



THE CITY OF OKMULGEE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

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

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

THIS PAGE INTENTIONALLY LEFT BLANK

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	5-6
Management's Discussion and Analysis	7-16
The Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	19
Governmental Funds Financial Statements:	
Balance Sheet	21
Statement of Revenues, Expenditures and Changes in Fund Balances.....	22
Reconciliation of Governmental Fund and Government-Wide Financial Statements.....	23
Proprietary Funds Financial Statements:	
Statement of Net Assets.....	25
Statement of Revenues, Expenses and Changes in Net Assets.....	26
Statement of Cash Flows.....	27
Footnotes to the Basic Financial Statements	28-49
Required Supplementary Information:	
Budgetary Comparison Information	
Budgetary Comparison Schedule – General Fund.....	51-52
Footnotes to Budgetary Comparison Schedules	
Pension Plan Information:	
Schedule of Funding Progress.....	53

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Okmulgee, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Okmulgee, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Because of the inadequacy of accounting records for prior years, we were unable to form an opinion regarding the amounts at which property and equipment and accumulated depreciation are reported in the accompanying financial statements at June 30, 2012, or the amount of depreciation expense for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had prior year records concerning property and equipment and related accumulated depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major proprietary fund of the City of Okmulgee, Oklahoma, as of June 30, 2012, 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 addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had prior year records concerning property and equipment and related accumulated depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of the City of Okmulgee, Oklahoma, as of June 30, 2012, and the change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund of the City of Okmulgee, Oklahoma, as of June 30, 2012, and the respective changes in financial position 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 February 12, 2013, on our consideration of the City of Okmulgee, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan information, as listed in the table of contents, be

presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
February 12, 2013

**CITY OF OKMULGEE, OKLAHOMA
MANAGEMENT DISCUSSION & ANALYSIS
As of and for the year ended June 30, 2012**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Okmulgee's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2012, the City's total net assets increased \$870,256 or 2.1% from the prior year.
- During the year, the City's expenses for governmental activities were \$8,225,548 and were funded by program revenues of \$2,383,200 and further funded with taxes and other general revenues that totaled \$6,899,330, excluding net transfers.
- In the City's business-type activities, such as utilities, total program expenses exceeded revenues by \$282,358.
- At June 30, 2012, the General Fund reported an unassigned fund balance of \$4,135,844, which is an increase of 13.9% from the prior year unassigned fund balance.
- For budgetary reporting purposes, the General Fund reported revenues less than estimates by \$480,371 or 4.8%, while expenditures were under the final appropriations by \$2,097,060 or 19.2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Okmulgee (the "City") and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for each of three categories of activities – governmental, business-type and discretely-presented component units. The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. These statements include all assets of the City (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

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. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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, sanitation, airport and economic development activities are reported here.
- **Discretely-presented component unit** – This accounts for activities of the City’s reporting entity that do not meet the criteria for blending. The City’s discretely-presented component unit reports parking activities.

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 report is based on Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” which provides a more clearly defined fund balance category structure and clarifies fund type definitions.

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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic service 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 charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. In fact, the City’s enterprise funds are essentially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

**CITY OF OKMULGEE, OKLAHOMA
MANAGEMENT DISCUSSION & ANALYSIS
As of and for the year ended June 30, 2012**

Fiduciary funds - When the City is responsible for assets that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or others parties. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the City’s fiduciary activities, if any, are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City’s government-wide financial statements because the City cannot use these assets to finance operations. Currently, the City does not report any fiduciary funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City’s combined net assets increased from \$41,390,973 to \$42,261,229 between fiscal years 2011 and 2012. Looking at the net assets of governmental and business-type activities separately, governmental activities increased \$9,367 while business-type activities increased \$860,889.

**TABLE 1
NET ASSETS (in Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current assets	\$ 8,574	\$ 8,259	4%	\$ 9,029	\$ 6,963	30%	\$ 17,603	\$ 15,222	16%
Capital assets, net	8,753	9,040	-3%	69,078	60,074	15%	77,831	69,114	13%
Other non-current assets	-	-	0%	1,259	1,369	-8%	1,259	1,369	-8%
Total assets	17,327	17,299	0%	79,366	68,406	16%	96,693	85,704	13%
Current liabilities	347	318	9%	4,584	4,143	11%	4,931	4,461	11%
Non-current liabilities	442	452	-2%	49,058	39,401	25%	49,500	39,853	24%
Total liabilities	789	770	3%	53,642	43,544	23%	54,431	44,314	23%
Net assets									
Invested in capital assets, net of related debt	8,753	9,040	-3%	19,401	21,166	-8%	28,154	30,206	-7%
Restricted	246	754	-67%	926	1,049	-12%	1,172	1,803	-35%
Unrestricted	7,539	6,735	12%	5,396	2,647	104%	12,935	9,382	38%
Total net assets	\$ 16,538	\$ 16,529	0%	\$ 25,723	\$ 24,862	3%	\$ 42,261	\$ 41,391	2%

Net assets of the City’s governmental activities remained steady at approximately \$16.5 million. However, \$8,999,346 of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets were \$7,538,643 at the end of this year. Restricted net assets decreased by approximately \$508,000 due to spending of funds in the Dedicated Sales Tax fund in the current year.

Net assets of the City’s business-type activities increased to approximately \$25.7 million. However, \$20,327,307 of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets were \$5,395,933 at the end of this year. Current assets increased approximately \$2.1 million due to an increase in cash. Non-current liabilities increased by approximately \$9.7 million due primarily to the drawdown of new OWRB debt.

**CITY OF OKMULGEE, OKLAHOMA
MANAGEMENT DISCUSSION & ANALYSIS
As of and for the year ended June 30, 2012**

Changes in Net Assets

For the year ended June 30, 2012, net assets of the primary government changed as follows:

**TABLE 2
CHANGES IN NET ASSETS (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for service	\$ 987	\$ 1,147	-14%	\$ 8,465	\$ 8,328	2%	\$ 9,452	\$ 9,475	0%
Operating grants and contributions	487	468	4%	-	-	-	487	468	4%
Capital grants and contributions	909	699	30%	96	1,170	-92%	1,005	1,869	-46%
Taxes	6,500	6,635	-2%	-	-	-	6,500	6,635	-2%
Intergovernmental revenue	147	149	-1%	-	-	-	147	149	-1%
Investment income	42	47	-11%	15	20	-25%	57	67	-15%
Miscellaneous	210	179	17%	81	82	-1%	291	261	11%
Payments received from component unit	-	89	-100%	-	-	-	-	89	100%
Gain (loss) on sale of capital asset	(3)	3,181	-100%	1	-	100%	(2)	3,181	-100%
Total revenues	9,279	12,594	-26%	8,658	9,600	-10%	17,937	22,194	-19%
Expenses									
General government	1,964	1,997	-2%	-	-	-	1,964	1,997	-2%
Public safety	4,464	4,445	0%	-	-	-	4,464	4,445	0%
Streets	856	709	21%	-	-	-	856	709	21%
Culture, parks and recreation	498	612	-19%	-	-	-	498	612	-19%
Community development	440	437	1%	-	-	-	440	437	1%
Water	-	-	-	3,013	2,490	21%	3,013	2,490	21%
Wastewater	-	-	-	3,763	3,535	6%	3,763	3,535	6%
Sanitation	-	-	-	1,041	961	8%	1,041	961	8%
Economic development	-	-	-	47	52	-10%	47	52	-10%
Airport	-	-	-	671	510	32%	671	510	32%
Interest charge - governmental activities	-	-	-	310	255	22%	310	255	22%
Total expenses	8,222	8,200	0%	8,845	7,803	13%	17,067	16,003	7%
Excess (deficiency) before transfers	1,057	4,394	-76%	(187)	1,797	-110%	870	6,191	-86%
Transfers	(1,048)	(689)	-52%	1,048	689	52%	-	-	-
Change in net assets	9	3,705	-100%	861	2,486	-65%	870	6,191	-86%
Beginning net assets	16,529	12,824	29%	24,862	22,376	11%	41,391	35,200	18%
Ending net assets	\$ 16,538	\$ 16,529	0%	\$ 25,723	\$ 24,862	3%	\$ 42,261	\$ 41,391	2%

The City's governmental activities had an increase in net assets of \$9,367 to remain steady at approximately \$16.5 million. The business-type activities had an increase in net assets of \$860,889 from the prior year, due mainly to an increase in charges for services revenue of approximately \$138,000 and an increase in transfers in of approximately \$358,000. The results indicate the City, as a whole, improved its financial condition from the prior year.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$7,816,507 or a 3.0% increase from the prior year. The enterprise funds reported net assets of \$25,723,240 or a 3.5% increase from the prior year.

Other fund highlights include:

- For the year ended June 30, 2012, the General Fund's total fund balance increased by \$736,140 or 10.8%. This increase was due mainly to a reduction of expenditures in the current year.
- The Dedicated Sales Tax Fund's total fund balance decreased by \$505,845 or 67.4%.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended June 30, 2012, the City's governmental activities were funded as follows:

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
General government	\$ 1,967	\$ (1,184)	-266%	\$ (1,532)	\$ 1,294	218%
Public safety	4,464	4,445	0%	(3,008)	(3,374)	11%
Streets	856	709	21%	(449)	385	-217%
Culture, parks and recreation	498	612	-19%	(414)	(574)	28%
Community development	440	437	1%	(440)	(437)	-1%
Total	\$ 8,225	\$ 5,019	64%	\$ (5,843)	\$ (2,706)	-116%

For the year ended June 30, 2012, total expenses for governmental activities amounted to \$8,222,401. Of these total expenses, taxpayers and other general revenues funded \$6,899,330, while those directly benefiting from the program funded \$1,396,046 from grants and other contributions and \$987,154 from charges for services. Streets net revenue (expense) decreased by approximately \$834,000 due mainly to prior year capital grant of \$689,000 that was not received in the current year.

**CITY OF OKMULGEE, OKLAHOMA
MANAGEMENT DISCUSSION & ANALYSIS
As of and for the year ended June 30, 2012**

Business-type Activities

In reviewing the business-type activities net (expense)/revenue, the following highlights should be noted:

- Total business-type activities reported net (expenses) of \$283,502 for the year ended June 30, 2012.
- All individual activities reported net expenses for the year ended June 30, 2012, with the exception of water and sanitation which reported net revenues of \$2,005,485 and \$83,106, respectively.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
	Water	\$ 3,013	\$ 2,490	21%	\$ 2,007	\$ 2,794
Sewer	3,763	3,535	6%	(1,731)	(886)	-95%
Sanitation	1,041	961	8%	83	50	66%
Economic development	47	52	-10%	(47)	(52)	-10%
Airport	671	510	32%	(284)	45	-731%
Interest charges - governmental activities	310	255	22%	(310)	(255)	22%
Total	\$ 8,845	\$ 7,803	13%	\$ (282)	\$ 1,696	-117%

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues under final estimates by \$480,371 or a 4.8% negative variance. General Fund actual expenditures were under final appropriations by \$2,097,060 or a 19.2% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$77,831,143 invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. (See table below). This represents an increase of approximately \$8.9 million or 12.9% over last year.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	(restated)					
Land	\$ 72	\$ 66	\$ 3,523	\$ 3,514	\$ 3,595	\$ 3,580
Buildings	2,597	2,701	1,472	1,479	4,069	4,180
Imp. other than buildings	2,144	2,209	-	-	2,144	2,209
Infrastructure	2,217	2,283	62,855	53,811	65,072	56,094
Machinery, furniture and equipment	1,724	1,781	1,227	1,109	2,951	2,890
Totals	\$ 8,754	\$ 9,040	\$ 69,077	\$ 59,913	\$ 77,831	\$ 68,953

**CITY OF OKMULGEE, OKLAHOMA
MANAGEMENT DISCUSSION & ANALYSIS
As of and for the year ended June 30, 2012**

This year's more significant capital asset additions included:

- Water and Sewer Line Improvements
- Water Treatment Plant Improvements
- Water Meters
- 2012 Freightliner Dump Truck

See Note 5 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 \$56,896,078 (\$52,760,361, net of unamortized charge on refunding), in long-term debt outstanding which represents a \$10,077,953 or 21.5% increase from the prior year. The City's changes in long-term debt by type of debt are as follows:

**TABLE 6
Long-Term Debt
(In Thousands)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Accrued absences	\$ 491	\$ 502	\$ 214	\$ 201	\$ 705	\$ 703	0%
Meter deposit liability	-	-	265	223	265	223	19%
Notes payable	-	-	25,497	13,680	25,497	13,680	86%
Revenue bonds	-	-	29,786	31,640	29,786	31,640	-6%
Landfill closure liability	-	-	643	572	643	572	12%
Totals	\$ 491	\$ 502	\$ 56,405	\$ 46,316	\$ 56,896	\$ 46,818	22%

See Note 6 to the financial statements for more detailed information on the City's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's Sales and Use Tax collections for fiscal year 2011-12 decreased by .98% from fiscal year 2010-11. Sales and Use Tax collections for fiscal year 2012-13 are budgeted for a .97% increase from 2011-12. Despite improvements in the State Sales Tax collections, Sales and Use Tax collections for the City of Okmulgee are not expected to change drastically in either direction. Indications are very strong that the increased sales through the Internet, for which taxes are not collected, are costing the City of Okmulgee more and more revenue each year leading to the lack of increase or even a decline in use tax collections. Cities in Oklahoma are almost totally dependent on Sales and Use Tax to fund their operations and most cities, including the City of Okmulgee depend on Sales and Use Tax to pay for Capital Improvements as well. This situation must be corrected.

As mentioned in previous audits, the funds from the Sale of the Creek Council House to the Muscogee (Creek) Nation for \$3,200,000 provided the City of Okmulgee with some highly restricted Capital Improvement Funds but the City must develop clear policy and guidelines for spending these funds. The creation of a Municipal Foundation has been discussed several times but as yet the City has not

established a Trust Fund. At a minimum, these funds should only be spent on capital improvements that benefit the entire community for a purpose similar to the original bond proposal. It is suggested that these funds only be expended on projects with a significant match of funds from other sources.

The Okmulgee Municipal Authority raised Water and Sewer Rates in July of 2010 in anticipation of borrowing significant amounts for water and sewer improvements required by ODEQ/USEPA. These rate increases were based on a utility rate study conducted by the City's Financial Advisor, Paul Smith, and the revenue appears to be sufficient to cover the repayments. The total amount borrowed from the Oklahoma Water Resources Board for Water and Sewer was \$24,400,000. However, additional capital improvements are necessary for both water and sewer and accomplishing these improvements without further borrowing is not possible.

The Municipal Authority raised commercial solid waste collection fees for commercial dumpsters from \$35 per month to \$40 per month in February, 2011 and increased residential fees from \$10 per month to \$11 per month in July, 2012 and added a bulky waste collection service at that time. While this amount appears to cover operational costs at the present time, these charges are significantly lower than comparable cities. Adding to this situation is the uncertainty at the Landfill with the current Lessee and operator, Elliot Construction. Communication with ODEQ officials beginning in February indicated that the City of Okmulgee soon might have to assume operation of the Okmulgee Landfill or haul the Solid Waste a long distance to another landfill. Either situation could affect the cost of disposal and therefore affect collection costs.

The stormwater fee approved in 2008 is producing approximately \$300,000 per year for stormwater improvements but projected cost of improvements is far in excess of the revenue generated. The inequity of Cities being required by ODEQ/EPA to have ordinances and fees for stormwater while the State and Counties have no such requirement is very unfair and is proving to be a deterrent to economic development within the Cities.

Covington Aircraft continues to expand its operations at the Okmulgee Regional Airport and the recent airport improvements have provided a much-improved situation for aircraft using the airport. These improvements should lead to further expansion at Covington and hopefully other aircraft service providers as well. Aviation fuel sales have increased significantly in the last three years due to our attractive fuel prices and should continue to increase in the future. The exposure to additional aircraft is expected to provide opportunities for increased use and possible development.

The Okmulgee area continues to provide an available, trained labor force and a relatively low cost-of-living. Educational training opportunities are many and varied due to the presence of Oklahoma State University Institute of Technology (OSUIT) and Green Country Technology Center. Both OSUIT and Green Country Technology Center continue to expand their physical campuses as well as their curriculum and degree programs.

The presence of the Muscogee (Creek) Nation headquarters is an additional positive factor for Okmulgee. The construction of the auditorium/physical fitness center with a seating capacity of 300 and Phase One of the College of the Muscogee Nation and housing at the College in calendar year 2010 were important events. Three additional, identical education buildings at the College are planned in the near future. The Muscogee Nation anticipates an influx of 600 to 800 students. This influx would create significant sales tax collections for the City and would probably require additional housing units as well. A significant Muscogee Nation housing Project just east of the Best Western Motel was completed in calendar year 2011 and will provide quality housing for future tribal residents. The recent purchase of the Okmulgee

Golf Club by the Muscogee (Creek) Nation should create additional infrastructure improvements in the nearby area which could be accomplished with cooperative efforts between the Muscogee Nation and the City of Okmulgee.

The agreement between Oklahoma Area Development Corporation and the City of Okmulgee coupled with the financial support of the Viersen Family Foundation is presently in a temporary situation until OADC can hire a permanent full-time economic development director. The City needs the ability to respond to business and industry prospects quickly. Although the Muscogee (Creek) Nation is supporting this agreement somewhat, additional support is necessary and desirable. Economic Development does not recognize municipal or tribal boundaries. A rising tide floats all ships. As a community, we must be well prepared when the nation economy recovers substantially.

The City has aptly responded to the requirements for short-term and medium-term infrastructure improvement, many of which were mandated by USEPA and others that were required for business development. Recently, the City was fortunate in that both construction costs and interest rates were at historically low levels when the loans were finalized and bids were awarded. The Raw Water Line is complete and the Water Treatment Plant Project is approximately 70% to 80% complete. However, there are still huge amounts of necessary improvements in the Water Distribution System and somewhat lesser amounts in the Sewer Collection System. The uncertainty of future USEPA requirements is always a scary situation.

In summary, the City of Okmulgee has weathered a Major Recession well, but given the existing situation of municipal funding in the State of Oklahoma and the state of the national economy and national political climate, difficult times are still ahead.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Okmulgee City Manager or Okmulgee City Clerk at City of Okmulgee, P. O. Box 250, Okmulgee, Oklahoma 74447-0250 or by phone at (918) 758-1100.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Statement of Net Assets— June 30, 2012

				<u>Component Unit</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Okmulgee</u> <u>Parking Authority</u>
ASSETS				
Cash and cash equivalents	\$ 3,927,284	\$ 7,619,183	\$ 11,546,467	\$ -
Investments	3,233,233	-	3,233,233	-
Deposits with insurance pool	2,413	-	2,413	-
Interest receivable	35	-	35	-
Accounts receivable, net of allowance	-	1,351,733	1,351,733	-
Due from other governments	919,103	51,838	970,941	-
Other taxes receivable	26,260	-	26,260	-
Court fines receivable, net of allowance	402,984	-	402,984	-
Other receivables	16,699	3,523	20,222	-
Internal balances	45,759	(45,759)	-	-
Inventories	-	48,190	48,190	-
Capital assets:				
Land and construction in progress	72,221	3,522,811	3,595,032	-
Other capital assets, net of depreciation	8,681,366	65,554,745	74,236,111	169,200
Unamortized bond issuance costs	-	1,258,786	1,258,786	-
Total assets	<u>17,327,357</u>	<u>79,365,050</u>	<u>96,692,407</u>	<u>169,200</u>
LIABILITIES				
Accounts payable	152,792	183,621	336,413	-
Accrued payroll liabilities	73,027	33,960	106,987	-
Retainage payable	-	829,963	829,963	-
Accrued interest payable	-	325,285	325,285	-
Due to other governments	3,121	-	3,121	-
Due to bondholders	1,648	-	1,648	-
Due to primary government	-	-	-	-
Claim liability	67,400	-	67,400	-
Long-term liabilities				
Due within one year	49,138	3,211,143	3,260,281	-
Due in more than one year	442,242	49,057,838	49,500,080	-
Total liabilities	<u>789,368</u>	<u>53,641,810</u>	<u>54,431,178</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,753,587	19,400,998	28,154,585	169,200
Restricted for:				
Risk management	2,413	-	2,413	-
Capital projects and debt service	243,346	926,309	1,169,655	-
Unrestricted	7,538,643	5,395,933	12,934,576	-
Total net assets	<u>\$ 16,537,989</u>	<u>\$ 25,723,240</u>	<u>\$ 42,261,229</u>	<u>\$ 169,200</u>

See accompanying notes to these financial statements.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Statement of Activities –Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit Okmulgee Parking Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental Activities								
General Government	\$ 1,988,795	\$ 85,223	\$ -	\$ 350,000	\$ (1,531,572)	\$ -	\$ (1,531,572)	\$ -
Public Safety	4,485,381	586,088	312,856	558,990	(3,007,627)	-	(3,007,627)	-
Streets	855,913	296,363	110,448	-	(449,104)	-	(449,104)	-
Culture and Recreation	487,520	19,480	63,954	-	(414,086)	-	(414,086)	-
Community Development	439,959	-	-	-	(439,959)	-	(439,959)	-
Total governmental activities	8,225,548	987,154	487,056	908,990	(5,842,348)	-	(5,842,348)	-
Business-Type Activities:								
Water	3,013,089	5,016,898	-	3,000	-	2,008,629	2,008,629	-
Sewer	3,783,533	2,025,085	-	6,598	-	(1,731,852)	(1,731,852)	-
Sanitation	1,040,748	1,123,851	-	-	-	83,106	83,106	-
Economic Development	46,947	-	-	-	-	(46,947)	(46,947)	-
Airport	670,583	300,800	-	86,228	-	(283,557)	(283,557)	-
Interest charges - governmental activities	309,737	-	-	-	-	(309,737)	(309,737)	-
Total business-type activities	8,844,614	8,466,434	-	95,822	-	(282,358)	(282,358)	-
Total primary government	\$ 17,070,162	\$ 9,453,588	\$ 487,056	\$ 1,004,812	(5,842,348)	(282,358)	(8,124,708)	-
Component Unit:								
Parking	\$ 19,342	\$ -	\$ -	\$ -	-	-	-	(19,342)
Total component unit	\$ 19,342	\$ -	\$ -	\$ -	-	-	-	(19,342)
General revenues:								
Taxes:								
Sales and use taxes					6,064,879		6,064,879	-
Franchise taxes and public service taxes					357,928		357,928	-
Hotel/motel taxes					78,044		78,044	-
Intergovernmental revenue not restricted to specific programs					146,962		146,962	-
Unrestricted investment earnings					41,924	15,306	57,230	-
Miscellaneous					209,583	80,326	289,919	-
Payments received from component unit					-	-	-	-
Transfers					(1,047,615)	1,047,615	-	-
Total general revenues and transfers					6,851,715	1,143,247	6,994,962	-
Change in net assets					9,367	860,889	870,256	(19,342)
Net assets - beginning					18,528,822	24,862,351	41,390,973	188,542
Net assets - ending					\$ 16,537,989	\$ 25,723,240	\$ 42,261,229	\$ 169,200

See accompanying notes to these financial statements.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Governmental Funds Balance Sheet - June 30, 2012

	<u>General Fund</u>	<u>Dedicated Sales Tax Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,871,756	\$ 55,528	\$ 3,927,284
Investments	3,233,233	-	3,233,233
Deposits with insurance pool	2,413	-	2,413
Interest receivable	35	-	35
Due from other governments	729,614	189,489	919,103
Due from other funds	55,628	-	55,628
Taxes receivable	26,260	-	26,260
Court fines receivable, net of allowance	402,984	-	402,984
Other receivables	16,699	-	16,699
Total assets	<u>\$ 8,338,622</u>	<u>\$ 245,017</u>	<u>\$ 8,583,639</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 152,792	\$ -	\$ 152,792
Accrued payroll payable	73,027	-	73,027
Claims liability	67,400	-	67,400
Due to other funds	9,869	-	9,869
Due to bondholders	1,648	-	1,648
Payable to other governments	3,121	-	3,121
Deferred revenue	459,275	-	459,275
Total liabilities	<u>767,132</u>	<u>-</u>	<u>767,132</u>
 Fund balances:			
Restricted for:			
Deposits with insurance pool	2,413	-	2,413
Capital projects and debt service	-	243,346	243,346
Committed for community improvements	3,433,233	-	3,433,233
Assigned for capital projects and debt service	-	1,671	1,671
Unassigned	4,135,844	-	4,135,844
Total fund balances	<u>7,571,490</u>	<u>245,017</u>	<u>7,816,507</u>
Total liabilities and fund balances	<u>\$ 8,338,622</u>	<u>\$ 245,017</u>	<u>\$ 8,583,639</u>

See accompanying notes to these financial statements.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Dedicated Sales Tax Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 5,029,157	\$ 1,471,694	\$ 6,500,851
Intergovernmental	1,489,640	-	1,489,640
Licenses and permits	45,880	-	45,880
Charges for services	80,932	-	80,932
Fines and forfeitures	510,493	-	510,493
Investment earnings	41,755	169	41,924
Miscellaneous	253,079	-	253,079
Total revenues	<u>7,450,936</u>	<u>1,471,863</u>	<u>8,922,799</u>
EXPENDITURES			
Current:			
General government	1,808,317	-	1,808,317
Public safety	3,634,358	-	3,634,358
Culture and recreation	400,516	-	400,516
Community development	433,591	-	433,591
Capital Outlay	868,589	-	868,589
Total expenditures	<u>7,145,371</u>	<u>-</u>	<u>7,145,371</u>
Excess (deficiency) of revenues over expenditures	<u>305,565</u>	<u>1,471,863</u>	<u>1,777,428</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	950,000	-	950,000
Transfers out	<u>(519,425)</u>	<u>(1,977,708)</u>	<u>(2,497,133)</u>
Total other financing sources and uses	<u>430,575</u>	<u>(1,977,708)</u>	<u>(1,547,133)</u>
Net change in fund balances	736,140	(505,845)	230,295
Fund balances - beginning	6,835,350	750,862	7,586,212
Fund balances - ending	<u>\$ 7,571,490</u>	<u>\$ 245,017</u>	<u>\$ 7,816,507</u>

See accompanying notes to these financial statements.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$	7,816,507
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		8,753,587
Certain other long-term assets are not available to pay current period liabilities and therefore are reported as deferred revenue in this fund financial statement.		
Court fines receivable		343,707
Due from other governments - grants		115,568
Certain long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
Accrued compensated absences		(491,380)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$</u>	<u>16,537,989</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$	230,295
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		441,395
Depreciation expense		(724,330)
Book value of assets disposed		(3,147)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in deferred revenue - fines		54,226
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Change in accrued compensated absences		10,928
Change in net assets of governmental activities	<u>\$</u>	<u>9,367</u>

See accompanying notes to these financial statements.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Funds Statement of Net Assets - June 30, 2012

	<u>OMA</u>	<u>OEDA</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,020,182	\$ 1,134	\$ 6,021,316
Restricted:			
Cash and cash equivalents	1,597,867	-	1,597,867
Due from other funds	45,193	-	45,193
Accounts receivable, net of allowance	1,351,733	-	1,351,733
Due from other governments	51,838	-	51,838
Other receivables	3,523	-	3,523
Inventories	48,190	-	48,190
Total current assets	<u>9,118,526</u>	<u>1,134</u>	<u>9,119,660</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	3,510,811	12,000	3,522,811
Other capital assets, net of accumulated depreciation	65,551,673	3,072	65,554,745
Unamortized note issue costs	1,258,786	-	1,258,786
Total non-current assets	<u>70,321,270</u>	<u>15,072</u>	<u>70,336,342</u>
Total assets	<u>79,439,796</u>	<u>16,206</u>	<u>79,456,002</u>
LIABILITIES			
Current liabilities:			
Accounts payable	183,621	-	183,621
Accrued payroll liabilities	33,960	-	33,960
Accrued interest payable	325,285	-	325,285
Due to other funds	55,628	35,324	90,952
Retainage payable	829,963	-	829,963
Current portion of:			
Deposits subject to refund	44,628	-	44,628
Compensated absences	21,448	-	21,448
Landfill closure liability	64,323	-	64,323
Notes payable	1,180,744	-	1,180,744
Bonds payable	1,900,000	-	1,900,000
Total current liabilities	<u>4,639,600</u>	<u>35,324</u>	<u>4,674,924</u>
Non-current liabilities:			
Deposits subject to refund	220,779	-	220,779
Compensated absences	193,036	-	193,036
Landfill closure liability	578,908	-	578,908
Notes payable	24,315,832	-	24,315,832
Bonds payable	23,749,283	-	23,749,283
Total non-current liabilities	<u>49,057,838</u>	<u>-</u>	<u>49,057,838</u>
Total liabilities	<u>53,697,438</u>	<u>35,324</u>	<u>53,732,762</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,385,926	15,072	19,400,998
Restricted for debt service	926,309	-	926,309
Unrestricted	5,430,123	(34,190)	5,395,933
Total net assets (deficit)	<u>\$ 25,742,358</u>	<u>\$ (19,118)</u>	<u>\$ 25,723,240</u>

See accompanying notes to the basic financial statements.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets - Year Ended June 30, 2012

	<u>OMA</u>	<u>QEDA</u>	<u>Total</u>
REVENUES			
Water	\$ 4,874,058	\$ -	\$ 4,874,058
Water taps	10,404	-	10,404
Sewer	1,967,906	-	1,967,906
Sewer taps	4,250	-	4,250
Sanitation	1,084,678	-	1,084,678
Stormwater	296,363	-	296,363
Landfill lease	10,000	-	10,000
Penalties	158,665	-	158,665
Airport	300,800	-	300,800
Other	54,529	-	54,529
Total operating revenues	<u>8,761,653</u>	<u>-</u>	<u>8,761,653</u>
OPERATING EXPENSES			
Public works operations	94,021	-	94,021
Utility billing	250,552	-	250,552
Public works director	179,942	-	179,942
Water treatment plant	788,980	-	788,980
Water and sewer line maintenance	583,107	-	583,107
Wastewater treatment plant	860,508	-	860,508
Sanitation	904,822	-	904,822
Streets	603,518	-	603,518
Airport	393,385	-	393,385
Economic development	-	46,334	46,334
Depreciation	2,343,349	115	2,343,464
Amortization expense	89,936	-	89,936
Total operating expenses	<u>7,092,120</u>	<u>46,449</u>	<u>7,138,569</u>
Operating income (loss)	<u>1,669,533</u>	<u>(46,449)</u>	<u>1,623,084</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	15,306	-	15,306
Reimbursements	25,000	-	25,000
Miscellaneous revenue	80,326	-	80,326
Operating grants and contributions	3,142	-	3,142
Gain on sale of capital assets	1,144	-	1,144
Interest expense	(2,309,563)	-	(2,309,563)
Total non-operating revenue (expenses)	<u>(2,184,645)</u>	<u>-</u>	<u>(2,184,645)</u>
Income (loss) before contributions and transfers	(515,112)	(46,449)	(561,561)
Capital contributions	70,822	-	70,822
Transfers in	2,452,133	45,000	2,497,133
Transfers out	(1,145,505)	-	(1,145,505)
Change in net assets	862,338	(1,449)	860,889
Total net assets (deficit) - beginning	24,880,020	(17,669)	24,862,351
Total net assets (deficit) - ending	<u>\$ 25,742,358</u>	<u>\$ (19,118)</u>	<u>\$ 25,723,240</u>

See accompanying notes to the basic financial statements.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2012

	<u>OMA</u>	<u>OEDA</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 9,079,068	\$ -	\$ 9,079,068
Payments to employees	(2,370,746)	-	(2,370,746)
Payments to suppliers	(2,488,344)	(46,334)	(2,534,678)
Receipts of customer meter deposits	118,228	-	118,228
Refunds of customer meter deposits	(75,963)	-	(75,963)
Interfund receipts/payments	(21,992)	-	(21,992)
Net cash provided by (used in) operating activities	<u>4,240,251</u>	<u>(46,334)</u>	<u>4,193,917</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	2,452,133	45,000	2,497,133
Transfers to other funds	(1,145,505)	-	(1,145,505)
Disbursements made on notes receivable	-	-	-
Net cash provided by (used in) noncapital financing activities	<u>1,306,628</u>	<u>45,000</u>	<u>1,351,628</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(11,471,392)	-	(11,471,392)
Proceeds from sale of capital assets	33,357	-	33,357
Proceeds from debt	13,971,954	-	13,971,954
Refunding loss paid	(62,144)	-	(62,144)
Principal paid on debt	(4,010,540)	-	(4,010,540)
Issue costs paid	(48,800)	-	(48,800)
Interest and fiscal agent fees paid on debt	(1,704,356)	-	(1,704,356)
Net cash provided by (used in) capital and related financing activities	<u>(3,291,921)</u>	<u>-</u>	<u>(3,291,921)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	15,306	-	15,306
Net cash provided by (used in) investing activities	<u>15,306</u>	<u>-</u>	<u>15,306</u>
Net increase (decrease) in cash and cash equivalents	2,270,264	(1,334)	2,268,930
Balances - beginning of year	<u>5,347,785</u>	<u>2,468</u>	<u>5,350,253</u>
Balances - end of year	<u>\$ 7,618,049</u>	<u>\$ 1,134</u>	<u>\$ 7,619,183</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	\$ 6,020,182	\$ 1,134	\$ 6,021,316
Restricted cash and cash equivalents - current	1,597,867	-	1,597,867
Total cash and cash equivalents, end of year	<u>\$ 7,618,049</u>	<u>\$ 1,134</u>	<u>\$ 7,619,183</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,889,533	\$ (46,449)	\$ 1,823,084
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	2,343,349	115	2,343,464
Amortization expense	89,936	-	89,936
Miscellaneous revenue	106,470	-	106,470
Operating grants	3,142	-	3,142
Change in assets and liabilities:			
Due from other funds	171,892	-	171,892
Due to other funds	(193,884)	-	(193,884)
Due to other governments	148,162	-	148,162
Accounts receivable	56,336	-	56,336
Other receivables	3,305	-	3,305
Accounts payable	(459,353)	-	(459,353)
Retainage payable	146,292	-	146,292
Inventory	17,239	-	17,239
Deposits, subject to refund	42,265	-	42,265
Accrued payroll payable	10,364	-	10,364
Landfill closure liability	71,470	-	71,470
Accrued compensated absences	13,733	-	13,733
Net cash provided by (used in) operating activities	<u>\$ 4,240,251</u>	<u>\$ (46,334)</u>	<u>\$ 4,193,917</u>
Noncash activities:			
Capital contributions	\$ 70,822	\$ -	\$ 70,822

See accompanying notes to the basic financial statements.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Okmulgee), three blended component units, and one discretely presented component unit as noted below. This annual report includes all activities for which the Okmulgee City Council is fiscally responsible.

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

The City of Okmulgee – that operates the public safety, streets, culture and recreation, community development and administrative activities.

The City of Okmulgee is an incorporated municipality with a population of approximately 13,000 located in northeastern Oklahoma. The City is a Council-Manager 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 Manager, removable by Council action

Component Units:

Blended:

The component units blended into the presentation of the primary government include:

The Okmulgee Economic Development Authority – that operates the economic development activities of the City.

The Okmulgee Municipal Authority – that operates the water, sewer, sanitation, and airport services of the City. This new public trust was created with the intent to replace the OPWA trust. The OMA trust indenture contains fewer debt restrictions than the OPWA trust, thus allowing the OMA to begin needed improvements to the utility system.

All component units (Authorities) above have the City Council as their governing body (trustees) and therefore the City is able to impose its will on the Authorities. The City Council is also able to impose its will through required approval of all debt obligations issued by these entities.

Discretely-Presented:

The component unit that is discretely presented in the City's report in a separate column is presented below.

The Okmulgee Parking Authority – that operates the parking activities of the City.

Each of these 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 of 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.

2. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements of net assets and activities are reported on the accrual basis of accounting and economic resources measurement focus. Under the economic resources focus, all assets and liabilities are reported, including current and non-current. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or economic asset used.

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

- Public Safety and Judiciary – Fire, Police, Legal and Municipal Court – fines and forfeitures, false alarm fees, and restricted operating and capital grants
- Streets and Transportation – Streets – Commercial vehicle and gasoline excise tax shared by the State and restricted capital grants, charges for services include stormwater fees
- Culture and Recreation – Library, lake fees, operating grants
- Community Development – None
- General Government – City Administration, General Government, Finance, Central Repair, Property Maintenance – license and permits, weed abatements

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Governmental Funds:

The City's governmental funds include:

Major Funds:

- **General Fund** – accounts for all activities not accounted for in other special-purpose funds
- **Dedicated Sales Tax Fund (capital project fund)** – accounts for a one-cent sales tax restricted by voter approval for capital improvements or debt service on capital debt

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter (within 60 days of period end) to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

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 and accrual basis of accounting at the government-wide level.

The General Fund and Dedicated Sales Tax Fund are considered major funds and are therefore displayed in separate columns. There are no other governmental funds of the City.

Proprietary Funds:

The City's proprietary funds include:

- **OEDA** – that accounts for the activities of the Okmulgee Economic Development Authority public trust in providing economic development services to the public
- **OMA** – that accounts for the activities of the Okmulgee Municipal Authority public trust in providing water, sewer, sanitation and airport services to the public.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

For business-type activities and proprietary funds, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, 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.

Discretely Presented Component Unit:

The Okmulgee Parking Authority, reported as a discretely presented component unit, follows the same accounting principles as the proprietary funds noted above.

3. Cash, Cash Equivalents, and Investments

For the purposes of the statements of net assets, balance sheets, and statement of cash flows, 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. Trust account investments in open-ended mutual fund shares are also considered cash equivalents for reporting purposes.

Marketable investments are reported at their fair value, based on quoted market prices.

At June 30, 2012, the reporting entity held the following deposits and investments:

Type	Maturities	Credit Rating	Carrying Value
Deposits:			
Cash on hand			\$ 2,900
Demand deposits			10,211,107
Time deposit			<u>3,233,233</u>
			<u>13,447,240</u>
Investments:			
Money Market Funds	N/A	AAAm	<u>1,332,460</u>
			<u>1,332,460</u>
Total deposits and investments			<u>\$ 14,779,700</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents			\$ 11,546,467
Investments			<u>3,233,233</u>
			<u>\$ 14,779,700</u>

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. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City’s name.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. At June 30, 2012, 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; therefore, the City sets no specific limit on investment maturities. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

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

- a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U. S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a, b, c, and d.

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.

At June 30, 2012, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments - The amounts reported as restricted net assets on the proprietary fund statement of net assets are comprised of cash and investments held by the trustee bank on behalf of the public trust (Authority) related to their required revenue bond accounts and deposits held for refund related to utility deposits. The restricted assets as of June 30, 2012 were as follows:

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

	Current Cash and cash equivalents
Utility Deposits	\$ 265,407
Trustee Accounts:	
Series 2008 Note Account	39,676
Series 2009 Revenue Account	1,197,676
Series 2012 Project Account	80,866
Series 2012 Revenue Account	14,242
 Total	 \$ 1,597,867

4. Receivables

Primary Government Accounts Receivables:

Accounts receivable of the business-type activities consists of customer utilities receivable. Accounts receivable of the governmental activities consists of franchise tax, police fines and hotel/motel tax receivables. Receivables detail at June 30, 2012, is as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Franchise taxes	\$ 17,326	\$ -	\$ 17,326
Hotel/motel tax	8,934	-	8,934
Court fines	2,686,565	(2,283,581)	402,984
Other	16,699	-	16,699
Total Governmental Activities	\$ 2,729,524	\$ (2,283,581)	\$ 445,943
 Business-Type Activities:			
Utilities	\$ 1,840,615	\$ (488,882)	\$ 1,351,733
Other	3,523	-	3,523
Total Business-Type Activities	\$ 1,844,138	\$ (488,882)	\$ 1,355,256

5. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, buildings, 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. A capitalization threshold of \$1,500 is used to report capital assets. The City's inventory of capital assets is incomplete with regards to assets purchased prior to 2005. As a result, the amount of capital assets reported in the financial statements does not represent the historical cost of all capital assets of the reporting entity.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 66,180	\$ 6,041	\$ -	\$ 72,221
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>66,180</u>	<u>6,041</u>	<u>-</u>	<u>72,221</u>
Other capital assets:				
Buildings	3,623,933	42,699	-	3,666,632
Improvements	2,327,522	28,521	-	2,356,043
Infrastructure	2,968,413	44,564	-	3,012,977
Machinery, furniture and equipment	3,503,607	319,570	22,182	3,800,995
Total other capital assets at historical cost	<u>12,423,475</u>	<u>435,354</u>	<u>22,182</u>	<u>12,836,647</u>
Less accumulated depreciation for:				
Buildings	922,782	146,956	-	1,069,738
Improvements	118,876	93,185	-	212,061
Infrastructure	685,411	111,015	-	796,426
Machinery, furniture and equipment	1,722,917	373,174	19,035	2,077,056
Total accumulated depreciation	<u>3,449,986</u>	<u>724,330</u>	<u>19,035</u>	<u>4,155,281</u>
Other capital assets, net	8,973,489	(288,976)	3,147	8,681,366
Governmental activities capital assets, net	<u>\$ 9,039,669</u>	<u>\$ (282,935)</u>	<u>\$ 3,147</u>	<u>\$ 8,753,587</u>
Business-type activities:				
(restated)				
Capital assets not being depreciated:				
Land	\$ 3,513,511	\$ 9,300	\$ -	\$ 3,522,811
Total capital assets not being depreciated	<u>3,513,511</u>	<u>9,300</u>	<u>-</u>	<u>3,522,811</u>
Other capital assets:				
Buildings	2,215,545	62,827	-	2,278,372
Machinery, furniture and equipment	5,351,370	329,573	15,900	5,665,043
Utility property improvements	71,264,022	11,140,514	27,290	82,377,246
Total other capital assets at historical cost	<u>78,830,937</u>	<u>11,532,914</u>	<u>43,190</u>	<u>90,320,661</u>
Less accumulated depreciation for:				
Buildings	736,892	69,404	-	806,296
Machinery, furniture and equipment	4,241,891	199,165	3,268	4,437,788
Utility property improvements	17,453,502	2,074,895	6,565	19,521,832
Total accumulated depreciation	<u>22,432,285</u>	<u>2,343,464</u>	<u>9,833</u>	<u>24,765,916</u>
Other capital assets, net	56,398,652	9,189,450	33,357	65,554,745
Business-type activities capital assets, net	<u>\$ 59,912,163</u>	<u>\$ 9,198,750</u>	<u>\$ 33,357</u>	<u>\$ 69,077,556</u>
Component Unit:				
Okmulgee Parking Authority:				
Other capital assets:				
Buildings	\$ 55,348	\$ -	\$ -	\$ 55,348
Infrastructure	359,173	-	-	359,173
Total other capital assets at historical cost	<u>414,521</u>	<u>-</u>	<u>-</u>	<u>414,521</u>
Less accumulated depreciation for:				
Buildings	16,605	1,383	-	17,988
Infrastructure	209,375	17,959	-	227,334
Total accumulated depreciation	<u>225,980</u>	<u>19,342</u>	<u>-</u>	<u>245,322</u>
Other capital assets, net	188,541	(19,342)	-	169,199
Okmulgee Parking Authority capital assets, net	<u>\$ 188,541</u>	<u>\$ (19,342)</u>	<u>\$ -</u>	<u>\$ 169,199</u>

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Depreciation:

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 25 years
- Improvements other than buildings 20 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 6-60 years
- Infrastructure 5-30 years

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

Governmental Activities:		Business-Type Activities:	
General government	\$ 120,730	Water	\$ 764,501
Public safety	248,416	Sewer	1,237,003
Streets	252,395	Sanitation	64,149
Culture and recreation	99,595	Airport	277,198
Community development	3,194	Economic development	613
	<u>\$ 724,330</u>		<u>\$2,343,464</u>

6. Long-Term Debt and Debt Service Requirements

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

Type of Debt	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Accrued compensated absences	\$ 502,308	\$ 204,571	\$ (215,499)	\$ 491,380	\$ 49,138
Total Governmental Activities	<u>\$ 502,308</u>	<u>\$ 204,571</u>	<u>\$ (215,499)</u>	<u>\$ 491,380</u>	<u>\$ 49,138</u>
Business-Type Activities:					
Notes Payable	\$ 13,680,163	\$ 13,971,953	\$ (2,155,540)	\$ 25,496,576	\$ 1,180,744
Revenue bonds payable	31,640,000	-	(1,855,000)	29,785,000	1,900,000
Deposits subject to refund	223,142	118,228	(75,963)	265,407	44,628
Landfill closure liability	571,761	71,470	-	643,231	64,323
Accrued compensated absences	200,751	89,294	(75,561)	214,484	21,448
Total Business-Type Activities	<u>46,315,817</u>	<u>14,250,945</u>	<u>(4,162,064)</u>	<u>56,404,698</u>	<u>3,211,143</u>
Total Long-Term Debt	<u>\$ 46,818,125</u>	<u>\$ 14,455,516</u>	<u>\$ (4,377,563)</u>	<u>\$ 56,896,078</u>	<u>\$ 3,260,281</u>

Reconciliation to Statement of Net Assets:

Governmental Activities:	
Due within one year	\$ 49,138
Due in more than one year	442,242
Total Governmental Activities Long-term liabilities	<u>\$ 491,380</u>
Business-Type Activities:	
Due within one year	\$ 3,211,143
Due in more than one year	49,057,838
Statement of Net Assets Business-Type Activities Long-term liabilities	<u>52,268,981</u>
Add back unamortized charge on refunding	4,135,717
Total Business-Type Activities Long-term liabilities	<u>\$ 56,404,698</u>

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Governmental activities long-term debt:

Accrued Compensated Absences:

	Current portion	\$	49,138
	Noncurrent portion		442,242
Total Accrued Compensated Absences		\$	491,380

Business-type activities long-term debt:

Notes Payable:

Note Payable to Oklahoma Department of Commerce dated September 29, 2006, original amount of \$80,000 with an annual interest rate of 0.0% due in monthly installments of \$667, final installment due February 2017.		\$	37,333
2008 Sales Tax and Revenue Note payable to BancFirst dated December 23, 2008, original amount of \$5,000,000, secured by pledged sales tax, with an annual interest rate of 4.95% due in semi-annual installments of principal and interest beginning June 2009, final installment due December 2023.			4,130,000
2012 Sales Tax and Revenue Note payable to BancFirst dated April 10, 2012, original amount of \$1,615,000, secured by pledged sales tax, with an annual interest rate of 2.47% due in semi-annual installments of principal and interest beginning June 2012, final installment due June 2023.			1,595,000
2010E Series CWSRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$650,000, secured by utility revenues, payable in semi-annual installments, interest rate at 2.86%, final maturity March 15, 2031.			489,170
2010A Series CWSRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$5,100,000, secured by utility revenues, payable in semi-annual installments, interest rate at 2.54%, final maturity September 15, 2032.			4,057,837
2010C Series DWSRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$2,960,000, secured by utility revenues, payable in semi-annual installments, interest rate at 3.28%, final maturity September 15, 2031.			2,943,982
2010D Series DWSRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$4,895,000, secured by utility revenues, payable in semi-annual installments, interest rate at 3.32%, final maturity March 15, 2032.			4,312,011
2010B Series DWSRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$10,795,000, secured by utility revenues, payable in semi-annual installments, interest rate at 3.32%, final maturity March 15, 2032.			7,931,243
	Total Notes Payable	\$	25,496,576
	Current portion	\$	1,180,744
	Noncurrent portion		24,315,832
	Total Notes Payable	\$	25,496,576

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Revenue Bonds Payable:

2009A Series Utility System and Sales Tax Revenue Bonds original issue amount of \$30,000,000, dated December 1, 2009, issued by Okmulgee Municipal Authority, secured by certain utility revenue and pledged sales tax, due in annual principal installments, interest rates from 1.75% to 5.0%, final maturity December 1, 2024.

		\$ 29,785,000
Total Revenue Bonds Payable	\$	29,785,000
Less: Unamortized Discount on Refunding		(358,586)
Unamortized Gain/Loss on Refunding		(3,981,542)
Add: Unamortized Issue Premium on Refunding		204,411
Net Revenue Bonds Payable	\$	25,649,283
Current portion	\$	1,900,000
Noncurrent portion		27,885,000
Total Revenue Bonds Payable	\$	29,785,000

Accrued Compensated Absences:

		\$ 21,448
Current portion	\$	21,448
Noncurrent portion		193,036
Total Accrued Compensated Absences	\$	214,484

Deposits Subject to Refund:

		\$ 44,628
Current portion	\$	44,628
Noncurrent portion		220,779
Total Deposits Subject to Refund	\$	265,407

Long-term debt service requirements to maturity:

<u>Year Ending June 30,</u>	Business Type Activities			
	Capital		Revenue	
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2013	\$ 1,180,744	\$ 958,863	\$ 1,900,000	\$ 1,065,122
2014	1,320,608	941,620	1,935,000	1,024,354
2015	1,369,109	895,429	1,980,000	977,835
2016	1,417,055	848,741	2,030,000	922,635
2017	1,461,186	797,621	2,090,000	858,223
2018-2022	8,084,051	3,175,748	11,625,000	3,053,490
2023-2027	7,150,062	1,779,620	8,225,000	547,900
2028-2032	7,258,133	662,925		
2033-2035	161,548	2,063		
Totals	\$ 29,402,496	\$ 10,062,630	\$ 29,785,000	\$ 8,449,559
Less: Amount to be drawn	(3,905,920)			
	\$ 25,496,576			

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Current Refunding:

On April 10, 2012 the City issued \$1,615,000 2012 Revenue Note payable with an interest rate of 2.47% to current refund \$1,755,000 of 2010 Sales Tax Revenue Note. The net proceeds of \$1,615,000 plus an additional \$461,335 taken from 2010 Revenue Note Project, Debt Service and Reserve Funds and cash contributions were used to pay off the old outstanding debt and note issuance costs. The 2010 Sales Tax Revenue Note was paid in full on April 10, 2012.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$131,643. This difference was charged to operations in the current fiscal year. The City completed the current refunding to reduce its total debt service payments over the next 15 years by \$498,039 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of \$381,121.

Landfill Closure Liability:

State and federal laws and regulations require the City to place a final cover on its construction and demolition landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for eight years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these costs as an operating expense of the Public Works Authority in each fiscal year. The current period expense amount is based upon the amount of landfill capacity used as of each fiscal year end.

The \$643,231 reported as accrued landfill closure cost liability at June 30, 2012, represents the cumulative amount of such costs reported to date based on the use of 97.1% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated costs of closure and post-closure care in the amount of \$19,297 as the remaining estimated capacity is filled. The City has an agreement with Elliott Construction Company, Inc. whereby the City will guarantee \$662,528 of the total estimated closure and post-closure care costs. The approved 2012 cost estimates are \$502,562 for closure and \$586,463 for post-closure for a total of \$1,089,025. These amounts are based on what it would cost to perform all closure and post-closure care in 2012. The Authority expects to close the landfill cell in the year 2013 and actual costs may be higher or lower at that time due to inflation, changes in technology or changes in regulations.

The City has qualified under the Department of Environmental Quality financial assurance test relating to these future closure and post-closure care costs, whereby the City's overall financial condition and other submitted information serves as evidence of the City's ability to pay for the closure and post-closure care costs when the landfill is actually closed. As such, the City is not required to fund an escrow trust account for these costs.

Landfill Closure Liability:

Current portion	\$	64,323
Noncurrent portion		578,908
Total Landfill Closure Liability	\$	<u>643,231</u>

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged two cents (or 1/2) of future sales tax revenues and net utility revenues to repay the \$30,000,000 Series 2009A Utility System and Sales Tax Revenue Bonds, the \$1,615,000 Series 2012 Sales Tax and Revenue Note, the \$650,000 of the OWRB 2010E Series CWSRF promissory note, the \$5,100,000 2010A Series CWSRF, the \$2,960,000 2010C Series DWSRF, the \$4,895,000 2010D Series DWSRF, and the \$10,795,000 2010B Series DWSRF Note Payables. The bonds and notes are payable from pledged sales tax revenues and net utility revenues. The bonds and notes are payable through 2024, 2023, 2031, 2032, 2031, 2032 and 2032, respectively. The total principal and interest payable for the remainder of the life of these bonds and notes are \$72,197,317. Pledged sales taxes received in the current year were \$2,943,385 and net utility revenues were \$4,453,335. Debt service payments of \$3,353,853 for the current fiscal year were 45.3% of pledged sales taxes and net utility revenues of \$7,396,720.

Sales Tax Pledge - The City has pledged one cent (or 25%) of future sales tax revenues to repay the \$5,000,000 2008 Sales Tax and Revenue Note. Proceeds from the note provided for the purchase or construction of capital assets. The note is payable from pledged sales tax revenues. The notes are payable through 2024. The total principal and interest payable for the remainder of the life of this note is \$5,463,035. Pledged sales taxes received in the current year were \$1,471,693. Debt service payments of \$480,585 for the current fiscal year were 32.7% of pledged sales taxes.

Debt Service Coverage Requirement:

The revenue bond trust indentures require that Net Revenues Available for Debt Service must be at least 125% of the average annual debt service on all OMA parity debt. The actual coverage was met as follows:

	OKMULGEE MUNICIPAL AUTHORITY	
	<u>2009A&B Revenue Bonds & 2012 Revenue Note</u>	<u>OWRB Debt</u>
Gross Revenue Available for Debt Service:		
Charges for services (1)	\$8,099,961	\$8,099,961
Investment income	15,306	15,306
Sales tax pledged	2,943,385	2,943,385
Total Gross Revenues Available	<u>11,058,652</u>	<u>11,058,652</u>
Operating Expenses: (1)		
Operations - water, sewer and sanitation	3,661,932	3,661,932
Total Operating Expenses	<u>3,661,932</u>	<u>3,661,932</u>
Net Revenues Available for Debt Service	<u>\$7,396,720</u>	<u>\$7,396,720</u>
Debt Service Requirements:		
Annual debt service on all OMA parity debt	\$3,737,194	-
Maximum annual debt service on all OMA parity debt	-	\$4,759,914
Computed Coverage	<u>198%</u>	<u>155%</u>
Coverage Requirement	<u>100%</u>	<u>125%</u>

(1) The above gross revenue and operating expenses include water, sewer and sanitation operations of the Municipal Authority, excluding depreciation and amortization.

Note: The 2009A&B Revenue Bonds and 2012 Revenue Note also requires a coverage of 125% of annual principal and interest solely on these bonds. Since 198% was achieved on all parity debt, it is apparent that this requirement was met also.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Reserve Account Balance Requirements:

There is no reserve account requirement established in connection with the 2009A Bonds or the 2009B Bonds.

7. Net Assets and Fund Balances

Net Assets:

Net assets as reported in the government-wide and proprietary fund financial statements are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets, net of accumulated depreciation and unamortized capital debt issuance costs, 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, net of unexpended debt proceeds.
- 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.

	<u>Contractual Agreements</u>
Governmental Activities:	
Capital Projects and Debt Service:	
Dedicated Sales Tax Fund	\$ 243,346
Deposits with insurance pool:	
General Fund	2,413
Total Governmental Activities	245,759
 TOTAL RESTRICTED NET ASSETS	 \$ 245,759

- 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.

Fund Balances:

Governmental fund equity is classified as fund balance. Since the City has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- 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 the 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.

8. Sales Tax Revenue

Sales tax revenue represents a four cent tax on each dollar of taxable sales. One cent (or 25%) is voter-restricted to secure debt payments on capital debt and is recorded in the Dedicated Sales Tax Fund. The other three cents (or 75%) are recorded in the General Fund. Two cents are pledged to cover debt service on the 2009A and 2009B Revenue Bonds as well as the 2010 Oklahoma Water Resources Board Notes.

9. 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 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.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012 were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
OMA	General Fund	\$ 750,000	Operating
OMA	General Fund	200,000	Grant reimbursement
General Fund	OMA	474,425	Sales tax transfer
General Fund	OEDA	45,000	Operating
Dedicated Sales Tax Fund	OMA	1,977,708	Transfer for debt service
Total		<u>\$ 3,447,133</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 950,000	\$ (2,497,133)	\$ (1,547,133)
Proprietary Funds	2,497,133	(1,145,505)	1,351,628
	<u>\$ 3,447,133</u>	<u>\$ (3,642,638)</u>	<u>\$ (195,505)</u>

Reconciliation to Statement of Activities:

Governmental Funds Transfers	\$	(1,547,133)
Capital assets transferred from business-type activities to governmental activities		195,505
Street activity moved from business-type activities to governmental activities		304,013
Total government-wide level	<u>\$</u>	<u>(1,047,615)</u>

Balances:

Interfund receivable and payables at June 30, 2012 were comprised of the following:

Due From	Due To	Amount	Nature of Balance
General Fund	OMA	\$ 9,869	Operating subsidy to be reimbursed
OMA	General Fund	55,628	Payroll expense to be reimbursed
OEDA	OMA	35,324	Operating subsidy to be reimbursed
Total		<u>\$ 100,821</u>	

Reconciliation to Fund Financial Statements:

	Due From	Due To	Net Internal Balances
Governmental Funds	\$ 55,628	\$ (9,869)	\$ 45,759
Proprietary Funds	45,193	(90,952)	(45,759)
Total	<u>\$ 100,821</u>	<u>\$ (100,821)</u>	<u>\$ -</u>

10. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- **General Liability and Physical Property** – Covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.
- **Workers' Compensation** – Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

- Employee's Group Medical – Self insured up to \$50,000 per employee. Additional coverage for claims exceeding \$50,000 per employee.

The City's general liability, physical property and workers compensation risks are transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claims reserves and other purposes for the benefit of the City. The portion of the reserves to which the City has access is reported as Deposits with Insurance Pool.

Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Claims Liability Analysis:

The claims liabilities related to the risks of loss that are retained are determined in accordance with the requirements of Statement of Financial Accounting Standards No. 5, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Such accrued losses include an estimated liability for incurred but not reported claims based on past historical experience.

For the risk management health activity reported in the General fund, changes in the estimated claims liability for the City from July 1, 2009, to June 30, 2012, are as follows:

Claims Liability, June 30, 2009	\$	72,059
Claims incurred and changes in estimates		1,232,905
Claims paid		<u>(1,226,790)</u>
Claims Liability, June 30, 2010		78,174
Claims incurred and changes in estimates		1,262,734
Claims paid		<u>(1,299,571)</u>
Claims Liability, June 30, 2011		\$41,337
Claims incurred and changes in estimates		1,199,410
Claims paid		<u>(1,173,347)</u>
Claims Liability, June 30, 2012		<u><u>\$ 67,400</u></u>

11. Contingencies

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

12. Pension Plan Participation

The City of Okmulgee participates in four pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF) – an agent multiple-employer defined benefit plan
4. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan

Firefighters' Plan:

Pursuant to the requirements of Title 11, section 49-102, the City of Okmulgee participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan. The City is required by state law to contribute 13% per year per paid firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The state made on-behalf payments for the fire pension system of \$208,815.

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

Police Plan:

Pursuant to the requirements of Title 11, section 50-102, the City of Okmulgee participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). The paid police person contributes 8% to the plan. The City is required by state law to contribute 13% per year per paid police person to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The state made on-behalf payments for the police pension system of \$91,546.

The OPPRS issues a publicly available report that includes financial statements, which can be obtained from the Oklahoma Police Pension and Retirement System, 1001 N.W. 63rd Street, Oklahoma City, OK, 73116-7335.

Employee Plans:

Defined Benefit Plan:

The City provides a pension benefit for all of its full-time employees with the exception of the police and fire departments, through the Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer-defined benefit plan. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Board of Trustees elected by the participating municipalities. JP Morgan Chase Bank acts as securities custodian. The employee's contribution rate is 0%. The City's contribution rate is 12.34% and is actuarially

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

adjusted each fiscal year. The plan is funded by contributions from participants and employers as necessary.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park, Suite 320, Oklahoma City, Oklahoma, 73105.

Eligibility Factors, Contribution Methods and Benefit Provisions

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, non-uniformed employees of the City or Authority.
b. Contribution Requirements:	
- Authorization	By City ordinance
- Actuarially Determined	Yes
- Employer Rate	12.34% of covered payroll, adjusted actuarially each fiscal year
- Employee Rate	None
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	- Normal retirement at age 65 with 10 years of service - Early retirement at age 55 with 10 years of service - Disability retirement upon disability with 10 years of service - Death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service.
f. Benefit Determination Methods:	
- Normal Retirement	2.625% of final average salary multiplied by credited years of service.
- Early Retirement	Actuarially reduced benefit based upon age and years of service at termination.
- Disability Retirement	Same as normal retirement.
- Death Benefit	50% of employee's accrued benefit, payable to a non-spouse for 5 years certain or a spouse for lifetime or remarriage.
- Prior to 10 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Annual Pension Costs

1. Current Year Contribution Information

For the year ended June 30, 2012, the City's annual pension cost of \$350,121 was equal to the City's required and actual contributions.

2. Actuarial Assumptions:

Date of Last Actuarial Valuation	For Plan Year July 1, 2012
a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by age
d. Post Retirement Cost-of-Living Increase	None
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase.
f. Mortality	UP 94 mortality
g. Asset Valuation Method	Actuarial method

Funded Status and Funding Progress

As of January 1, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$ 11,696,452
Actuarial value of plan assets	11,366,448
Unfunded actuarial accrued liability (UAAL)	<u>\$ 330,004</u>
Funded ratio (actuarial value of plan assets/AAL)	97.2%
Annual covered payroll (active plan members)	\$ 2,790,472
UAAL as a percentage of covered payroll	11.8%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Summary of Contributions – All Defined Benefit Plans:

Oklahoma Firefighter's Pension and Retirement System			Oklahoma Police Pension and Retirement System		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2010	123,526	100%	2010	128,290	100%
2011	125,293	100%	2011	118,336	100%
2012	108,675	100%	2012	106,807	100%

OMRF		
Fiscal Year	Required Contribution	Percentage Contributed
2010	361,997	100%
2011	353,903	100%
2012	350,121	100%

OMRF Defined Contribution Plan:

The City has also provided a defined contribution plan and trust known as the City of Okmulgee Plan and Trust (the "Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan. OMRF operations are supervised by a nine-member Council of Trustees elected by the participating municipalities. The Plan is administered by JP Morgan Chase Bank. The defined contribution plan is available to all full-time employees who are not already participating in another plan. According to City Ordinance, the employee must contribute to the Plan 5% of their gross wages. The City, as employer, contributes, per ordinance, a variable amount based on budget. This fiscal year the employer contributed 0% of pay to this plan. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited are allocated to the remaining employees. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2012, the City contributed \$0 to the plan, while the employee contributions totaled \$138,790.

The City also participates in the City Manager plan whereby the City contributes 10% and the city manager contributes 7% of gross wages to the plan. For the year ended June 30, 2012, the City contributed \$0 to the plan, while the city manager contributions totaled \$5,256.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Dr., Suite 320, Oklahoma City, Oklahoma, 73105.

Summary of Contributions – Defined Contribution Plan:

For the year ended June 30, 2011, the following amounts related to the defined contribution plan:

	2012	2011	2010
Employee contributions made	\$ 144,046	\$ 147,812	\$ 146,514
Employer (City) contributions made	\$ -	\$ -	\$ -

13. 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.

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Budgetary Comparison Schedules (Budgetary Basis)– Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 2,396,465	\$ 2,396,465	\$ 6,835,350	\$ 4,438,885
Resources (Inflows):				
TAXES:				
Sales tax	6,000,000	6,000,000	5,881,546	(118,454)
Use tax	240,000	240,000	178,108	(61,892)
Franchise tax	400,000	400,000	357,928	(42,072)
Hotel/Motel tax	75,000	75,000	78,044	3,044
Total Taxes	<u>6,715,000</u>	<u>6,715,000</u>	<u>6,495,626</u>	<u>(219,374)</u>
INTERGOVERNMENTAL:				
Alcoholic beverage tax	65,000	65,000	61,992	(3,008)
Gas excise tax	23,000	23,000	22,834	(166)
Commercial vehicle tax	92,000	92,000	84,470	(7,530)
Cigarette/tobacco tax	80,000	80,000	84,970	4,970
Grants	1,148,240	1,148,240	935,013	(213,227)
Total Intergovernmental	<u>1,408,240</u>	<u>1,408,240</u>	<u>1,189,279</u>	<u>(218,961)</u>
LICENSES AND PERMITS:	<u>57,500</u>	<u>57,500</u>	<u>45,880</u>	<u>(11,620)</u>
FINES AND FORFEITURES:	<u>545,100</u>	<u>545,100</u>	<u>510,493</u>	<u>(34,607)</u>
CHARGES FOR SERVICES:				
Lake fees	6,500	6,500	6,250	(250)
Weed abatements	35,000	35,000	34,968	(32)
False alarm fee	3,000	3,000	950	(2,050)
Nutrition center rent	1,800	1,800	1,800	-
Insufficient check charge fees	3,500	3,500	2,575	(925)
Police department service fees	7,500	7,500	10,319	2,819
Fire subscriptions	10,000	10,000	9,270	(730)
Shelter fees	1,000	1,000	830	(170)
Library fees	15,000	15,000	13,230	(1,770)
Dilapidated buildings	-	-	740	740
Total Charges for Services	<u>83,300</u>	<u>83,300</u>	<u>80,932</u>	<u>(2,368)</u>
INVESTMENT INCOME:	<u>52,344</u>	<u>52,344</u>	<u>41,755</u>	<u>(10,589)</u>
MISCELLANEOUS:				
Seized property	2,000	2,000	226	(1,774)
Stop loss refunds	60,000	60,000	20,733	(39,267)
Miscellaneous	293,000	373,931	232,120	(141,811)
Total Miscellaneous	<u>355,000</u>	<u>435,931</u>	<u>253,079</u>	<u>(182,852)</u>
OTHER FINANCING SOURCES:				
Transfers in	<u>750,000</u>	<u>750,000</u>	<u>950,000</u>	<u>200,000</u>
Total Resources (Inflows)	<u>9,966,484</u>	<u>10,047,415</u>	<u>9,567,044</u>	<u>(480,371)</u>
Amounts available for appropriation	<u>12,362,949</u>	<u>12,443,880</u>	<u>16,402,394</u>	<u>3,958,514</u>
Charges to Appropriations (Outflows):				
<i>General Government:</i>				
City Administration	436,502	436,532	390,529	46,003
General Government	907,650	947,650	444,426	503,224
Finance	254,532	254,532	228,090	26,442
Central Repair	226,097	226,097	177,327	48,770
Property Maintenance	768,171	768,171	474,639	293,532
<i>Public Safety and Judiciary:</i>				
Police	2,155,363	2,157,294	1,789,950	367,344
E-911 Operations	282,711	282,711	243,427	39,284
Fire	2,549,639	2,574,418	2,113,456	460,962
Legal and Municipal Court	166,674	166,644	146,195	20,449
<i>Culture and Recreation:</i>				
Library	547,104	547,104	396,191	150,913
Historic Preservation	18,750	18,750	5,200	13,550
<i>Community:</i>				
Community Development	508,726	508,726	435,580	73,146
Transfers to Other Funds	<u>2,039,335</u>	<u>2,039,335</u>	<u>1,985,894</u>	<u>53,441</u>
Total Charges to Appropriations	<u>10,861,254</u>	<u>10,927,964</u>	<u>8,830,904</u>	<u>2,097,060</u>
Fund balances - ending	<u>\$ 1,501,695</u>	<u>\$ 1,515,916</u>	<u>\$ 7,571,490</u>	<u>\$ 6,055,574</u>

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported using the modified accrual basis of accounting, with the exception of on-behalf payments.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within departments require the approval of the City Manager. All other transfers require the approval of the City Council. All supplemental appropriations require the approval of the City Council and are to be filed with the Office of the State Auditor and Inspector.
3. The General Fund budgetary comparison differs from the modified cash basis Statement of Revenues, Expenditures and Changes in Fund Balance as follows:

	Revenues, Expenditures and Changes in Fund Balance	On-Behalf Payments Made by State	Reclass of Dedicated Sales Tax	Per Budgetary Comparison Schedule
General Fund:				
Total Revenues	\$ 7,450,936	\$ (300,361)	\$ 1,466,469	\$ 8,617,044
Transfers In	950,000	-	-	950,000
Total Revenues and Other Financing Sources	<u>8,400,936</u>	<u>(300,361)</u>	<u>1,466,469</u>	<u>9,567,044</u>
Total Expenditures	7,145,371	(300,361)	-	6,845,010
Transfers Out	519,425	-	1,466,469	1,985,894
Total Expenditures and Other Financing Uses	<u>7,664,796</u>	<u>(300,361)</u>	<u>1,466,469</u>	<u>8,830,904</u>
Net Change in Fund Balance	<u>\$ 736,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 736,140</u>

CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Schedule of Retirement Plan Contributions – OMRF Defined Benefit Plan

OMRF Agent Multiple Employer Defined Pension Plan - Schedule of Funding Progress

Required Supplementary Information - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) -- Entry Age</u>	<u>Unfunded (Overfunded) AAL</u>	<u>Funded Ratio</u>	<u>(1) Covered Payroll</u>	<u>AAL as a Percentage of Covered Payroll</u>
1/1/04	\$8,714,667	\$7,235,475	(\$1,479,192)	120.4%	\$2,708,951	(54.6%)
1/1/05	\$9,140,382	\$7,341,710	(\$1,798,672)	124.5%	\$2,445,792	(73.5%)
1/1/06	\$9,564,777	\$7,845,394	(\$1,719,383)	121.9%	\$2,565,014	(67.0%)
1/1/07	\$10,039,073	\$8,092,489	(\$1,946,584)	124.1%	\$2,483,721	(78.4%)
1/1/08	\$10,585,238	\$9,051,248	(\$1,533,990)	116.9%	\$2,754,885	(55.7%)
1/1/09	\$9,896,535	\$9,520,683	(\$375,852)	103.9%	\$2,934,379	(12.8%)
1/1/10	\$10,238,653	\$10,270,233	\$31,580	99.7%	\$2,919,879	1.1%
1/1/11	\$10,838,862	\$11,106,449	\$267,587	97.6%	\$2,916,953	9.2%
1/1/12	\$11,366,448	\$11,696,452	\$330,004	97.2%	\$2,790,472	11.8%

(1) Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year and not the actual covered payroll during the fiscal year.

**CITY OF OKMULGEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF OKMULGEE, OKLAHOMA

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2012

CITY OF OKMULGEE, OKLAHOMA

TABLE OF CONTENTS

PAGE

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:

**Reports related to financial statements of the reporting entity
Required by GAO Government Auditing Standards:**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
---	---

Reports related to Federal Assistance Programs Required by OMB Circular A-133:

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6
Summary Schedule of Prior Audit Findings and Questioned Costs	9



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

Honorable Mayor and Members of the City Council of the
City of Okmulgee, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Okmulgee, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 12, 2013. The report on the governmental activities, the business-type activities, and each major proprietary fund of the City was qualified because prior year records concerning property and equipment and the related accumulated depreciation are not adequate. In addition, the report on the discretely-presented component unit was qualified because prior year records concerning its property and equipment and the related accumulated depreciation are not adequate. Except as described in the preceding sentences, 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described as finding 12-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Edmond, Oklahoma
February 12, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council of the
City of Okmulgee, Oklahoma

Compliance

We have audited the City of Okmulgee, Oklahoma's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is

reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated February 12, 2013. Our audit was performed for the purpose of forming our opinions on those financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Edmond, Oklahoma
February 12, 2013

CITY OF OKMULGEE, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass through agency Grantor/Program Title	CFDA Number	Grant #	Award Amount	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Assistance to Firefighters Grant	97.044	EMW-2009-FR-00352	\$ 558,990	\$ 558,990
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Oklahoma Department of Commerce: Community Development Block Grants	14.218	14318-CDBG-10	350,000	350,000
U.S. DEPARTMENT OF TRANSPORTATION:				
Passed through Oklahoma Aeronautics Commission Airport Improvement Program	20.106	AIP3-40-0074-017-201	64,220	61,226
ENVIRONMENTAL PROTECTION AGENCY:				
Passed through Oklahoma Water Resources Board				
Capitalization Grants for Clean Water State Revolving Funds	66.458	ORF-09-0012-CW	119,439	119,439
Capitalization Grants for Clean Water State Revolving Funds	66.458	ORF-10-0013-CW	97,500	6,596
Capitalization Grants for Drinking Water State Revolving Funds	66.468	ORF-10-0013-DW	456,914	456,914
	Subtotal Environmental Protection Agency		673,853	582,949
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Passed through Oklahoma Department of Civil Emergency Mangement				
Disaster Grants - Public Assistance	97.036	PA-1985 PW23	4,905	4,905
Disaster Grants - Public Assistance	97.036	PA-1985 PW159	3,750	3,750
Disaster Grants - Public Assistance	97.036	PA-1985 PW127	3,414	3,414
	Subtotal Department of Homeland Security		12,069	12,069
TOTAL FEDERAL AWARDS			\$ 1,659,132	\$ 1,565,234

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Okmulgee (the "City") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF OKMULGEE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Qualified – governmental activities,
business-type activities, each major
proprietary fund, and the discretely-
presented component unit
Unqualified – each major governmental
fund

Internal control over financial reporting:

Material weakness(es) identified?

X yes _____ no

Significant deficiency(ies) identified

not considered to be material weakness(es)?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness (es) identified?

_____ yes X no

Significant deficiency (ies) identified

not considered to be material weakness (es)?

_____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s)

14.218

97.044

Name of Federal Program or Cluster

Community Development Block Grants

Assistance to Firefighters Grant

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes X no

CITY OF OKMULGEE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

See finding 12-1.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

CITY OF OKMULGEE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2012

**Finding 12-1 Lack of Detailed Capital Asset Records and Annual Inventory of Assets
(Prior Year Finding 11-1)**

Criteria:

It is the responsibility of management to properly report the City's capital assets in the financial statements.

Condition:

The City has not maintained a complete listing of capital assets prior to 2005.

Cause:

Prior to 2005, the City did not maintain complete capital asset records.

Effect:

Capital assets may not be properly reported in the City's financial statements.

Recommendation:

Management is responsible for properly reporting the City's capital assets. A complete inventory should be conducted documenting all assets owned by the City prior to 2005. The detailed records should contain, at a minimum, a description of the assets, date of acquisition, cost, and location. GASB 34 reporting requirements require that all assets of the City be depreciated. Therefore, it was also recommended that the inventory listings reflect the assets' estimated useful life and related depreciation information.

Management's Response:

The City has elected, at this time, not to address this finding due to estimated costs involved to resolve the matter.

CITY OF OKMULGEE, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For Prior Year Ended June 30, 2011

**Finding 11-1 Lack of Detailed Capital Asset Records and Annual Inventory of Assets
(Prior Year Finding 10-1)**

Criteria:

It is the responsibility of management to properly report the City's capital assets in the financial statements.

Condition:

The City has not maintained a complete listing of capital assets prior to 2005.

Cause:

Prior to 2005, the City did not maintain complete capital asset records.

Effect:

Capital assets may not be properly reported in the City's financial statements.

Recommendation:

Management is responsible for properly reporting the City's capital assets. A complete inventory should be conducted documenting all assets owned by the City prior to 2005. The detailed records should contain, at a minimum, a description of the assets, date of acquisition, cost, and location. GASB 34 reporting requirements require that all assets of the City be depreciated. Therefore, it was also recommended that the inventory listings reflect the assets' estimated useful life and related depreciation information.

Management's Response:

The City has elected, at this time, not to address this finding due to estimated costs involved to resolve the matter.

Current Status:

See current year finding 12-1.