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State Auditor & Inspector

Rec: 30130

**THE CITY OF OKEMAH,
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis, budgetary comparison information—modified cash basis, and the schedule of pension plan funding progress on pages 8 through 15 and 49 through 50 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, 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's financial statements as a whole. The combining nonmajor governmental funds schedules—modified cash basis, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor governmental funds schedules—modified cash basis, schedule of expenditures of federal and state awards, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Finley & Cook, PLLC

Shawnee, Oklahoma
December 9, 2011

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MANAGEMENT DISCUSSION AND ANALYSIS

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The management of the City of Okemah is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities for the year ended June 30, 2011. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analysis in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$1.4 million, and the assets of the City exceed its liabilities at June 30, 2011, by \$16.5 million (net assets). Of this amount, \$1.6 million (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$2 million.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$308,946 or 20.7% of General Fund revenues.
- The City implemented GASB 54 this fiscal year which presents fund balance in three new categories: restricted, assigned, and unassigned. Some governmental funds have also been reclassified in accordance with the provisions of the new standard.

About the City

The City of Okemah is an incorporated municipality with a population of approximately 3,085 located in central Oklahoma. The City is a home rule charter form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, sewer, and sanitation and economic development services.

The City's Financial Reporting Entity

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

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Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28-48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund, federal and state award schedules, pension trend information, and debt service coverage and debt reserve schedules.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the primary government, on a modified cash basis, assets exceeded liabilities by \$16.5 million at the close of the most recent fiscal year.

NET ASSETS - Modified Cash Basis (In Thousands)

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Current assets	\$ 1,978	\$ 1,747	13%	\$ 1,455	\$ 1,342	8%	\$ 3,433	\$ 3,089	11%
Capital assets, net	4,926	4,637	6%	11,899	11,424	4%	16,825	16,061	5%
Other non-current assets	-	-	0%	113	58	95%	113	58	95%
Total assets	6,904	6,384	8%	13,467	12,824	5%	20,371	19,208	6%
Current liabilities	54	69	-22%	494	473	4%	548	542	1%
Non-current liabilities	202	52	288%	3,084	3,497	-12%	3,286	3,549	-7%
Total liabilities	256	121	111%	3,578	3,970	-10%	3,834	4,091	-6%
Net assets									
Invested in capital assets, net of related debt	4,670	4,516	3%	8,397	7,583	11%	13,067	12,099	8%
Restricted**	1,345	1,258	7%	543	515	5%	1,888	1,773	6%
Unrestricted**	633	489	29%	949	756	26%	1,582	1,245	27%
Total net assets	\$ 6,648	\$ 6,263	6%	\$9,889	\$8,854	12%	\$ 16,537	\$ 15,117	9%

** - Prior year restricted net assets for the governmental activities were restated to include the Capital Improvement Fund balance and the Library Fund balance. Then prior year unrestricted net assets for the governmental activities was reduced by the same amount.

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2011, this investment in capital assets, net of related debt amounted to \$13.1 million. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be

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noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

Governmental Activities:

The increase in noncurrent liabilities of approximately \$150,000 or 288% is primarily due entering into a \$200,000 capital lease to purchase a fire truck.

The 29% increase in unrestricted net assets (about \$144,000) was due to unrestricted revenues exceeding unrestricted expenses.

Business-Type Activities:

Unrestricted net assets increased 26% (about \$193,000) as a result of unrestricted revenues exceeding unrestricted expenses.

Changes in Net Assets

For the year ended June 30, 2011, on the modified cash basis of accounting, net assets of the primary government changed as follows:

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

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for service	\$ 67	\$ 73	-8%	\$ 1,911	\$ 1,792	7%	\$ 1,978	\$ 1,865	6%
Operating grants and contributions	43	109	-61%	-	-	-	43	109	-61%
Capital grants and contributions	383	133	188%	324	-	100%	707	133	432%
Taxes	1,175	1,143	3%	-	-	-	1,175	1,143	3%
Intergovernmental revenue	49	47	4%	-	-	-	49	47	4%
Investment income	15	17	-12%	10	9	11%	25	26	-4%
Miscellaneous	95	117	-19%	12	43	-72%	107	160	-33%
Total revenues	1,827	1,639	11%	2,257	1,844	22%	4,084	3,483	17%
Expenses									
General government	262	232	13%	-	-	-	262	232	13%
Public safety	621	558	11%	-	-	-	621	558	11%
Streets	211	185	14%	-	-	-	211	185	14%
Cemetery	45	41	10%	-	-	-	45	41	10%
Culture and Recreation	98	92	7%	-	-	-	98	92	7%
Economic development	-	-	-	134	124	8%	134	124	8%
Interest on long-term debt	12	5	140%	-	-	-	12	5	140%
Water	-	-	-	684	677	1%	684	677	1%
Sewer	-	-	-	413	370	12%	413	370	12%
Sanitation	-	-	-	184	196	-6%	184	196	-6%
Total expenses	1,249	1,113	12%	1,415	1,367	4%	2,664	2,480	7%
Excess (deficiency) before transfers	578	526	10%	842	477	77%	1,420	1,003	42%
Transfers	(193)	(283)	-32%	193	283	-32%	-	-	-
Change in net assets	385	243	58%	1,035	760	36%	1,420	1,003	42%
Beginning net assets	6,263	6,020	4%	8,854	8,094	9%	15,117	14,114	7%
Ending net assets	\$ 6,648	\$ 6,263	6%	\$ 9,889	\$ 8,854	12%	\$ 16,537	\$ 15,117	9%

Governmental Activities

The City's governmental activities had an increase in net assets, on the modified cash basis of accounting, of about \$385,000. The increase is due in part to a \$300,000 airport grant which also explains the 170% decrease in net expense for the General Government activity. The Public Safety activity reported a 25% increase in net expense which can be attributed to several factors: \$20,000 decrease in grant revenue, \$20,000 increase in depreciation expense from purchase of fire truck, \$20,000 increase in wages, as well as notable increases in health insurance, liability insurance, and fuel expenses.

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

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
	General government	\$ 262		\$ 232	13%	
Public safety	621	558	11%	(540)	(431)	-25%
Streets	211	185	14%	(184)	(158)	-16%
Cemetery	45	41	10%	(19)	(10)	-90%
Culture and Recreation	98	92	7%	(79)	(82)	4%
Interest on long-term debt	12	5	140%	(12)	(5)	-140%
Total	\$ 1,249	\$ 1,113	12%	(\$756)	(\$798)	5%

Business-type Activities

The business-type activities, on the modified cash basis of accounting, had an increase in net assets of approximately \$1 million. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2011 were sufficient to cover expenses. The Economic Development activity reported a 285% decrease in net expense due to a \$284,000 grant used to construct a building and purchase land for an industry.

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

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
	Water	\$ 684		\$ 677	1%	
Wastewater	413	371	11%	213	168	27%
Sanitation	184	196	-6%	93	78	19%
Economic Development	134	124	8%	174	(94)	285%
Total	\$ 1,415	\$ 1,368	3%	\$ 819	\$ 424	93%

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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$2 million or a 13.2% increase. The enterprise funds reported, on a modified cash basis of accounting, combined net assets of \$9.9 million or an 11.7% increase from 2010.

Other fund highlights include:

- For the year ended June 30, 2011, the General Fund's total fund balance increased by about \$129,000 or 26%.
- Proprietary fund net asset restriction included approximately \$543,000 for debt service.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues over final estimates by \$306,000 or a 17% positive variance. General Fund actual expenditures were under final appropriations by \$130,000 or a 8% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had \$16.8 million invested in capital assets (net of depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net increase of approximately \$766,000 over last year.

Capital Assets						
(In Thousands)						
(Net of accumulated depreciation)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$ 412	\$ 547	\$ 1,738	\$ 1,738	\$ 2,150	\$ 2,285
Buildings	603	612	5,882	5,996	6,485	6,608
Imp, other than buildings	1,207	880	14	15	1,221	895
Machinery, furniture and equipment	484	271	203	174	687	445
Infrastructure	2,209	2,287	-	-	2,209	2,287
Utility property	-	-	3,197	3,050	3,197	3,050
Construction in progress	11	40	865	451	876	491
Totals	\$ 4,926	\$ 4,637	\$ 11,899	\$ 11,424	\$ 16,825	\$ 16,061

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This year's more significant capital asset additions included:

Airport project	\$355,000
Sewer project	238,000
Fire truck	276,000

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

Long-Term Debt

At year-end, the City had \$3.8 million in long-term debt outstanding which represents a \$267,000 or 6.6% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

	Long-Term Debt (In Thousands)						Total Percentage Change
	Governmental Activities		Business-Type Activities		Total		
	2011	2010	2011	2010	2011	2010	
Notes payable	\$ -	\$ -	\$ 3,488	\$ 3,871	\$ 3,488	\$ 3,871	-9.9%
Capital leases	256	121	31	50	287	171	67.8%
Totals	\$ 256	\$ 121	\$ 3,519	\$ 3,921	\$ 3,775	\$ 4,042	-6.6%

The decrease was the net result of the fire truck capital lease addition of \$276,000 and regular debt principal payments. See Note 5 to the financial statements for more detail information on the City's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2012 budget is consistent to prior years for operational expenses.
- \$2,565,000 of OWRB debt issued at the end of fiscal year 2011 is budgeted to construct a flow equalization basin for the sewer system in fiscal year 2012.
- A fee that was implemented in fiscal year 2011 to pay for the above-referenced loan will have its first full year of collections budgeted in 2012.

Contacting the City's Financial Management

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

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 786,872	\$ 1,094,322	\$ 1,881,194
Investments	1,029,030	518,629	1,547,659
Notes receivable	-	2,300	2,300
Internal Balances	161,476	(161,476)	-
Capital Assets:			
Land and construction in progress	423,229	2,602,636	3,025,865
Other capital assets, net of depreciation	4,502,979	9,296,563	13,799,542
Unamortized bond issuance costs	-	113,494	113,494
Total Assets	6,903,606	13,466,468	20,370,074
LIABILITIES			
Meter deposit liability	-	75,739	75,739
Due to other governments	18	-	18
Long-term liabilities			
Due within one year	53,962	418,162	472,124
Due in more than one year	201,802	3,083,867	3,285,669
Total liabilities	255,782	3,577,768	3,833,550
NET ASSETS			
Invested in capital assets, net of related debt	4,670,444	8,397,170	13,067,614
Restricted for:			
Debt Service	-	543,018	543,018
Capital projects	1,109,054	-	1,109,054
Streets	54,064	-	54,064
Cemetery	143,842	-	143,842
Library	37,487	-	37,487
Fire	308	-	308
Unrestricted	632,625	948,512	1,581,137
Total net assets	\$ 6,647,824	\$ 9,888,700	\$ 16,536,524

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) –Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 261,607	\$ 9,739	\$ -	\$ 329,940	\$ 78,072	\$ -	\$ 78,072
Public Safety	620,603	22,890	4,398	53,415	(539,900)	-	(539,900)
Streets	211,432	-	26,899	-	(184,533)	-	(184,533)
Cemetery	45,456	26,424	-	203	(18,829)	-	(18,829)
Culture and Recreation	98,003	8,038	11,291	-	(78,674)	-	(78,674)
Interest on Long-term debt	12,076	-	-	-	(12,076)	-	(12,076)
Total governmental activities	<u>1,249,177</u>	<u>67,091</u>	<u>42,588</u>	<u>383,558</u>	<u>(755,940)</u>	<u>-</u>	<u>(755,940)</u>
Business-type activities:							
Water	684,247	983,560	-	40,000	-	339,313	339,313
Wastewater	413,208	626,667	-	-	-	213,459	213,459
Sanitation	184,250	277,284	-	-	-	93,034	93,034
Economic Development	133,621	23,350	-	284,079	-	173,808	173,808
Total business-type activities	<u>1,415,326</u>	<u>1,910,861</u>	<u>-</u>	<u>324,079</u>	<u>-</u>	<u>819,614</u>	<u>819,614</u>
Total primary government	<u>2,664,503</u>	<u>1,977,952</u>	<u>42,588</u>	<u>707,637</u>	<u>(755,940)</u>	<u>819,614</u>	<u>63,674</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,097,352	\$ -	\$ 1,097,352
Franchise taxes and public service taxes					78,083	-	78,083
Intergovernmental revenue not restricted to specific programs					49,516	-	49,516
Unrestricted investment earnings					14,808	9,631	24,439
Miscellaneous					94,742	11,970	106,712
Transfers					(193,440)	193,440	-
Total general revenues and transfers					<u>1,141,061</u>	<u>215,041</u>	<u>1,356,102</u>
Change in net assets					385,121	1,034,655	1,419,776
Net assets - beginning					6,262,703	8,854,045	15,116,748
Net assets - ending					<u>\$ 6,647,824</u>	<u>\$ 9,888,700</u>	<u>\$ 16,536,524</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets (Modified Cash Basis) - Year Ended June 30, 2011

	Okemah Utilities Authority	Okemah Economic Development Authority	Total
REVENUES			
Charges for services:			
Water	\$ 916,438	\$ -	\$ 916,438
Sewer	626,667	-	626,667
Sanitation	277,284	-	277,284
Penalties	19,782	-	19,782
Tap fees	3,510	-	3,510
Rents and leases	12,358	23,350	35,708
Camping fees	18,808	-	18,808
Lake permits	12,664	-	12,664
Total operating revenues	<u>1,887,511</u>	<u>23,350</u>	<u>1,910,861</u>
OPERATING EXPENSES			
Administration	206,824	-	206,824
Water treatment plant	330,631	-	330,631
Distribution and maintenance	68,739	-	68,739
Sewer collection	58,719	-	58,719
Lake	51,700	-	51,700
Wastewater treatment plant	108,621	-	108,621
Sanitation	137,575	-	137,575
Economic development	-	41,588	41,588
Amortization	8,795	5,000	13,795
Depreciation	216,151	33,280	249,431
Total Operating Expenses	<u>1,187,755</u>	<u>79,868</u>	<u>1,267,623</u>
Operating income (loss)	<u>699,756</u>	<u>(56,518)</u>	<u>643,238</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	9,073	558	9,631
Interest expense	(93,950)	(53,753)	(147,703)
Miscellaneous	9,379	2,591	11,970
Total non-operating revenue (expenses)	<u>(75,498)</u>	<u>(50,604)</u>	<u>(126,102)</u>
Income (loss) before transfers	624,258	(107,122)	517,136
Capital contributions	40,000	284,079	324,079
Transfers in	488,965	181,267	670,232
Transfers out	(476,792)	-	(476,792)
Change in net assets	676,431	358,224	1,034,655
Total net assets - beginning	7,663,521	1,190,524	8,854,045
Total net assets - ending	<u>\$ 8,339,952</u>	<u>\$ 1,548,748</u>	<u>\$ 9,888,700</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2011

	Okemah Utilities Authority	Okemah Economic Development Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,896,890	\$ 25,941	\$ 1,922,831
Payments to suppliers	(582,675)	(41,588)	(624,263)
Payments to employees	(380,134)	-	(380,134)
Receipts of customer meter deposits	24,426	-	24,426
Refunds of customer meter deposits	(19,583)	-	(19,583)
Interfund receipts/payments	185,561	(12,271)	173,290
Net cash provided by (used in) operating activities	<u>1,124,485</u>	<u>(27,918)</u>	<u>1,096,567</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	488,965	181,267	670,232
Transfers to other funds	(476,792)	-	(476,792)
Net cash provided by (used in) noncapital financing activities	<u>12,173</u>	<u>181,267</u>	<u>193,440</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(440,586)	(284,079)	(724,665)
Receipt of capital contribution	40,000	284,079	324,079
Debt issue costs paid	(69,125)	-	(69,125)
Principal paid on debt	(316,206)	(86,091)	(402,297)
Interest and fiscal agent fees paid on debt	(88,465)	(53,753)	(142,218)
Net cash provided by (used in) capital and related financing activities	<u>(874,382)</u>	<u>(139,844)</u>	<u>(1,014,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	(250,559)	(100)	(250,659)
Interest and dividends	9,073	558	9,631
Net cash provided by (used in) investing activities	<u>(241,486)</u>	<u>458</u>	<u>(241,028)</u>
Net increase (decrease) in cash and cash equivalents	20,790	13,963	34,753
Balances - beginning of year	921,340	138,229	1,059,569
Balances - end of year	<u>\$ 942,130</u>	<u>\$ 152,192</u>	<u>\$ 1,094,322</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	385,765	111,341	497,106
Restricted cash and cash equivalents - current	423,673	6,851	430,524
Restricted cash and cash equivalents - noncurrent	132,692	34,000	166,692
Total cash and cash equivalents, end of year	<u>942,130</u>	<u>152,192</u>	<u>1,094,322</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 699,756	\$ (56,518)	\$ 643,238
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	216,151	33,280	249,431
Amortization expense	8,795	5,000	13,795
Miscellaneous revenue	9,379	2,591	11,970
Change in assets and liabilities:			
Due from other funds	(8,486)	(12,271)	(20,757)
Due to other funds	194,047	-	194,047
Deposits subject to refund	4,843	-	4,843
Net cash provided by (used in) operating activities	<u>\$ 1,124,485</u>	<u>\$ (27,918)</u>	<u>\$ 1,096,567</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

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

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

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

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

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

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

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

Governmental Funds:

The City implemented GASB 54: *Fund Balance Reporting and Governmental Fund Type Definitions* and the fund types were re-classified in accordance with this standard. These fund types are defined as follows:

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

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

Major Funds:

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

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

Special Revenue Funds:

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

Capital Project Fund:

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

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

Proprietary Funds:

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

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

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

Okemah Economic Development Authority:

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

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standards Board (FASB) pronouncements and Accounting

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Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

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

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

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

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

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the

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

F. Compensated Absences

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

G. Fund Balances and Net Assets

Fund Balances:

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

- a. Nonspendable – includes amounts that cannot be spend because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Deficit Prohibition

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Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City had the following negative fund balances for the year ended June 30, 2011:

- Rural Fire Fund \$5,252

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

I. Use of Estimates

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

2. Deposits and Investments

For the year ended June 30, 2011, the City recognized \$24,439 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2011, the primary government held the following deposits and investments:

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Type	Credit Rating	Carrying Value
Deposits:		
Petty cash		\$ 995
Demand deposits		1,590,812
Time deposits - certificates of deposit		1,547,659
Investments:		
Cavanal Hill US Treasury Fund	AAAm	289,387
Total deposits and investments		\$ 3,428,853
 Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 1,881,194
Investments		1,547,659
		\$ 3,428,853

Custody Credit Risk

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

As of June 30, 2011, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

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

At June 30, 2011, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

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As of June 30, 2011, the City's investments consisted of \$289,387 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AAAM as rated by Standard and Poor's.

Concentration of Investment Credit Risk

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

At June 30, 2011, the City had no concentration of credit risk as defined above.

Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

	Current		Noncurrent
	Cash and cash equivalents	Investments	Cash and cash equivalents
Utility Deposits	\$ 6,059	\$ 69,680	\$ -
Taxable revenue note debt	6,851	-	34,000
Flow Equalization Revenue	48,139	-	-
OWRB debt service	369,475	-	132,692
Total	\$ 430,524	\$ 69,680	\$ 166,692

3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. For the year ended June 30, 2011, capital assets balances changed as follows:

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	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 546,500	\$ -	\$ 134,000	\$ 412,500
Construction in progress	40,230	326,012	355,513	10,729
Total capital assets not being depreciated	<u>586,730</u>	<u>326,012</u>	<u>489,513</u>	<u>423,229</u>
Other capital assets:				
Buildings	1,668,787	13,500	-	1,682,287
Improvements	1,181,601	355,513	-	1,537,114
Infrastructure	5,681,486	-	-	5,681,486
Machinery, furniture and equipment	1,304,450	306,413	3,297	1,607,566
Total other capital assets at historical cost	<u>9,836,324</u>	<u>675,426</u>	<u>3,297</u>	<u>10,508,453</u>
Less accumulated depreciation for:				
Buildings	1,056,402	22,865	-	1,079,267
Improvements	301,367	28,337	-	329,704
Infrastructure	3,394,881	77,884	-	3,472,765
Machinery, furniture and equipment	1,033,578	90,215	55	1,123,738
Total accumulated depreciation	<u>5,786,228</u>	<u>219,301</u>	<u>55</u>	<u>6,005,474</u>
Other capital assets, net	4,050,096	456,125	3,242	4,502,979
Governmental activities capital assets, net	<u>\$ 4,636,826</u>	<u>\$ 782,137</u>	<u>\$ 492,755</u>	<u>\$ 4,926,208</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	451,259	651,738	238,361	864,636
Total capital assets not being depreciated	<u>2,189,259</u>	<u>651,738</u>	<u>238,361</u>	<u>2,602,636</u>
Other capital assets:				
Buildings	8,453,367	-	-	8,453,367
Improvements	41,468	-	-	41,468
Machinery, furniture and equipment	480,271	70,405	-	550,676
Utility property	7,177,283	240,883	-	7,418,166
Total other capital assets at historical cost	<u>16,152,389</u>	<u>311,288</u>	<u>-</u>	<u>16,463,677</u>
Less accumulated depreciation for:				
Buildings	2,457,707	113,413	-	2,571,120
Improvements	26,254	1,460	-	27,714
Machinery, furniture and equipment	306,323	40,703	-	347,026
Utility Property Improvements	4,127,399	93,855	-	4,221,254
Total accumulated depreciation	<u>6,917,683</u>	<u>249,431</u>	<u>-</u>	<u>7,167,114</u>
Other capital assets, net	9,234,706	61,857	-	9,296,563
Business-type activities capital assets, net	<u>\$ 11,423,965</u>	<u>\$ 713,595</u>	<u>\$ 238,361</u>	<u>\$ 11,899,199</u>

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

Governmental Activities:

General government	45,754
Public safety	70,784
Highways and streets	85,757
Cemetery	1,157
Culture and recreation	15,849
	<u>\$ 219,301</u>

Business-Type Activities:

Water	101,816
Sewer	100,011
Sanitation	14,324
Economic development	33,280
	<u>\$ 249,431</u>

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4. Capital Lease Receivable

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

5. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Capital lease payable	\$ 120,834	\$ 231,510	\$ 96,580	\$ 255,764	53,962
Total Governmental Activities	<u>\$ 120,834</u>	<u>\$ 231,510</u>	<u>\$ 96,580</u>	<u>\$ 255,764</u>	<u>\$ 53,962</u>
Business-Type Activities:					
Notes Payable	\$ 3,871,277	-	\$ 383,602	\$ 3,487,675	398,551
Capital lease payable	50,189	-	18,695	31,494	19,611
Total Business-Type Activities	<u>3,921,466</u>	<u>-</u>	<u>402,297</u>	<u>3,519,169</u>	<u>418,162</u>
Total Long-Term Debt	<u>\$ 4,042,300</u>	<u>\$ 231,510</u>	<u>\$ 498,877</u>	<u>\$ 3,774,933</u>	<u>\$ 472,124</u>

Reconciliation to Statement of Net Assets:

Governmental Activities:

Due within one year	\$ 53,962
Due in more than one year	201,802
Total Governmental Activities Long-term liabilities	<u>\$ 255,764</u>

Business-Type Activities:

Due within one year	\$ 418,162
Due in more than one year	3,083,867
Add back net of unamortized premium	17,140
Total Business-Type Activities Long-term liabilities	<u>\$ 3,519,169</u>

Governmental activities long-term debt is payable from taxes and other general revenues for June 30, 2011.

Capital Lease Obligations:

\$108,917 lease obligation for purchase of Incode software, payable in monthly installments of \$2,153 with an annual interest rate of 4.25%, final payment due April 2013	\$ 45,529
\$231,000 lease obligation for the purchase of a fire pumper truck, payable in 28 quarterly installments of \$9,772 with an annual interest rate of 4.75%, final payment due August 2017	210,235
Total Capital Leases Payable	<u>\$ 255,764</u>
Current portion	53,962
Noncurrent portion	201,802
Total Capital Leases Payable	<u>\$ 255,764</u>

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

Okemah Utilities Authority:

Capital Lease Obligations:

\$91,855 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$1,724 with an annual interest rate of 4.78%, final payment due January 2013	\$	31,494
Total Capital Leases Payable		\$ 31,494
Current portion		19,611
Noncurrent portion		11,883
Total Capital Leases Payable		\$ 31,494

Notes Payable:

1998 Construction Clean Water SRF Promissory Note payable to Oklahoma Water Resources Board, original amount of \$3,300,000, dated June 8, 1998, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, interest rate at 3.36% with final payment due September 15, 2019.	\$	1,639,652
Oklahoma Department of Commerce note dated April 30, 1998, by Okemah Utilities Authority, authorized amount of \$175,000, payable in monthly installments of \$729, including principal with a 0% interest rate, with final payment due March 30, 2018.		59,062
2004 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$1,310,000, dated May 12, 2004, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, variable interest rate at 3.75%, with final payment due August 15, 2014.		550,000
2011 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$2,565,000 dated June 24, 2011, secured by and payable from utility revenues and pledged sales tax, interest rate of 2.72%, with final payment due March 15, 2032; no funds have been drawn as of June 30, 2011 but note issue costs have been paid by the City and recorded as an asset.		-
Total Notes Payable		\$ 2,248,714
Less: Unamortized Refunding Premium		(22,883)
Unamortized Note Premium		5,743
Total Notes Payable (Net of Unamortized Premium)		\$ 2,231,574
Current portion		307,995
Noncurrent portion		1,923,579
Total Notes Payable		\$ 2,231,574

Okemah Economic Development Authority:

Long-term debt commitments payable from net revenues generated by rental revenues and sales tax pledged to OEDA, and their outstanding balances at June 30, 2011, includes the following:

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	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Capital Improvement		
Fund Balances:				
Restricted for:				
Capital projects	\$ -	\$ 1,109,054	\$ -	\$ 1,109,054
Fire operations	-	-	308	308
Library operations	-	-	37,487	37,487
Cemetery capital	-	-	143,842	143,842
Street and alley operations and capital	-	-	54,064	54,064
Sub-total Restricted	-	1,109,054	235,701	1,344,755
Assigned to:				
Capital projects	-	8,823	-	8,823
Library operations	-	-	2,051	2,051
Cemetery capital and operations	-	-	3,303	3,303
Street and alley operations and capital	-	-	502	502
Use of fund balance for subsequent budget	314,560	-	-	314,560
Sub-total Assigned	314,560	8,823	5,856	329,239
Unassigned:	308,946	-	(5,560)	303,386
TOTAL FUND BALANCES	\$ 623,506	\$ 1,117,877	\$ 235,997	\$ 1,977,380

7. Sales Tax Revenue

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

Pledge of Future Revenues

Sales Tax Pledge- The City has pledged 2.5 cents (or 71.4%) of future sales tax revenues to repay \$8,535,000 of 1998, 2004, and 2011 Series Oklahoma Water Resources Board Notes Payable and 2004 Taxable Revenue Notes Payable. Proceeds from the bonds and notes provided financing for the utility system and industrial park capital assets. The bonds are payable through 2019, 2014, 2032 and 2014, respectively. The total principal and interest payable for the remainder of the life of these notes is \$6,751,409. Total pledged sales tax for the year was \$759,981. Debt service payments of \$503,328 for the current fiscal year were 66% of the pledged sales taxes.

Utility Net Revenue Pledge- The City has also pledged future water and sewer net revenues to repay \$7,175,000 of 1998, 2004 and 2011 Series Oklahoma Water Resources Board Notes Payable. Proceeds from the bonds and notes provided financing for the utility system capital assets. The bonds are payable through 2019, 2014 and 2032, respectively. The total principal and interest payable for the remainder of the life of these notes is \$5,724,447. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$373,480 which was 58% of pledged net utility revenues of \$648,274.

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8. Property Tax Levy

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

9. Internal and Interfund Balances and Transfers

The City's policy is to eliminate interfund transfers and balances in the statements of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OUA Bond Fund	\$ 303,992	Sales tax transfer
General Fund	Capital Improvement Fund	303,992	Sales tax transfer
General Fund	OEDA	151,996	Sales tax transfer
General Fund	OEDA	18,271	Operational subsidy
General Fund	OUA	11,704	Subsidy for debt
OUA	General Fund	303,992	Return of sales tax
Capital Improvement Fund	OUA	599	Transfer of capital outlay
OUA	OUA Capital Reserve	51,000	Subsidy for debt
OUA	OUA Bond Fund	121,800	Subsidy for debt
Capital Improvement Fund	OEDA	11,000	Operational subsidy
Total		<u>\$ 1,278,346</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 600,535	\$ (801,554)	\$ (201,019)
Proprietary Funds	670,232	(476,792)	193,440
	<u>\$ 1,270,767</u>	<u>\$ (1,278,346)</u>	<u>(7,579)</u>

Reconciliation to Statement of Activities:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net transfers	\$ (201,019)	\$ 193,440
Transfer capital asset from governmental to business-type activities	7,579	-
	<u>\$ (193,440)</u>	<u>\$ 193,440</u>

Balances:

Interfund receivable and payables at June 30, 2011 were comprised of the following:

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Budgetary Comparison Schedule – General Fund (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 396,337	\$ 494,190	\$ 494,190	\$ -
Resources (Inflows):				
Taxes	976,000	1,091,000	1,175,435	84,435
Intergovernmental	58,650	58,650	102,931	44,281
Charges for services	18,600	18,600	27,707	9,107
Fines and forfeitures	-	-	21,929	21,929
Licenses and permits	7,250	7,250	9,569	2,319
Investment income	1,560	1,560	4,708	3,148
Miscellaneous	50,632	50,632	150,188	99,556
Transfers in	255,429	255,429	296,543	41,114
Total resources (Inflows)	<u>1,368,121</u>	<u>1,483,121</u>	<u>1,789,010</u>	<u>305,889</u>
Amounts available for appropriation	<u>1,764,458</u>	<u>1,977,311</u>	<u>2,283,200</u>	<u>305,889</u>
Charges to Appropriations (Outflows):				
General government	181,882	158,382	130,240	28,142
Police	289,786	283,286	271,630	11,656
Fire	54,956	41,956	22,338	19,618
Police Dispatcher	138,400	146,400	137,696	8,704
Streets	104,492	115,492	89,822	25,670
Animal Control	32,034	37,034	31,272	5,762
Cemetery	39,451	48,751	44,219	4,532
Parks and Recreation	4,550	7,250	3,830	3,420
Library	45,863	48,863	44,619	4,244
Civil Defense	39,083	49,083	44,777	4,306
Police - Cops in School	62,686	43,686	30,542	13,144
Swimming Pool	16,696	18,296	15,960	2,336
Code Enforcement	26,150	4,550	2,794	1,756
Transfers Out	638,572	786,572	789,955	(3,383)
Total Charges to Appropriations	<u>1,674,601</u>	<u>1,789,601</u>	<u>1,659,694</u>	<u>129,907</u>
Ending Budgetary Fund Balance	<u>\$ 89,857</u>	<u>\$ 187,710</u>	<u>\$ 623,506</u>	<u>\$ 435,796</u>

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedule is reported on the modified cash basis of accounting.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.
3. In the General Fund the City had negative variances in the following departments and for the following amounts:
 - General Fund – Transfers Out (3,383)

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Schedule of Pension Plan Funding Progress – OMRF Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	(1) Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/06	317,753	406,186	88,433	78.2%	591,746	14.9%
1/1/07	352,859	421,947	69,088	83.6%	584,545	11.8%
1/1/08	403,419	460,575	57,156	87.6%	515,654	11.1%
1/1/09	400,719	481,019	80,300	83.3%	521,260	15.4%
1/1/10	442,136	671,202	229,066	65.9%	572,069	40.0%
1/1/11	508,428	739,048	230,620	68.8%	540,759	42.6%

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OTHER SUPPLEMENTARY INFORMATION

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

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 8,753	\$ 55,712	\$ 75,497	\$ 139,962
Investments	-	30,785	-	65,042	95,827
Due from other funds	-	-	-	6,606	6,606
Total assets	<u>-</u>	<u>39,538</u>	<u>55,712</u>	<u>147,145</u>	<u>242,395</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	<u>5,252</u>	<u>-</u>	<u>1,146</u>	<u>-</u>	<u>6,398</u>
Total liabilities	<u>5,252</u>	<u>-</u>	<u>1,146</u>	<u>-</u>	<u>6,398</u>
Fund balances:					
Restricted	308	37,487	54,064	143,842	235,701
Assigned	-	2,051	502	3,303	5,856
Unassigned	(5,560)	-	-	-	(5,560)
Total fund balances (deficits)	<u>(5,252)</u>	<u>39,538</u>	<u>54,566</u>	<u>147,145</u>	<u>235,997</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 39,538</u>	<u>\$ 55,712</u>	<u>\$ 147,145</u>	<u>\$ 242,395</u>

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS

June 30, 2011

SIGNIFICANT DEFICIENCIES

10-1. Segregation of Duties

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

Condition: The City currently has a lack of segregation of duties in the procedures performed by the utility clerk and the court clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment. The court clerk is responsible for all aspects of the court fee process, from information received on fines or tickets to collecting the funds and posting to the computer.

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

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

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Regarding utility clerk duties, such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews. Regarding court clerk duties, such controls could consist of segregation between the processing of information for fines or tickets and the actual collection of fees for such fines or tickets.

Management's Response: City management will endeavor to implement segregation of duties wherever and whenever possible, noting its limited number of personnel.

2010 Follow-up: The finding was not noted during the year ended June 30, 2011. Proper segregation of duties was in place as of June 30, 2011.

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS, CONTINUED

June 30, 2011

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

10-2. Budgetary Compliance

Auditors' Findings: For the year ended June 30, 2010, the City was not in compliance with the Municipal Budget Act of 1979 due to the fact that expenditures exceeded appropriations at the legal level of control for the General Fund as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund	Civil Defense	\$ 717
General Fund	Library	711
General Fund	Swimming Pool	2,286
General Fund	Transfers Out	47,107

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

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

2010 Follow-up: This situation was noted during the year ended June 30, 2011.

10-3. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2010, the fund balance for the rural fire fund of the City had a deficit balance of \$5,910. This appears to be a violation of the fund balance requirements prescribed by Title 11, Section 17-211 of the Oklahoma Statutes.

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

Management's Response: During the year ended June 30, 2010, \$16,000 was transferred to the fund. However, current year expenditures and the beginning fund deficit were greater than \$16,000. Management will consider additional transfers in 2011.

2010 Follow-up: This situation was noted during the year ended June 30, 2011.

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