

**City of Tecumseh, Oklahoma**

**Financial Statements and Auditor's Report Thereon  
As and for the year ending December 31, 2011**

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**THE CITY OF TECUMSEH  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

			Memo Only	
	Governmental Activities	Business-type Activities	Total 2011	Total 2010
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and demand deposits	1,113,395	760,839	1,874,234	1,525,231
Certificates of deposit	176,068	1,907,360	2,083,428	2,083,335
Restricted cash and investments	121,988	1,496,839	1,618,827	1,585,070
Accounts receivable	109,054	851,275	960,329	869,271
Allowance for doubtful accounts	0	(344,346)	(344,346)	(294,677)
Prepaid expenses	13,685	6,466	20,151	0
Internal balances	1,386	(1,386)	0	0
Grants receivable	169,885	0	169,885	409,579
<b>Total current assets</b>	<b>1,705,461</b>	<b>4,677,047</b>	<b>6,382,508</b>	<b>6,177,809</b>
<b>Noncurrent Assets</b>				
Debt issue costs	0	9,533	9,533	10,400
Depreciable property and equipment	5,998,332	13,711,799	19,710,131	19,137,344
Accumulated depreciation	(2,264,011)	(4,658,140)	(6,922,151)	(6,357,675)
Land	0	96,027	96,027	96,027
Water rights	0	2,624,609	2,624,609	2,624,609
Construction in progress	221,520	234,912	456,432	21,867
<b>Net capital assets</b>	<b>3,955,841</b>	<b>12,009,207</b>	<b>15,965,048</b>	<b>15,522,172</b>
<b>Total noncurrent assets</b>	<b>3,955,841</b>	<b>12,018,740</b>	<b>15,974,581</b>	<b>15,532,572</b>
<b>TOTAL ASSETS</b>	<b>5,661,302</b>	<b>16,695,787</b>	<b>22,357,089</b>	<b>21,710,381</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	35,614	242,614	278,228	256,903
Accrued payroll liabilities	0	41,396	41,396	0
Deferred revenue	119,551	0	119,551	153,728
Current portion of notes payable	0	457,513	457,513	438,667
Accrued interest payable	0	61,147	61,147	62,872
<b>Total current liabilities</b>	<b>155,165</b>	<b>802,670</b>	<b>957,835</b>	<b>912,170</b>
<b>Noncurrent Liabilities</b>				
Notes payable, less current portion	0	8,981,124	8,981,124	9,438,636
Refundable deposits	0	365,330	365,330	339,132
<b>Total noncurrent liabilities</b>	<b>0</b>	<b>9,346,454</b>	<b>9,346,454</b>	<b>9,777,768</b>
<b>TOTAL LIABILITIES</b>	<b>155,165</b>	<b>10,149,124</b>	<b>10,304,289</b>	<b>10,689,938</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,955,841	2,570,570	6,526,411	5,644,869
Restricted for:				
Fire department	31,255	0	31,255	144,921
Workers compensation	70,887	0	70,887	85,863
Retirement plan	19,846	0	19,846	60,371
Streets	181,174	0	181,174	118,559
Cemetery	351,167	0	351,167	326,836
Debt	0	1,496,839	1,496,839	1,048,801
Unrestricted	895,967	2,479,254	3,375,221	3,590,223
<b>TOTAL NET ASSETS</b>	<b>5,506,137</b>	<b>6,546,663</b>	<b>12,052,800</b>	<b>11,020,443</b>

The accompanying notes are an integral part of these financial statements



**THE CITY OF TECUMSEH  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

				Memo Only
	General	Other	Total	Total
	Fund	Funds	2011	2010
<b>ASSETS</b>				
Cash and demand deposits	767,676	345,719	1,113,395	898,210
Restricted cash and investments	121,988	0	121,988	291,155
Certificates of deposit	0	176,068	176,068	176,068
Revenue receivable	100,126	8,928	109,054	117,948
Prepaid expenses	13,685	0	13,685	0
Due from other funds	0	1,626	1,626	1,611
Grants receivable	169,885	0	169,885	300,834
<b>TOTAL ASSETS</b>	<b>1,173,360</b>	<b>532,341</b>	<b>1,705,701</b>	<b>1,785,826</b>
<b>LIABILITIES</b>				
Accounts payable	35,614	0	35,614	48,548
Due to other funds	240	0	240	0
Deferred revenue	119,551	0	119,551	153,728
<b>TOTAL LIABILITIES</b>	<b>155,405</b>	<b>0</b>	<b>155,405</b>	<b>202,276</b>
<b>FUND BALANCE</b>				
Non-Spendable				
Prepaid expenses	13,685	0	13,685	0
Restricted for:				
Fire department	31,255	0	31,255	144,921
Workers compensation	70,887	0	70,887	85,863
Retirement plan	19,846	0	19,846	60,371
Streets	0	181,174	181,174	118,559
Cemetery	0	351,167	351,167	326,836
Unrestricted				
Unassigned	882,282	0	882,282	847,000
<b>TOTAL FUND BALANCE</b>	<b>1,017,955</b>	<b>532,341</b>	<b>1,550,296</b>	<b>1,583,550</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>1,173,360</b>	<b>532,341</b>	<b>1,705,701</b>	<b>1,785,826</b>
<b>Reconciliation of general fund balance to net assets of governmental activities:</b>				
Fund balance	1,017,955	532,341	1,550,296	1,583,550
Capital assets	6,219,852	0	6,219,852	5,536,523
Accumulated depreciation	(2,264,011)	0	(2,264,011)	(2,110,537)
<b>Net assets</b>	<b>4,973,796</b>	<b>532,341</b>	<b>5,506,137</b>	<b>5,009,536</b>

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

				Memo Only
	General	Other	Total	Total
	Fund	Funds	2011	2010
<b>REVENUES</b>				
Taxes	949,278	42,418	991,696	995,612
Payments in lieu of taxes	106,613	0	106,613	88,474
Intergovernmental	66,223	57,616	123,839	127,070
Grants	233,156	0	233,156	860,606
Fines and fees	228,589	0	228,589	176,924
Licenses and permits	36,807	0	36,807	49,995
Rents and royalties	28,821	0	28,821	30,157
Cemetery fees	89,674	23,553	113,227	79,012
Interest	1,973	2,982	4,955	5,195
Other revenues	71,369	0	71,369	106,652
<b>TOTAL REVENUES</b>	<b>1,812,503</b>	<b>126,569</b>	<b>1,939,072</b>	<b>2,519,697</b>
<b>EXPENDITURES</b>				
General government	391,077	0	391,077	300,078
Court	35,630	0	35,630	31,672
Police	706,446	0	706,446	615,287
Fire	309,679	0	309,679	372,638
Code enforcement	150,839	0	150,839	148,673
Emergency management	1,647	0	1,647	10,807
Streets	195,088	38,748	233,836	219,398
Cemetery	129,295	875	130,170	119,259
Park	101,062	0	101,062	87,124
Capital outlay	736,940	0	736,940	551,794
<b>TOTAL EXPENDITURES</b>	<b>2,757,703</b>	<b>39,623</b>	<b>2,797,326</b>	<b>2,456,730</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(945,200)</b>	<b>86,946</b>	<b>(858,254)</b>	<b>62,967</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	825,000	0	825,000	299,344
<b>NET CHANGE IN FUND BALANCES</b>	<b>(120,200)</b>	<b>86,946</b>	<b>(33,254)</b>	<b>362,311</b>
<b>BEGINNING FUND BALANCE</b>	<b>1,138,155</b>	<b>445,395</b>	<b>1,583,550</b>	<b>1,079,299</b>
Prior period adjustments	0	0	0	141,940
<b>ENDING FUND BALANCE</b>	<b>1,017,955</b>	<b>532,341</b>	<b>1,550,296</b>	<b>1,583,550</b>
<b>Reconciliation of the change in the general fund balance to the change in net assets of governmental activities:</b>				
Net change in fund balances - total governmental funds	(120,200)	86,946	(33,254)	362,311
Capital asset purchases capitalized	736,940	0	736,940	551,794
Depreciation expense	(217,506)	0	(217,506)	(197,924)
Donated capital assets	10,421	0	10,421	0
Loss on disposal of capital assets	0	0	0	(1,650)
<b>Change in Net Assets of Governmental Activities</b>	<b>409,655</b>	<b>86,946</b>	<b>496,601</b>	<b>714,531</b>

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2011	(Memo Only) Total 2010
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and demand deposits	433,475	327,364	760,839	627,021
Certificates of deposit	1,800,000	107,360	1,907,360	1,907,267
Restricted cash and investments	1,496,839	0	1,496,839	1,293,915
Accounts receivable	851,275	0	851,275	751,323
Allowance for doubtful accounts	(344,346)	0	(344,346)	(294,677)
Grants receivable	0	0	0	108,745
Prepaid expenses	6,466	0	6,466	0
Due from other funds	0	280	280	55
<b>Total current assets</b>	<b>4,243,709</b>	<b>435,004</b>	<b>4,678,713</b>	<b>4,393,649</b>
<b>Noncurrent Assets</b>				
Debt issue costs	9,533	0	9,533	10,400
Depreciable property and equipment	13,711,799	0	13,711,799	13,609,051
Accumulated depreciation	(4,658,140)	0	(4,658,140)	(4,247,138)
Land	20,000	76,027	96,027	96,027
Water rights	2,624,609	0	2,624,609	2,624,609
Construction in progress	234,912	0	234,912	13,637
<b>Net capital assets</b>	<b>11,933,180</b>	<b>76,027</b>	<b>12,009,207</b>	<b>12,096,186</b>
<b>Total noncurrent assets</b>	<b>11,942,713</b>	<b>76,027</b>	<b>12,018,740</b>	<b>12,106,586</b>
<b>TOTAL ASSETS</b>	<b>16,186,422</b>	<b>511,031</b>	<b>16,697,453</b>	<b>16,500,235</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	242,614	0	242,614	208,355
Accrued payroll liabilities	41,396	0	41,396	0
Due to other funds	0	1,667	1,667	1,667
Current portion of notes payable	457,513	0	457,513	438,667
Accrued interest payable	61,147	0	61,147	62,872
<b>Total current liabilities</b>	<b>802,670</b>	<b>1,667</b>	<b>804,337</b>	<b>711,561</b>
<b>Noncurrent Liabilities</b>				
Notes payable, less current portion	8,981,124	0	8,981,124	9,438,636
Refundable deposits	365,330	0	365,330	339,132
<b>Total noncurrent liabilities</b>	<b>9,346,454</b>	<b>0</b>	<b>9,346,454</b>	<b>9,777,768</b>
<b>TOTAL LIABILITIES</b>	<b>10,149,124</b>	<b>1,667</b>	<b>10,150,791</b>	<b>10,489,329</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,494,543	76,027	2,570,570	2,218,883
Restricted for debt	1,496,839	0	1,496,839	1,293,915
Unrestricted	2,045,916	433,337	2,479,253	2,498,108
<b>TOTAL NET ASSETS</b>	<b>6,037,298</b>	<b>509,364</b>	<b>6,546,662</b>	<b>6,010,906</b>

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Tecumseh			(Memo Only)
	Tecumseh Utility Authority	Growth & Development Authority	Total 2011	Total 2010
<b>OPERATING REVENUES</b>				
Electric	3,914,673	0	3,914,673	3,667,789
Sewer	518,687	0	518,687	506,080
Trash	425,630	0	425,630	445,342
Water	904,543	0	904,543	867,600
Connection fees	15,775	0	15,775	28,450
Late payment fees	130,096	0	130,096	109,319
Other income	239,300	77,904	317,204	248,717
<b>TOTAL OPERATING REVENUES</b>	<b>6,148,704</b>	<b>77,904</b>	<b>6,226,608</b>	<b>5,873,297</b>
<b>OPERATING EXPENSES</b>				
Administration	465,557	3,600	469,157	411,856
Sewer treatment plant	309,802	0	309,802	312,239
Sewer & water lines	356,072	0	356,072	336,275
Electric	2,679,204	0	2,679,204	2,688,197
Water treatment plant	362,299	0	362,299	292,766
Trash	294,487	0	294,487	315,371
Economic development	0	9,575	9,575	4,897
<b>TOTAL OPERATING EXPENSES</b>	<b>4,467,421</b>	<b>13,175</b>	<b>4,480,596</b>	<b>4,361,601</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,681,283</b>	<b>64,729</b>	<b>1,746,012</b>	<b>1,511,696</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	34,792	834	35,626	16,010
Interest expense	(415,465)	0	(415,465)	(428,885)
Trustee fees	(5,417)	0	(5,417)	(5,000)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(386,090)</b>	<b>834</b>	<b>(385,256)</b>	<b>(417,875)</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES AND TRANSFERS</b>	<b>1,295,193</b>	<b>65,563</b>	<b>1,360,756</b>	<b>1,093,821</b>
Capital contributions	0	0	0	108,745
Interfund transfers	(825,000)	0	(825,000)	(299,344)
<b>CHANGE IN NET ASSETS</b>	<b>470,193</b>	<b>65,563</b>	<b>535,756</b>	<b>903,222</b>
<b>BEGINNING NET ASSETS</b>	<b>5,567,105</b>	<b>443,801</b>	<b>6,010,906</b>	<b>4,947,504</b>
Prior period adjustments	0	0	0	160,180
<b>ENDING NET ASSETS</b>	<b>6,037,298</b>	<b>509,364</b>	<b>6,546,662</b>	<b>6,010,906</b>

The accompanying notes are an integral part of these financial statements

**THE CITY OF TECUMSEH  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Tecumseh Utility Authority	Tecumseh Growth & Development Authority	Total 2011	(Memo Only) Total 2010
<b>Cash flows from operations:</b>				
Cash received from:				
Customers	6,067,645	0	6,067,645	5,813,953
Other operating receipts	47,478	77,679	125,157	61,404
Cash payments for:				
Goods and services	(3,471,986)	(9,575)	(3,481,561)	(3,494,101)
Employees	(551,959)	(3,600)	(555,559)	(509,591)
Net cash provided from operations	2,091,178	64,504	2,155,682	1,871,665
<b>Cash flows from capital financing activities:</b>				
Capital expenditures	(324,023)	0	(324,023)	(423,373)
Net transfers to restricted accounts	(908,374)	0	(908,374)	(850,527)
Net cash from capital financing activities	(1,232,397)	0	(1,232,397)	(1,273,900)
<b>Cash flows from non-capital financing activities:</b>				
Interfund transfers	(825,000)	0	(825,000)	(299,344)
Net cash from non-capital financing activities	(825,000)	0	(825,000)	(299,344)
<b>Cash flows from investing activities:</b>				
Purchase certificates of deposit	0	0	0	(1,581,256)
Interest income	34,792	741	35,533	9,920
Net cash provided from investing activities	34,792	741	35,533	(1,571,336)
Net increase (decrease) in cash	68,573	65,245	133,818	(1,272,915)
Beginning cash	364,902	262,119	627,021	1,899,936
Ending cash	433,475	327,364	760,839	627,021
<b>Reconciliation of income from operations to net cash from operations:</b>				
Operating income (loss)	1,681,283	64,729	1,746,012	1,511,696
Adjustments to income from operations:				
Depreciation and amortization	411,869	0	411,869	397,968
Change in assets and liabilities:				
(Increase) decrease in receivables	(77,629)	(225)	(77,854)	1,195
Increase (decrease) in payables	75,655	0	75,655	(4,589)
Increase (decrease) in due to other funds	0	0	0	(34,605)
Net cash provided by operations	2,091,178	64,504	2,155,682	1,871,665
<b>** Activity in debt service accounts:</b>				
Beginning cash and investments	920,083	128,718	1,048,801	1,339,895
From operating accounts	725,509	182,865	908,374	850,527
Principal payments	(345,000)	(93,667)	(438,667)	(409,972)
Interest payments	(377,234)	(39,089)	(416,323)	(429,618)
Construction payments	0	0	0	(297,188)
Bank fees	(5,417)	0	(5,417)	(5,009)
Investment income	72	0	72	166
Ending cash and investments	918,013	178,827	1,096,840	1,048,801

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

The accompanying notes are an integral part of these financial statements

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**1. Summary of Significant Accounting Policies**

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

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

For the fiscal year ended December 31, 2010, the City implemented the new financial reporting requirements of GASB-54 which establishes new fund balance classifications for governmental funds. Fund balance will now be composed of three primary categories: Non-spendable, restricted, and unrestricted. Non-spendable fund balance consists of amounts that cannot be spent. Restricted amounts reflect amounts that are restricted by external sources. Unrestricted balances consist of amounts that either have no restriction, or that have been internally restricted by the city council. Currently the City has no internally restricted resources.

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

**1A. Financial Reporting Entity**

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

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**1B. Blended Component Units**

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

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

**1C. Related Organization**

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

**1D. Basic Financial Statements**

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

**1E. Government-wide Financial Statements**

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

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, permits, and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

**1F. Fund Financial Statements**

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

**Governmental Funds**

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

**Proprietary Funds**

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

**1G. Basis of Accounting**

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

**The City of Tecumseh**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2011**

**Accrual Basis**

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

**Modified Accrual Basis**

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

**1H. Cash and Cash Equivalents**

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

**1I. Investments**

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

**1J. Receivables**

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

**1K. Interfund Activity**

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

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**1L. Capital Assets**

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

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

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

**1M. Compensated Absences**

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

**1N. Revenues and Expenditures**

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

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**2. Deposits and Investments**

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

**Custodial Credit Risk**

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

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

**3. Restricted Cash and Investments**

The TUA 2004 bond indenture requires the TUA to maintain a sinking fund and a sinking fund reserve for debt service at a trustee bank. Balances in these accounts at December 31 were \$137,775 and \$780,238 respectively, for a total of \$918,013.

The 2008 meter project lease-purchase equipment surcharge of \$6 per meter per month is deposited into a revenue fund account from which the lease payments are drafted. At year end the balance of that account was \$178,827.

**4. Risk Management**

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended, claims were made for a theft of copper wire and damages at the water treatment plant.

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**5. Long-term Debt**

Business-type	Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Sewer system	Variable	11/01/26	10,440,000	8,520,000	utility revenues
Water/Electric	3.95	06/01/23	1,138,661	918,636	utility fee

Long-term debt activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Sewer system bonds payable	8,865,000	0	(345,000)	8,520,000	360,000
Meter project note payable	1,012,303	0	(93,667)	918,636	97,513
	<u>9,877,303</u>	<u>0</u>	<u>(438,667)</u>	<u>9,438,636</u>	<u>457,513</u>

November 1, 2004, the TUA issued \$10,440,000 in revenue bonds with a variable interest rate from 3% to 4.75% and maturing November 1, 2026. Proceeds from the bonds were used to refund \$3,271,552 of existing bonds and to pay for additional improvements to the sewer system. The bonds are secured by all utility revenues and City sales taxes of 1%. Further, the TUA is required to maintain sufficient utility rates so that net revenues meet or exceed 1.25 times the average annual amount of \$768,714 required to be paid into the Sinking Fund in cash, \$960,893. For the year just ended, the TUA did meet these requirements.

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

Debt service requirements to maturity are as follows:

	Principal	Interest
2012	457,513	402,127
2013	476,517	386,783
2014	500,686	370,239
2015	525,026	352,567
2016	549,544	331,450
2017-2021	2,872,733	1,321,329
2022-2026	4,056,617	659,777
	<u>9,438,636</u>	<u>3,824,272</u>

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**6. Capital Assets**

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

	Beginning Balance	Additions	Disposals	Ending Balance	Beginning Depreciation	Additions	Disposals	Ending Depreciation	Book Value
<b>Governmental Activities</b>									
Non-depreciable									
Construction in progress	8,230	213,290	0	221,520	0	0	0	0	221,520
Land	0	0	0	0	0	0	0	0	0
Total non-depreciable	8,230	213,290	0	221,520	0	0	0	0	221,520
Depreciable									
Land improvements	59,250	0	0	59,250	59,250	0	0	59,250	0
Buildings & bldg equipment	2,393,515	40,146	(25,000)	2,408,660	880,829	66,772	(25,000)	922,601	1,486,060
Equipment	1,425,103	493,925	(39,031)	1,879,997	1,091,409	88,840	(39,031)	1,141,218	738,779
Roads, bridges, sidewalks	1,650,425	0	0	1,650,425	79,049	61,894	0	140,943	1,509,482
Total depreciable	5,528,293	534,070	(64,031)	5,998,332	2,110,537	217,506	(64,031)	2,264,011	3,734,321
<b>Total governmental</b>	<b>5,536,523</b>	<b>747,361</b>	<b>(64,031)</b>	<b>6,219,853</b>	<b>2,110,537</b>	<b>217,506</b>	<b>(64,031)</b>	<b>2,264,011</b>	<b>3,955,841</b>
<b>Business-type Activities</b>									
Non-depreciable									
Construction in progress	13,637	221,275	0	234,912	0	0	0	0	234,912
Water rights	2,624,609	0	0	2,624,609	0	0	0	0	2,624,609
Land	96,027	0	0	96,027	0	0	0	0	96,027
Total non-depreciable	2,734,272	221,275	0	2,955,548	0	0	0	0	2,955,548
Depreciable									
Buildings & bldg equipment	90,000	11,000	0	101,000	61,000	2,220	0	63,220	37,780
Equipment	1,856,550	105,305	(13,558)	1,948,297	614,332	113,123	(13,558)	713,897	1,234,400
Utility systems	11,662,502	0	0	11,662,502	3,585,364	295,659	0	3,881,023	7,781,479
Total depreciable	13,609,051	116,305	(13,558)	13,711,799	4,260,696	411,002	(13,558)	4,658,140	9,053,659
<b>Total business-type</b>	<b>16,343,324</b>	<b>337,581</b>	<b>(13,558)</b>	<b>16,667,347</b>	<b>4,260,696</b>	<b>411,002</b>	<b>(13,558)</b>	<b>4,658,140</b>	<b>12,009,206</b>

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

Depreciation for the year was:

<b>Governmental Activities</b>		<b>Business-type Activities</b>	
General government	833	Administration	1,796
Building maintenance	46,251	Public works department	2,000
Police department	11,864	Sewer treatment plant	108,721
Fire department	69,849	Sewer & water lines	161,752
Code enforcement	0	Electric department	118,315
Emergency management	7,488	Water treatment plant	18,418
Street department	60,144	Economic development	0
Cemetery department	5,133		<u>411,002</u>
Park department	15,944		
	<u>217,506</u>		

**7. Water Rights**

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

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

**8. Pension Plans**

**Defined Contribution Pension Plans**

Eligible city employees participate in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF to the respective employer entities. All full-time regular employees of the city, other than the city manager, who are not covered by another plan, are eligible to participate in the OMRF and are fully vested after 10 years. Covered employees are required to contribute 4% of their gross payroll which the city pays for them. City contributions are variable and were 4% through June, 2011. Effective July 1, 2011, the employer contribution increased to 6%. Required employee contributions are 4%, with contributions over 4% optional. The payroll for city employees for the year was \$1,568,324. The payroll for city employees covered by the OMRF for the year was \$1,010,083. Actual city and employee contributions for the year were \$50,920 and \$40,404 respectively.

**The City of Tecumseh**  
**Notes to the Financial Statements**  
**As of and for the Year Ended December 31, 2011**

The city manager participates in the City of Tecumseh defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF CMO), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF CMO to the respective employer entities. The city manager is required to contribute 7.5% of his gross payroll which the city pays for him. City contributions are variable and are currently 7.5%. City manager contributions over 7.5% are optional. Covered payroll for the city manager for the year was \$60,253. Actual city and city manager contributions for the year were \$4,519 each.

**Defined Benefit Pension Plans**

**Oklahoma Firefighters Pension and Retirement System (OFFPRS)**

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

**Funding Policy.** Volunteer firefighters are not required to contribute, but the city is required to contribute \$60 per volunteer per year. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year ended December 31, 2011, 2010 and 2009 was \$1,140, \$1,140 and \$1,140 respectively, equal to the required contribution for each year.

**Funding Policy.** Paid firefighters are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year was \$17,820, equal to the required contribution for the year. Employees contributed \$10,966. Eligible payroll was \$137,078.

**Oklahoma Police Pension and Retirement System (OPPRS)**

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

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

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

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OPPRS for the year was \$27,458, equal to the required contribution for the year. Employees contributed \$16,898. Eligible payroll was \$211,219.

**9. Deferred Compensation Plan**

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

**10. Workers' Compensation Plan**

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

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any Loss Funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the plan. City funds on deposit with OMAG at year end were \$70,887.

**The City of Tecumseh  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2011**

**11. Budgets and Budgetary Accounting**

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

**12. Inter-fund Activity**

	General Fund	Utility Fund	Net Transfers
Operating	825,000	(825,000)	0

General Fund	Cemetery Care Fund	TG&DA Fund	Net Internal Balances
(240)	1,626	(1,386)	0

**Casey J. Russell CPA, Inc.**

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**REPORT OF INDEPENDENT AUDITOR'S**

To the City Council  
City of Tecumseh, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Tecumseh, Oklahoma, as of December 31, 2011, 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 27, 2012, on our consideration of the City of Tecumseh, Oklahoma's internal control over financial reporting 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 of 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.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.



August 27, 2012

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

To the City Council  
City of Tecumseh, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Oklahoma, as of and for the year ending December 31, 2011, which collectively comprise the City of Tecumseh, Oklahoma's basic financial statements and have issued our report thereon dated August 27, 2012. 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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tecumseh'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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This report is intended solely for the information and use of management, City Council, others with the entity and federal awarding agencies and pass-through entities and is not intended to be and should be used by anyone other than these specified parties.

  
August 27, 2012