4,161,025	141,556	4,302,581	545,773
OPERATING EXPENSES				
Administration	58,168	140,675	198,843	-
Water Services and Costs	1,131,217	-	1,131,217	-
Sewer Services and Costs	423,591	-	423,591	-
Electric Services and Costs	254,271	-	254,271	-
Landfill Operations and Costs	-	144,994	144,994	-
Insurance premiums and claims	-	-	-	564,500
Depreciation	451,167	62,835	514,002	-
Total operating expenses	2,318,414	348,504	2,666,918	564,500
Operating income	1,842,611	(206,948)	1,635,663	(18,727)
NONOPERATING REVENUES (EXPENSES)				
Investment income	58,874	17,994	76,868	-
Amortization	(51,782)	-	(51,782)	-
Interest expense	(803,033)	-	(803,033)	-
Other revenues (expense)	75,496	-	75,496	-
Total nonoperating revenues (expenses)	(720,445)	17,994	(702,451)	-
Income before contributions and transfers	1,122,166	(188,954)	933,212	(18,727)
Interfund transfers	(220,000)	-	(220,000)	-
Change in net assets	902,166	(188,954)	713,212	(18,727)
Total net assets, July 1, 2009, as restated	11,812,755	1,643,424	13,456,179	372,416
Total net assets, June 30, 2010	<u>\$ 12,714,921</u>	<u>\$ 1,454,470</u>	<u>\$ 14,169,391</u>	<u>\$ 353,689</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds
Cash flows operating activities:			
Cash received from customers	\$ 4,605,979	\$ 131,971	\$ 4,737,950
Cash payments to suppliers and employees	(2,246,578)	(204,493)	(2,451,071)
Net cash provided (used) by operating activities	<u>2,359,401</u>	<u>(72,522)</u>	<u>2,286,879</u>
Cash flows from non-capital financing activities:			
Transfers from other funds	825,672	-	825,672
Transfers to other funds	(514,375)	(38,600)	(552,975)
Nonoperating receipts (disbursements)	<u>(752,777)</u>	<u>-</u>	<u>(752,777)</u>
Net cash provided (used) by non-capital financing activities	<u>(441,480)</u>	<u>(38,600)</u>	<u>(480,080)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(811,880)	-	(811,880)
Principal paid on bonds, notes and lease obligations	(275,114)	(26,584)	(301,698)
Interest paid on bonds, notes, and lease obligations	(812,091)	-	(812,091)
Miscellaneous	-	26,585	26,585
Net cash provided (used) by capital and related financing activities	<u>(1,899,085)</u>	<u>1</u>	<u>(1,899,084)</u>
Cash flows from investing activities:			
Purchase of investments	-	-	-
Proceeds from sale of investments	19,714	-	19,714
Investment income	<u>58,873</u>	<u>17,993</u>	<u>76,866</u>
Net cash provided (used) by investing activities	<u>78,587</u>	<u>17,993</u>	<u>96,580</u>
Net increase (decrease) in cash and cash equivalents	97,423	(93,128)	4,295
Cash and cash equivalents at July 1, 2009	3,601,999	1,359,796	4,961,795
Cash and cash equivalents at June 30, 2010	<u>\$ 3,699,422</u>	<u>\$ 1,266,668</u>	<u>\$ 4,966,090</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets			
Cash and cash equivalents	\$ 2,294,729	\$ 117,233	\$ 2,411,962
Restricted cash	<u>1,404,693</u>	<u>1,149,435</u>	<u>2,554,128</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 3,699,422</u>	<u>\$ 1,266,668</u>	<u>\$ 4,966,090</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,842,611	\$ (206,948)	\$ 1,635,663
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	451,167	62,835	514,002
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	368,694	(9,585)	359,109
Increase (decrease) in accounts payable	(310,039)	68,797	(241,242)
Increase (decrease) in other accrued liabilities	2,423	1,303	3,726
Increase (decrease) in accrued landfill closure and post-closure costs	-	11,076	11,076
Increase (decrease) in liability for meter deposits	4,545	-	4,545
Total adjustments	516,790	134,426	651,216
Net cash provided (used) by operating activities	<u>\$ 2,359,401</u>	<u>\$ (72,522)</u>	<u>\$ 2,286,879</u>

See accompanying notes.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1. Summary of Significant Accounting Policies

The City of Broken Bow, Oklahoma (The City) is a Statutory Council Manager City under Title 11, Chapter 17 of the Oklahoma statutes. The City, operating under a council-manager form of government, provides the following services directly or through its component units: public safety, highways and streets, utility service (water, sewer, and sanitation), welfare, cultural and recreational, and airport.

The financial statements of The City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. As allowed by GASB pronouncements, the City has elected not to apply FASB statements and interpretations, APB opinions and Accounting Research Bulletins issued after November 30, 1989. The following is a summary of the more significant accounting policies:

1a. Financial Reporting Entity

For financial reporting purposes, the City includes all component units that are controlled by or are dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City to finance any deficit that may occur, or receipt of significant subsidies from the City.

Due to restrictions of the State constitution relating to the issuance of municipal debt, the City created public trusts to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide these services are blended into the City's primary government, although retaining separate legal identity. If there were other component units not meeting the criteria for blending, they would be reported discretely.

Based on the foregoing criteria, the financial statements for the Broken Bow Public Works Authority, the Kulli Chito Environmental Authority, Broken Bow/Craig Industrial Authority, Broken Bow Special Projects Authority and the Broken Bow Economic Development Authority are blended in the accompanying financial statements. These component units of the City do not issue separately audited financial statements.

The Broken Bow Public Works Authority is a public trust created under authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1951, Sections 176 to 180 on April 21, 1959 for the use and benefit of the City of Broken Bow, Oklahoma. The Broken Bow Public Works Authority provides water and sewer utility services. The City Council members serve as the Trustees and the City Manager is the General Manager. Assets financed by the Trust are managed by City employees who provide services to citizens. The trust is blended with the primary government as an enterprise fund, special revenue fund, and with the general fixed asset account group and the general long-term debt account group.

The Kulli Chito Environmental Authority is a public trust created under and pursuant to the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180.3 on April 14, 1993 solely for the use and benefit of the City of Broken Bow, Oklahoma. The Kulli Chito Environmental Authority manages the City's landfill and asphalt plant. The City Council members serve as the Trustees and the City Manager is the General Manager. Assets financed by the Trust are managed by City employees who provide services to citizens. The trust is blended with the primary government as an enterprise fund.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1a. Financial Reporting Entity

The Broken Bow Special Projects Authority is a public trust created under and pursuant to the provisions of Title 60, Oklahoma Statutes 1951, Section 176 to 180 on July 18, 1978 for the use and benefit of the City of Broken Bow, Oklahoma. The Authority is inactive. Its financial statements are blended with the primary government as the Development Fund with the Special Revenue Funds.

The Broken Bow Economic Development Authority is a public trust created by a trust indenture dated August 22, 2002. The primary purpose of the Authority is to promote, finance and develop economic development projects for the City of Broken Bow, Oklahoma. The Authority is a component unit of the City of Broken Bow, Oklahoma and is managed by a board of trustees, which according to the trust indenture, shall be the Mayor and City Council of the City of Broken Bow, Oklahoma, the beneficiary of the trust. The Authority's financial statements are blended with the primary government as a Special Revenue Fund.

Broken Bow/Craig Industrial Authority is a public trust created by a trust indenture dated December 13, 2005. The primary purpose of the Authority is to promote, stimulate, encourage and finance the growth and development of the commerce and industry for the City of Broken Bow, Oklahoma. The Authority is a component unit of the City of Broken Bow, Oklahoma and is managed by a board of trustees, which according to the trust indenture, shall be the Mayor and City Council of the City of Broken Bow, Oklahoma, the beneficiary of the trust. The Authority's financial statements are blended with the primary government as a Special Revenue Fund.

1b. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

The funds of the financial reporting entity are described below:

Governmental Funds

Major -

General Fund - The General Fund is the principal fund of the City which accounts for all financial transactions not appropriately accounted for in other funds.

Broken Bow Economic Development Authority – The Broken Bow Economic Development Authority was formed to facilitate economic development in the City of Broken Bow and its surrounding area. The Authority has received loans and grants to fund infrastructure improvements in connection with a new wood products plant built within the City and has issued conduit debt to finance the construction of the wood products plant.

Broken Bow/Craig Industrial Authority – The Broken Bow/Craig Industrial Authority was formed to facilitate commerce and industry development in the City of Broken Bow.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1b. Basis of Presentation (continued)

Non-major -

Special Revenue Funds - Special Revenue Funds are used to account for revenues derived from specific taxes or other sources which are designated to finance particular functions or activities of the City.

Proprietary Funds

Proprietary Fund Types are used to account for operations of the City's organizations and activities which are similar to those often found in private business enterprises. The following is a description of Proprietary Fund Types:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues received, disbursements made, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Major -

The City operates two enterprise funds which are engaged in providing utility services:

Broken Bow Public Works Authority – Broken Bow Public Works Authority accounts for all the operating revenues and expenses related to providing water, sewer and electric services.

Kulli Chito Environmental Authority - Kulli Chito Environmental Authority accounts for all the operating revenues and expenses related to sanitation and asphalt services.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The accounts of the City include agency funds. Agency funds are custodial in nature (assets equal liabilities), and do not involve measurement of results of operations.

1c. Basis of Accounting

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1c. Basis of Accounting (continued)

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

1d. Assets, Liabilities, and Equity

Deposits and Investments

Cash and cash equivalents include amounts in demand deposits (Money market, NOW, savings, and certificates of deposit) as well as short-term investments with a maturity date within three months of the date acquired by the government.

Investments are stated at cost, which approximates market unless otherwise indicated.

Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provide or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Capital Assets and Depreciation

Capital assets of all funds and component units are stated at historical cost. Donated fixed assets are stated at their fair value on the date donated. Capital assets are recorded in the government-wide financial statements.

The City did not have complete fixed asset records prior to the June 30, 1998 fiscal year. Historical costs were estimated using minutes of the City Council meetings and the assistance of architects and engineers. The City has elected not to retroactively report governmental infrastructure, such as roads, bridges, sidewalks, and street or traffic lighting systems, therefore only current year additions and items funded with outstanding debt will be included.

Proprietary fund fixed assets are also recorded in the respective fund and combining component units financial statements.

The City capitalizes assets with cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1d. Assets, Liabilities, and Equity (continued)

Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Furniture, fixtures, and equipment	3-10 years
Mobile equipment	3-10 years
Heavy equipment	10-20 years
Utility systems	50 years
Landfill improvements	10-30 years
Buildings	10-50 years

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Broken Bow Public Works Authority, an enterprise fund, capitalized interest on water and sewer projects.

Deferred Debt Expense and Note Discounts

Debt issue costs are capitalized in the proprietary funds and are amortized over the terms of the respective debt on a straight-line method. Note discounts are capitalized and amortized over the term of the respective debt using a method that approximates the effective interest method.

Equity

Government-Wide Statements

Equity is classified as net assets and 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 improvement 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 or 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 above definitions.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

2. Stewardship, Compliance, and Accountability

Budgetary Information

The City prepares its annual budget under the Oklahoma Appropriations Law. The City's budget is prepared by fund, department, and category. The total budget is based on the past year's actual revenue collected.

Prior to the beginning of the budget year, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from, or change appropriations. Expenditures may not legally exceed budgeted appropriations at the category level. The City Council can revise budgets during the year by transfers or supplements to the budget.

Budgets are adopted on a basis inconsistent with generally accepted accounting principles. Revenues are budgeted on a cash basis and expenditures on the modified accrual basis.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized.

Encumbrances are not considered as expenditures until liabilities for payments are incurred. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

3. Deposits and Investments

Custodial Credit Risk

At June 30, 2010, the City held deposits of approximately \$6,600,000 at financial institutions. These institutions are required by law to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance at least equal to the amount on deposit at all times. As of June 30, 2010, the balances in cash and certificates of deposit were fully secured.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. 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.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

3. Deposits and Investments (continued)

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2010 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 275,910	\$ 275,910
Total investments			<u>\$ 275,910</u>	<u>\$ 275,910</u>

(Ratings by Standard & Poor's.)

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following credit risk: 100% in Money Market funds.

4. Accounts Receivable and Allowance for Uncollectible Accounts

At June 30, 2010, the Broken Bow Public Works Authority had accounts receivable of \$427,729 with an allowance of \$17,344 and unbilled receivables of \$183,283. The Kulli Chito Environmental Authority had accounts receivable \$35,181 with no allowance for June 30, 2010.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

5. Capital Assets

Changes in Capital Assets

The following table provides a summary of changes in capital assets:

	Balance June 30, 2009	Additions	Retirements/ Adjustments	Balance June 30, 2010
<i>Governmental activities</i>				
Capital assets not being depreciated				
Land	\$ 1,158,300	\$ 65,655	\$ -	\$ 1,223,955
Construction in progress	30,999	-	-	30,999
Total assets not being depreciated	<u>\$ 1,189,299</u>	<u>\$ 65,655</u>	<u>\$ -</u>	<u>\$ 1,254,954</u>
Other capital assets				
Buildings and improvements	\$ 2,161,067	\$ -	\$ -	\$ 2,161,067
Furniture, fixtures and equipment	2,524,630	118,956	-	2,643,586
Infrastructure	4,843,330	123,291	-	4,966,621
Total other capital assets	<u>9,529,027</u>	<u>242,247</u>	<u>-</u>	<u>9,771,274</u>
Less accumulated depreciation for				
Buildings and improvements	537,230	58,051	-	595,281
Furniture, fixtures and equipment	1,526,978	190,722	-	1,717,700
Land and improvements	42,631	6,031	-	48,662
Infrastructure	169,148	123,185	-	292,333
Total accumulated depreciation	<u>2,275,987</u>	<u>377,989</u>	<u>-</u>	<u>2,653,976</u>
Other capital assets, net	<u>\$ 7,253,040</u>	<u>\$ (135,742)</u>	<u>\$ -</u>	<u>\$ 7,117,298</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,189,299	\$ 65,655	\$ -	\$ 1,254,954
Other capital assets, at cost	9,529,027	242,247	-	9,771,274
Total cost of capital assets	<u>10,718,326</u>	<u>307,902</u>	<u>-</u>	<u>11,026,228</u>
Less accumulated depreciation	2,275,987	377,989	-	2,653,976
Capital assets, net	<u>\$ 8,442,339</u>	<u>\$ (70,087)</u>	<u>\$ -</u>	<u>\$ 8,372,252</u>

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

5. Capital Assets – Continued

	Balance June 30, 2008	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2009
<i>Business-type activities</i>					
Capital assets not being depreciated					
Land	\$ 129,652	\$ -	\$ -	\$ -	\$ 129,652
Contruction in progress	12,989,168	393,022	(13,382,190)	-	-
Total assets not being depreciated	<u>\$ 13,118,820</u>	<u>\$ 393,022</u>	<u>\$ (13,382,190)</u>	<u>\$ -</u>	<u>\$ 129,652</u>
Other capital assets					
Buildings and improvements	\$ 385,658	\$ -	\$ -		\$ 385,658
Furniture, fixtures and equipment	1,733,780	39,518	-	-	1,773,298
Land Improvements	1,015,618	-	-	-	1,015,618
Electric system	1,325,901	3,565	-	-	1,329,466
Sewer System	1,656,094	323,476	5,878,550	-	7,858,120
Gravity flow water system	16,105,553	52,300	7,503,640	-	23,661,493
Total other capital assets	<u>22,222,604</u>	<u>418,859</u>	<u>13,382,190</u>	<u>-</u>	<u>36,023,653</u>
Less accumulated depreciation for					
Buildings and improvements	106,551	10,659	-	-	117,210
Furniture, fixtures and equipment	1,214,196	51,499	-	-	1,265,695
Land Improvements	249,110	30,306	-	-	279,416
Electric system	320,530	54,517	-	-	375,047
Sewer System	836,590	34,397	-	-	870,987
Gravity flow water system	4,827,507	332,623	-	-	5,160,130
Total accumulated depreciation	<u>7,554,484</u>	<u>514,001</u>	<u>-</u>	<u>-</u>	<u>8,068,485</u>
Other capital assets, net	<u>\$ 14,668,121</u>	<u>\$ (95,142)</u>	<u>\$ 13,382,190</u>	<u>\$ -</u>	<u>\$ 27,955,169</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 13,118,820	\$ 393,022	\$ (13,382,190)	\$ -	\$ 129,652
Other capital assets, at cost	22,222,604	418,859	13,382,190	-	36,023,653
Total cost of capital assets	<u>35,341,424</u>	<u>811,881</u>	<u>-</u>	<u>-</u>	<u>36,153,305</u>
Less accumulated depreciation	<u>7,554,484</u>	<u>514,001</u>	<u>-</u>	<u>-</u>	<u>8,068,485</u>
Capital assets, net	<u>\$ 27,786,941</u>	<u>\$ 297,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,084,821</u>

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

5. Capital Assets – Continued

Depreciation expense

Depreciation expense was charged to functions of the primary government as follows:

<i>Governmental activities</i>	
General government	\$ 38,209
Public safety:	
Police	108,255
Fire	56,119
Municipal court	3,510
Public service	136,250
Culture and recreation	35,646
Total depreciation expense	<u>\$ 377,989</u>
<i>Business-type activities</i>	
Water	\$ 260,884
Sewer	65,417
Electric	124,865
Sanitation	62,835
Total depreciation expense	<u>\$ 514,001</u>

6. Landfill Closure and Post-Closure Care Costs

State laws and regulations require the Kulli Chito Environmental Authority, a blended enterprise fund, to perform certain closure activities for its Broken Bow landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, the Authority reports a portion of the closure and post-closure costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The total closure and post-closure costs are \$1,201,993, as restated by the engineering firm and approved by the Oklahoma Department of Environmental Quality.. Of this amount, \$963,654 (as restated) has been accrued through June 30, 2010. This amount represents the cumulative amount to date based on the use of 80% of the current estimated capacity of the landfill. There are approximately 2.55 landfill life years remaining. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$238,339 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2010. However, the Authority expects to operate the landfill until at least the year 2012. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The Authority sets aside a portion of its net proceeds for financial assurance. As of June 30, 2010, \$1,149,435 has been restricted for payment of future closure and post-closure care costs.

The state agency regulating the landfill, the Oklahoma Department of Environmental Quality, has temporarily closed the landfill due to regulatory compliance issues. The issues are related to financial assurance matters and not operational or environmental issues. The Authority is currently taking action to remedy the compliance issues and expects to re-open the landfill as soon as those matters are resolved.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. Long-term Debt

Changes in long-term debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	Balance June 30, 2009	Issued	Retired	Balance June 30, 2010	Current Portion
Governmental activities					
Capital lease obligations	\$ 164,712	\$ -	\$ 45,039	\$ 119,673	\$ 42,599
Compensated Absences	28,968	-	2,787	26,181	26,181
Notes payable	617,085	-	177,326	439,759	127,956
Total governmental activities	810,765	-	225,152	585,613	196,736
Business-type activities					
Compensated Absences	13,359	-	11,913	1,446	1,446
Notes payable	11,961,089	337,105	545,194	11,753,000	396,346
Revenue bonds payable	8,325,000	-	345,000	7,980,000	380,000
Total business-type activities	20,299,448	337,105	902,107	19,734,446	777,792
Total primary government	\$ 21,110,213	\$ 337,105	\$ 1,127,259	\$ 20,320,059	\$ 974,528

Governmental activities long-term debt

The City has capital lease obligations on vehicles and equipment for the police, fire, street and sanitation departments. The total cost of equipment financed with capital lease obligations is \$573,846 with related accumulated depreciation of \$343,165. These capital lease obligations have interest rates varying from 4.5% to 6.25%. The total balance of these capital lease obligations as of June 30, 2010 is \$119,672.

A construction note payable by the Broken Bow Public Works Authority on the Public Library project as of June 30, 2010 is \$233,308. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of the citizens. The note has an interest rate of 5.5%.

A construction note payable by the City of Broken Bow on the Senior Citizens' Facility project as of June 30, 2010 is \$206,450. The construction note was financed on August 11, 2008 for a period of ten years at an interest rate of 3.50%. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of the citizens. The note is in the name of BBPWA since the City cannot finance projects for more than one year. The building and related debt are recorded in governmental activities.

Principal and interest due on the governmental capital lease obligations and notes payable are as follows:

Year	Capital lease obligations			Notes payable		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 42,599	\$ 8,974	\$ 51,573	\$ 127,956	\$ 22,333	\$ 150,289
2012	40,193	8,028	48,221	119,285	14,148	133,433
2013	30,311	2,238	32,549	112,938	7,692	120,630
2014	6,569	42	6,611	74,798	1,630	76,428
2015	-	-	-	4,781	71	4,852
	<u>\$ 119,672</u>	<u>\$ 19,282</u>	<u>\$ 138,954</u>	<u>\$ 439,758</u>	<u>\$ 45,874</u>	<u>\$ 485,632</u>

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. Long-term Debt (continued)

Business-type activities long-term debt – Broken Bow Public Works Authority

Revenue bonds

In August 2003, Broken Bow Public Works Authority issued \$1,520,000 in Electric System Revenue Bonds, Taxable Series 2003. These bonds were issued to finance the capital improvements to the electric system. These serial bonds have interest rates varying from 4.6% to 7.3%. Interest is paid semi-annually on February 1st and August 1st.

Principal and interest due on the serial bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 110,000	\$ 69,415	\$ 179,415
2012	120,000	61,980	181,980
2013	125,000	53,770	178,770
2014	135,000	44,795	179,795
2015	145,000	34,923	179,923
2016-2017	410,000	33,503	443,503
	<u>\$ 1,045,000</u>	<u>\$ 298,386</u>	<u>\$ 1,343,386</u>

In May 2006, the Broken Bow Public Works Authority issued a \$7,890,000 Utility System and Sales Tax Revenue Note, Series 2006. The note was issued to refund \$7,950,000 of outstanding 2002 Refunding Bonds. The note bears interest of 4.52%. Proceeds from the note were placed in an escrow account for the purpose of generating resources for all future debt service payments to payoff the 2002 refunding bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's statement of net assets. This advance refunding will reduce the debt service payments by \$1,591,118 over the term of the bonds and resulted in an economic gain of \$589,214.

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 270,000	\$ 313,462	\$ 583,462
2012	300,000	301,258	601,258
2013	300,000	287,698	587,698
2014	300,000	274,138	574,138
2015	300,000	260,578	560,578
2016-2020	1,880,000	1,071,466	2,951,466
2021-2025	2,310,000	610,878	2,920,878
2026-2028	1,275,000	99,666	1,374,666
	<u>\$ 6,935,000</u>	<u>\$ 3,219,144</u>	<u>\$ 10,154,144</u>

Notes payable

In May 2006, the Broken Bow Public Works Authority issued a \$1,640,000 OWRB SRF Promissory Note, Series 2006A. The note, when combined with amounts still on deposit in the 2003 Revenue Bonds construction account, refunded \$4,145,000 of outstanding 2003 Revenue Bonds. The portion of the proceeds used for the refunding were placed in an escrow account for the purpose of generating resources for all future debt service payments on the refunded 2003 Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The remaining balance on the short-term note will be used to construct improvements to the City's drinking water system. At June 30, 2010, the note had a balance of \$1,422,491 and carries an interest rate of 3.55%. Repayment terms will be for twenty years beginning on the projection completion date.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. Long-term Debt (continued)

Principal and interest payments on the OWRB SRF Promissory Note, Series 2006A are as follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 62,488	\$ 48,204	\$ 110,692
2012	64,727	45,966	110,693
2013	67,045	43,648	110,693
2014	69,446	68,437	137,883
2015	79,942	59,881	139,823
2016-2020	392,196	127,260	519,456
2021-2025	477,194	82,858	560,052
2026-2029	209,453	7,505	216,958
	<u>\$ 1,422,491</u>	<u>\$ 483,759</u>	<u>\$ 1,906,250</u>

In December 2006, the Broken Bow Public Works Authority issued a \$5,585,000 OWRB Drinking Water SRF Promissory Note, Series 2006B. The note will be used to construct improvements to the City's drinking water system. At June 30, 2010, the note had a balance of \$5,026,500 and carries an interest rate of 3.55%. Repayment terms were established subsequent to June 30, 2010 and are as follows.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	242,010	178,441	189,126
2012	207,993	170,839	378,832
2013	216,008	162,824	378,832
2014	223,853	154,979	378,832
2015	231,983	146,850	378,833
2016-2020	1,291,871	602,284	1,894,155
2021-2025	1,544,667	349,492	1,894,159
2026-2028	1,068,115	68,379	1,136,494
	<u>\$ 5,026,500</u>	<u>\$ 1,834,088</u>	<u>\$ 6,629,263</u>

Water rights, for 4,241 acre feet in Broken Bow Lake, are financed at a rate of 2.742% by a note with the United States Army Corp of Engineers. The contract requires the purchase price of \$170,189 to be retired over a 27-year period with yearly payments of \$8,764. The amount outstanding is \$52,191 at June 30, 2010.

Principal and interest due on the note payable are as follows

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	7,252	1,512	8,764
2012	7,451	1,313	8,764
2013	7,655	1,109	8,764
2014	7,865	899	8,764
2015	8,081	683	8,764
2016-2017	13,887	695	14,582
	<u>\$ 52,191</u>	<u>\$ 6,211</u>	<u>\$ 58,402</u>

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CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. Long-term Debt (continued)

The Authority is obligated for the future use of additional water rights amounting to 4,054 acre feet in Broken Bow Lake. These rights are to be financed at an interest rate of 2.742% through a note with the United States Army Corp of Engineers. The contract purchase price is \$154,165 and the amount outstanding at June 30, 2010 is \$141,174. This amount is to be retired over a 27-year period with annual interest-only payments of \$4,227 until the Authority's acre feet usage exceeds the first 4,241 acre feet, which has not yet been exceeded, therefore no amortization schedule is available at this time.

The Authority has an obligation on an economic development loan from the Oklahoma Department of Commerce for related to construction of a wood products manufacturing plant which requires monthly payments of \$1,439. The note has a 0% stated interest rate. The effective interest rates used to amortize the note is 6%. The balance of the note, which includes principal and imputed interest, and the related unamortized discounts at June 30, 2010 are \$203,756 and \$57,985, respectively.

Principal payments and imputed interest due on the Oklahoma Department of Commerce note are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 8,969	\$ 8,302	\$ 17,271
2012	9,507	7,764	17,271
2013	10,078	7,193	17,271
2014	10,682	6,589	17,271
2015	11,660	5,611	17,271
2016-2020	44,485	41,870	86,355
2021-2025	50,390	35,965	86,355
	<u>\$ 145,771</u>	<u>\$ 113,294</u>	<u>\$ 259,065</u>

In November, 2007 Broken Bow Public Works Authority issued a \$4,938,000 United States Department of Agriculture Rural Development Promissory Note. The note will be used to construct improvements to the City's wastewater system. At June 30, 2010, the note had a balance of \$4,713,482 and carries an interest rate of 4.375%. Repayment terms will be for forty years at \$21,826 per month beginning December, 2007.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 56,828	\$ 205,084	\$ 261,912
2012	59,364	202,548	261,912
2013	62,014	199,898	261,912
2014	64,782	197,130	261,912
2015	67,674	194,238	261,912
2016-2020	386,472	923,088	1,309,560
2021-2025	480,783	828,779	1,309,562
2026-2030	598,105	711,455	1,309,560
2031-2035	744,057	565,563	1,309,620
2036-2040	925,627	383,933	1,309,560
2041-2045	900,661	146,987	1,047,648
2046-2047	367,115	12,438	379,553
	<u>\$ 4,713,482</u>	<u>\$ 4,571,141</u>	<u>\$ 9,284,623</u>

Proprietary Fund Debt – Kulli Chito Environmental Authority

The Authority has obligations on two economic development loans from the Oklahoma Department of Commerce: one for Dominance Industries, Inc. which requires monthly payments of \$1,667 and one for Tyson Foods, Inc. which requires monthly payments of \$1,550. Both notes have a 0% stated interest rate. The effective interest rates used are 5%-6%. The balance on the notes and the related unamortized discounts at June 30, 2010 are \$312,603 and \$61,212, respectively.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

7. Long-term Debt (continued)

The proceeds of the two loans were transferred from the City to the Kulli Chito Environmental Authority. This Authority then transferred the proceeds to the Broken Bow Public Works Authority where the capital improvements were made. The debt is payable by the Broken Bow Public Works Authority to the Kulli Chito Environmental Authority and then payable from the Kulli Chito Environmental Authority to the Oklahoma Department of Commerce. These receivables and payables between the two proprietary funds have been eliminated in the financial statements.

Principal and imputed interest due on the notes are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 18,992	\$ 19,608	\$ 38,600
2012	20,473	18,127	38,600
2013	22,070	16,530	38,600
2014	23,791	14,809	38,600
2015	25,647	12,953	38,600
2016-2019	140,419	10,863	151,282
	<u>\$ 251,391</u>	<u>\$ 92,891</u>	<u>\$ 344,282</u>

8. Net assets and Fund balances

Net assets

Net assets restricted by enabling legislation are detailed below:

	<u>Restricted by enabling legislation</u>
Senior citizens fund	\$ 39,250
Library fund	449,974
Total	<u>\$ 489,224</u>

Fund balances

A deficit of fund balance of \$4,572 was reported in the Nutrition fund, a nonmajor governmental fund.

9. Interfund activity

9a. Receivables/payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds".

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Similar activities in which a component unit is a party are captioned as "receivables/payables" for both the current and non-current portions between a component unit and the primary government. Balances to which a fiduciary fund is a party are treated as "external" receivables and payables. All internal balances expect to be repaid within one year.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

9a. Receivables/payables (continued)

The following schedule reports receivables and payables within the reporting entity at fiscal year-end:

Due From	Due to				Total Due from
	Governmental Activities		Business-type Activities		
	General	Other Governmental Funds	Broken Bow Public Works Authority	Kulli Chito Environmental Authority	
<i>Governmental activities</i>					
General Fund	\$ -	\$ 44,778	\$ 650	\$ -	\$ 45,428
Other Governmental funds	1,322	-	-	-	1,322
<i>Business-type activities</i>					
Public Works Authority	34,541	-	-	77,200	111,741
Kulli Chito Environmental Authority	9,527	-	1,093	-	10,620
<i>Fiduciary funds</i>					
Agency funds	-	-	-	-	-
Total Due to	\$ 45,390	\$ 44,778	\$ 1,743	\$ 77,200	\$ 169,111

9b. Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

Transfers from	Transfers to				Total Transfers From
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		
	General	Other Governmental Funds	Broken Bow Public Works Authority	Kulli Chito Environmental Authority	
<i>Governmental activities</i>					
General Fund	\$ -	\$ 1,264	\$ -	\$ -	\$ 1,264
Other Governmental funds	-	-	-	-	-
<i>Business-type activities</i>					
Public Works Authority	220,000	-	-	-	220,000
Kulli Chito Environmental Authority	-	-	-	-	-
<i>Fiduciary funds</i>					
Agency funds	-	-	-	-	-
Total Transfers To	\$ 220,000	\$ 1,264	\$ -	\$ -	\$ 221,264

10. Employees' Retirement Plan

Oklahoma Firefighters' Pension and Retirement System

The City's firefighters participate in the statewide Oklahoma State Firefighters Pension and Retirement System (System). The System is funded by the contribution from employers, employees and the state. The City's contribution to the system was based on 13% of covered salaries and totaled \$31,525, for the year ending June 30, 2010.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

10. Employees' Retirement Plan (continued)

As of July 1, 2010, the latest available actuarial valuation, the actuarial present value of credited projected benefits was \$3,149,400,000, and net assets available for benefits were \$1,681,500,000. Unfunded liabilities, which are an obligation of the state of Oklahoma, totaled \$1,467,800,000.

Oklahoma Municipal Retirement Fund (OMRF)

Plan Description and Provisions:

The City participates in an agent multiple-employer defined contribution pension plan administered by the Oklahoma Municipal Retirement Fund. The plan was adopted by resolution of the City Council. The funding requirements may be amended by electing another plan offered by the OMRF. The payroll for employees covered by the OMRF for the year ended June 30, 2010 was \$1,458,669.

Employees attaining the age of 65, or completing ten or more years of service if later, are entitled to a monthly benefit of 2.625% of final average compensation as defined in the plan multiplied by the number of years of credited service. The plan permits early retirement at the age of 55 and the completion of ten years of service with benefits to begin at age 65. Participants who become totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit. If an employee, upon completion of ten years of service, dies, their spouse can receive benefits equal to 50% of the employee's accrued benefits for life or until remarriage. If a member's employment is terminated prior to completion of ten years of service, the member shall receive a refund of his contributions with interest.

The pension plan is included in the report of the retirement system, which may be obtained from the Oklahoma Municipal Retirement Fund.

Funding Status and Progress:

The total contribution rate for the plan is separated between the employee-paid and municipality-paid portions based on the most recent reported employee contribution rate. The employee contribution rate is set by the plan, and the municipality is committed to meet the long-term funding needs of the plan by paying any portion of the contribution not provided by employees.

The municipality-required contribution rate is actuarially measured each plan year as the amount necessary to fund the plan on a long-term basis using the actuarial cost methods and assumptions adopted for the plan:

Cost method	Entry age normal
Interest rate	7.5% per annum
Pay increases	Rates by age
Mortality	UP 94 Mortality (projected)
Retirement age	Rates by age
Turnover	Rates by age and service
Asset value	Actuarial method

The total required contribution rate for the 2009-2010 plan year was \$229,408 or 15.73% of participant payroll. The contribution requirement for the year ended June 30, 2010 was \$152,828 (11.71% of participant payroll) from the City and \$76,580 (5.25% of participant payroll) from employees.

The required contribution rate changes each year to reflect the investment earnings of the OMRF fund and the demographic experience of the participant group.

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

10. Employees' Retirement Plan (continued)

Oklahoma Municipal Retirement Fund (OMRF) (continued)

Schedule of funding progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	2,141,125	2,858,553	717,428	74.9%	1,458,669	49.2%
1/1/2009	1,918,393	2,643,857	725,464	72.6%	1,358,560	53.4%
1/1/2008	1,853,705	2,254,630	400,925	82.2%	1,252,939	32.0%

11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has established a self insurance fund to cover deductibles on claims related to destruction, theft or damage of assets. Losses related to other risks or those exceeding deductibles are covered by commercial insurance. Management believes that such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

12. Commitments and Contingencies

The City in the past has participated in various grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency.

The City has certain commitments for operating leases. These leases are of immaterial amounts and are for only one-year intervals.

13. Economic Dependence

The enterprise fund (Broken Bow Public Works Authority) is economically dependent upon major water and electric utility users to produce revenue sufficient to make its debt service payments and fund its operations.

14. Restatement of Beginning Net Assets

Net assets of government-wide statements at July 1, 2009 have been restated to \$1,643,424 to reflect the decrease of \$421,453 in accrued landfill closure and post-closure costs as determined by the engineering firm and approved by the Oklahoma Department of Environmental Quality.

CITY OF BROKEN BOW, OKLAHOMA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2010
UNAUDITED

	<u>Original</u>	<u>Final</u>	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
REVENUES						
Taxes	1,400,420	1,400,420	\$ 1,497,811	\$ (9,232)	1,488,579	\$ 88,159
Intergovernmental	171,958	171,958	163,875	(813)	163,062	
Charges for services	523,993	523,993	591,431	7,877	599,308	75,315
Fines and forfeitures	173,129	173,129	177,070	-	177,070	3,941
Licenses and permits	83,850	83,850	105,285	(689)	104,596	20,746
Investment income	11,961	11,961	12,297	(3,183)	9,114	(2,847)
Miscellaneous	873,626	873,626	218,980	(48,083)	170,897	(702,729)
Total revenues	<u>3,238,937</u>	<u>3,238,937</u>	<u>2,766,749</u>	<u>(54,123)</u>	<u>2,712,626</u>	<u>(517,415)</u>
EXPENDITURES						
General government	477,067	477,067	279,745	8,984	288,729	188,338
Public safety	1,534,080	1,534,080	1,258,219	25,050	1,283,269	250,811
Public services	1,188,340	1,188,340	942,298	10,550	952,848	235,492
Cultural and recreation	293,220	293,220	121,693	2,213	123,906	169,314
Debt service	-	-	-	-	-	-
Capital outlay	877,500	877,500	303,053	-	303,053	574,447
Total expenditures	<u>4,370,207</u>	<u>4,370,207</u>	<u>2,905,008</u>	<u>46,797</u>	<u>2,951,805</u>	<u>1,418,402</u>
Excess (deficiency) of revenues over expenditures	<u>(1,131,270)</u>	<u>(1,131,270)</u>	<u>(138,259)</u>	<u>(100,920)</u>	<u>(239,179)</u>	<u>900,987</u>
OTHER FINANCING SOURCES (USES)						
Debt proceeds			-	-	-	-
Transfers in	600,950	600,950	218,736	-	218,736	(382,214)
Transfers out			-	-	-	-
Total other financing sources and uses	<u>600,950</u>	<u>600,950</u>	<u>218,736</u>	<u>-</u>	<u>218,736</u>	<u>(382,214)</u>
Net change in fund balances	(530,320)	(530,320)	80,477	(100,920)	(20,443)	518,773
Fund balances, July 1, 2009	917,852	917,852	917,852	100,920	917,852	-
Fund balances, June 30, 2010	<u>\$ 387,532</u>	<u>\$ 387,532</u>	<u>\$ 998,329</u>	<u>\$ -</u>	<u>\$ 897,409</u>	<u>\$ 518,773</u>

CITY OF BROKEN BOW, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2010
UNAUDITED

Budget Law

The City prepares its annual operating budget under Titles 11 of the Oklahoma Statutes. Under the provisions of these statutes, the City uses the following process when adopting their budget:

- Prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
- Public hearing are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
- Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the City Council.
- The adopted budget is filed with the Office of State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is object category level by department within a fund. The Budget Act recognizes the following object categories as the minimum legal level of control by department within a fund:

- Personal services
- Materials and supplies
- Other services and charges
- Capital outlay
- Debt service
- Interfund transfers

All transfers of appropriations between departments and supplemental appropriations require City Council approval. The Mayor may transfer appropriations between object categories within a department without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the modified cash basis of accounting. Revenues and expenditures are reported when they result from cash transactions except for certain expenditures which are recorded when a commitment to purchase goods or services is made (encumbered).



RAHHAL HENDERSON JOHNSON, PLLC
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***

City Council
City of Broken Bow
Broken Bow, Oklahoma 74728

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2010, which collectively comprise City of Broken Bow, Oklahoma's basic financial statements and have issued our report thereon dated August 15, 2011. 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 City of Broken Bow, Oklahoma's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Broken Bow, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Broken Bow, Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2010-1 through 2010-4, described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Broken Bow, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed 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 and responses as item 2010-1 through 2010-4.

City of Broken Bow, Oklahoma's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Broken Bow, Oklahoma's response and, accordingly, we express no opinion on it.

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

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
August 15, 2011

City of Broken Bow, Oklahoma
Schedule of Findings and Responses
June 30, 2010

2010-1 Federal Assistance

Condition – Federal assistance revenue was not segregated into a separate fund.

Criteria – Federal guidelines and O.S. Title 68, Section 3003B require all funds received by a municipality from the federal government pursuant to the distribution of funds by the state shall be deposited in a fund separate and apart from all other funds.

Effect – Federal revenues are not segregated in a separate fund.

Cause – Management unfamiliar with state law requiring segregation of federal assistance revenue.

Recommendation – We recommend that all federal assistance revenue be segregated into a separate fund.

View of responsible officials – Management agrees and will review procedures to comply with Oklahoma statutes.

2010-2 Deficit Fund Balance

Condition – There was a deficit fund balance of \$4,572 in Fund 306 – Nutrition Fund – at June 30, 2010.

Criteria – Title 11, Section 17-211: It shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund.

Effect – There is a deficit balance in the Nutrition Fund at June 30, 2010.

Cause – Inadequate monitoring of financial statements.

Recommendation – We recommend that management monitor budget to prevent and detect fund deficits.

View of responsible officials – Management agrees and will review monitoring procedures in this area.

City of Broken Bow, Oklahoma
Schedule of Findings and Responses
June 30, 2010

2010-3 Kulli-Chito Financial Assurance

Condition – Kulli-Chito Environmental Authority Landfill was not in compliance with financial assurance requirements per Oklahoma Statutes.

Criteria – Oklahoma Administrative Law 252:515-27-82 requires that the landfill comply with the following financial ratios: (1) A ratio of cash plus marketable securities to total expenditures greater than or equal to 0.05; and (2) A ratio of annual debt service to total expenditures less than or equal to 0.20.

Effect – Noncompliance with Oklahoma Administrative Law.

Cause – Ratio of debt service to total expenditures is greater than 0.20.

Recommendation – We recommend the City use alternate methods to satisfy the financial assurance requirement.

View of responsible officials – Management agrees and has complied with the financial assurance requirement in 2011.

2010-4 Expenditures

Condition – 4 of 35 expenditures tested reflected invoice date preceded purchase order date; 2 of 35 expenditures had no receipt of goods signature.

Criteria – Title 62, Section 310.1 – 310.9 requires purchase orders be issued prior to expenditures and invoices are not paid until receipt of goods signatures are acquired.

Effect – Noncompliance with Oklahoma statutes.

Cause – Lack of controls surrounding purchasing procedures.

Recommendation – We recommend the City strengthen controls surrounding purchases to comply with applicable state regulations.

View of responsible officials – Management concurs and will implement procedures to comply with purchasing requirements.