

**CITY OF ELK CITY OKLAHOMA  
ELK CITY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS  
AND ACCOMPANYING  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2012**

THE CITY OF ELK CITY, OKLAHOMA  
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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Elk City, OK

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Elk City, OK 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 City of Elk City, OK's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk City, OK, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated December 19, 2012, on our consideration of the City of Elk City, OK's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elk City, OK's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Derrel S. White, CPA

Woodward, OK  
December 19, 2012

Within this section, the City of Elk City's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2012. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL SUMMARY

- At June 30, 2012, the assets of the City exceeded its liabilities by \$92,656,079 (net assets). Of this amount \$16,722,360 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors. This compared to the previous year when assets exceeded liabilities by \$80,374,510.
- The City's total net assets are comprised of the following:
  - (1) Invested in capital assets, net of related debt of \$57,025,165 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
  - (2) Restricted net assets of \$18,908,554.
  - (3) Unrestricted net assets of \$16,722,360 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City were \$23,820,386 which compares favorably to prior year liabilities of \$26,409,400. The decrease of \$2,589,014 is attributable to payments made on long term debt during fiscal year 2012. Refer to a summary of payments made in the footnotes to the financial statements.
- The City's governmental funds reported total ending fund balance of \$21,085,218 this year. This compared to prior year ending fund balance of \$12,326,553, showing an increase of \$5,967,908 prior to prior period adjustment. Unassigned fund balance was \$4,630,098 as of June 30, 2012.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### **Government-wide Financial Statements**

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resourced available and whether the City can continue to meet it objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

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

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the

statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including electricity, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). More comprehensive information about the City's component units can be found in footnotes.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

The City has three kinds of funds:

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

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

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

*Fiduciary funds* such as the meter deposits and police bonds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

**Notes to the financial statements**

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

**Other information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information detailing the combining statements of non-major governmental funds.

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Assets**

The City's combined net assets at June 30, 2012 are \$92,656,079. This is a \$12,281,569 increase over June 30, 2011 net assets of \$80,374,510, including change in presentation. The City reported positive balances in total net assets for both governmental and business-type activities, reporting \$54,570,765 and \$38,085,314, respectively. The City's overall financial position improved during fiscal year 2012.

	Summary of Net Assets (in thousands)							
	Governmental Activities		Business-Type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
Current assets	\$ 21,946	\$ 12,915	\$ 14,770	\$ 12,640	\$ 36,716	\$ 25,555	\$ 11,161	44%
Non-current assets	-	-	1,881	1,991	1,881	1,991	(110)	100%
Capital assets, net	34,770	34,912	43,109	44,326	77,879	79,238	(1,359)	-2%
<b>Total assets</b>	<b>56,716</b>	<b>47,827</b>	<b>59,760</b>	<b>58,957</b>	<b>116,476</b>	<b>106,784</b>	<b>9,692</b>	<b>9%</b>
Current liabilities	861	589	1,839	2,695	2,700	3,284	(584)	-18%
Non-current liabilities	1,284	1,284	19,836	21,842	21,120	23,126	(2,006)	-9%
<b>Total liabilities</b>	<b>2,145</b>	<b>1,873</b>	<b>21,675</b>	<b>24,537</b>	<b>23,820</b>	<b>26,410</b>	<b>(2,590)</b>	<b>-10%</b>
Net assets								
Invested in capital assets, net of related debt	34,770	34,912	22,256	23,899	57,026	58,811	(1,785)	-3%
Restricted	11,941	1,732	6,968	-	18,909	1,732	17,177	992%
Unrestricted	7,860	9,310	8,861	10,521	16,721	19,831	(3,110)	-16%
<b>Total net assets</b>	<b>\$ 54,571</b>	<b>\$ 45,954</b>	<b>\$ 38,085</b>	<b>\$ 34,420</b>	<b>\$ 92,656</b>	<b>\$ 80,374</b>	<b>\$ 12,282</b>	<b>15%</b>

Net assets increased 15% over prior year. This increase is attributable in increase in liquid assets coupled with a decrease in liabilities.

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2012	2011	2012	2011	2012	2011		
<b>Revenues</b>								
Program revenues	\$ 3,317,027	\$ 4,144,021	\$ 7,186,487	\$ 6,952,290	\$ 10,503,514	\$ 11,096,311	\$ (592,797)	-5%
Taxes and other general revenues	13,981,454	13,890,297	3,878,436	43,497	17,859,890	13,933,794	3,926,096	28%
<b>Total revenues</b>	<b>17,298,481</b>	<b>18,034,318</b>	<b>11,064,923</b>	<b>6,995,787</b>	<b>28,363,404</b>	<b>25,030,105</b>	<b>3,333,299</b>	<b>23%</b>
<b>Expenses</b>								
General government	2,534,583	427,388	-	-	2,534,583	427,388	2,107,195	493%
Public safety and judiciary	4,765,499	5,330,857	-	-	4,765,499	5,330,857	(565,358)	-11%
Transportation	4,223	100,912	-	-	4,223	100,912.00	(96,689)	100%
Cultural, parks, and recreation	1,589,021	1,785,431	-	-	1,589,021	1,785,431	(196,410)	-11%
Public service	1,434,156	1,442,468	-	-	1,434,156	1,442,468	(8,312)	-1%
Economic development	709,982	685,626	-	-	709,982	685,626	24,356	4%
Utilities	-	-	4,454,029	2,330,091	4,454,029	2,330,091	2,123,938	91%
Airport	-	-	446,636	313,637	446,636	313,637	132,999	42%
Customer service	-	-	746,305	1,698,737	746,305	1,698,737	(952,432)	-56%
Industrial development	-	-	3,060,311	3,522,206	3,060,311	3,522,206	(461,895)	-13%
<b>Total expenses</b>	<b>11,037,464</b>	<b>9,772,682</b>	<b>8,707,281</b>	<b>7,864,671</b>	<b>19,744,745</b>	<b>17,637,353</b>	<b>2,107,392</b>	<b>12%</b>
Excess (deficiency) before transfers	\$ 6,261,017	\$ 8,261,636	\$ 2,357,642	\$ (868,884)	\$ 8,618,659	\$ 7,392,752	\$ 1,225,907	17%
Transfers	(435,220)	(9,249,091)	435,220	9,249,091	-	-	-	0%
<b>Increase (decrease) in net assets</b>	<b>\$ 5,825,797</b>	<b>\$ (987,455)</b>	<b>\$ 2,792,862</b>	<b>\$ 8,380,207</b>	<b>\$ 8,618,659</b>	<b>\$ 7,392,752</b>	<b>\$ 1,225,907</b>	<b>17%</b>

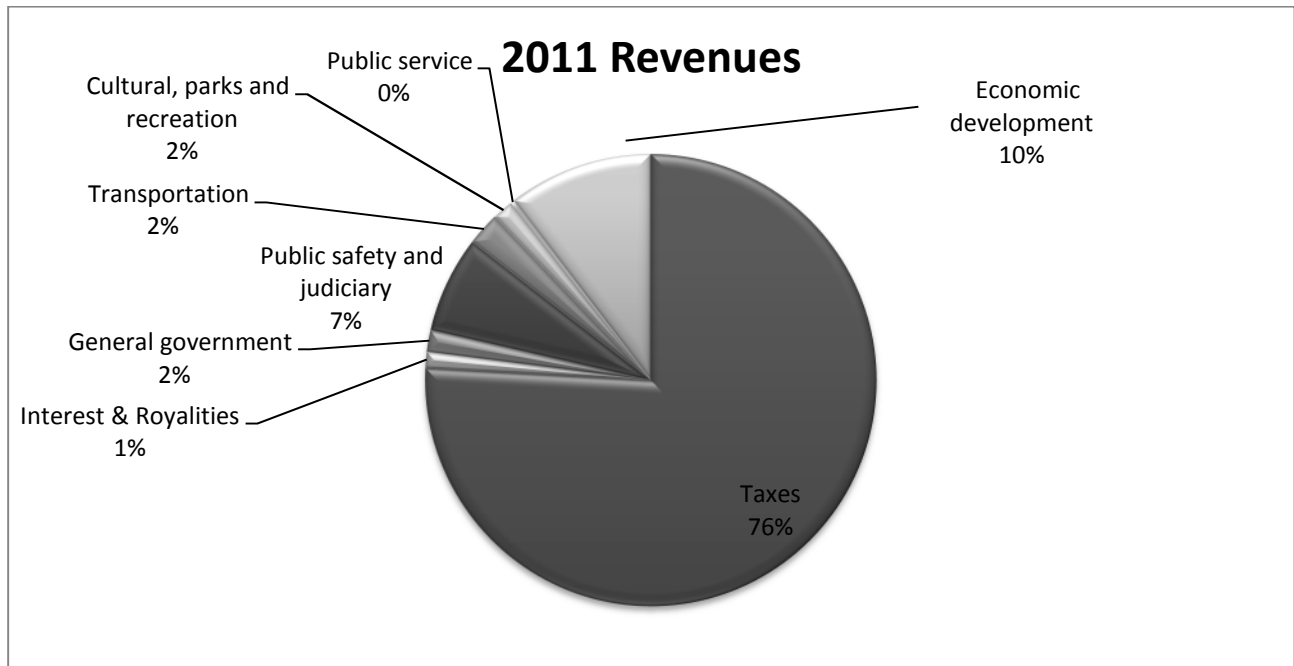
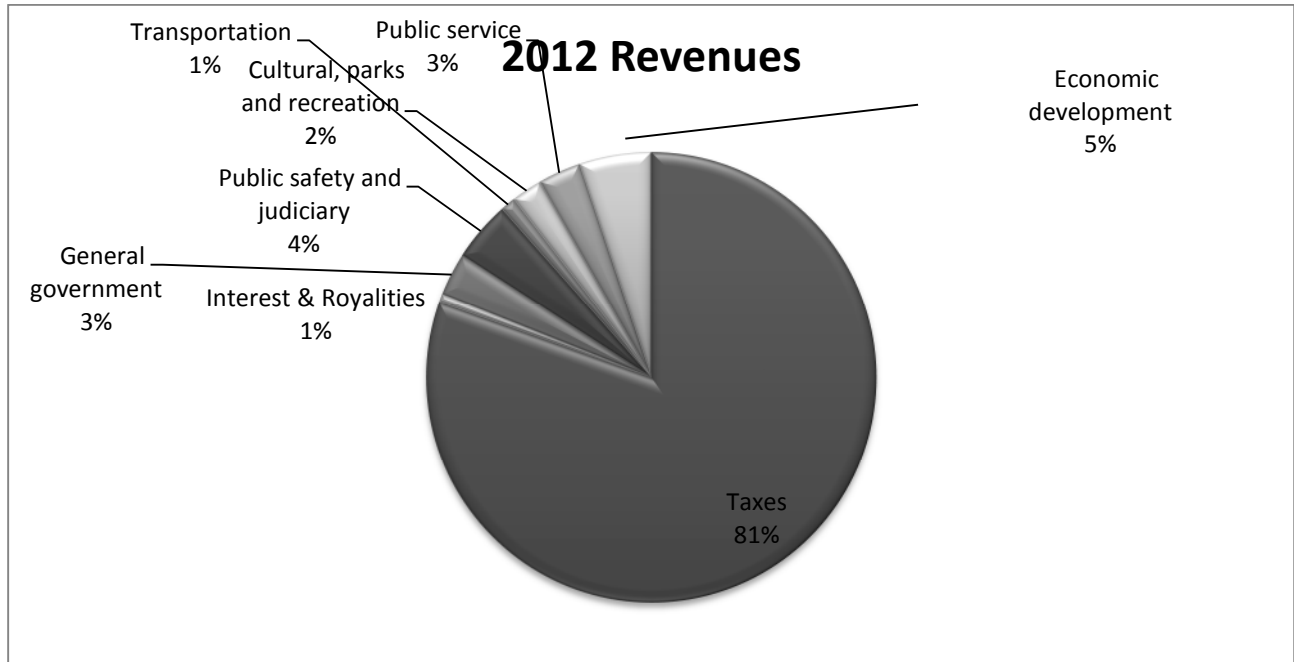
Certain reclassifications have been made from prior year balances to conform to current year presentation.

Revenues for the City increased 23% year over year. This increase in revenue is attributable to an increase in general tax revenues.

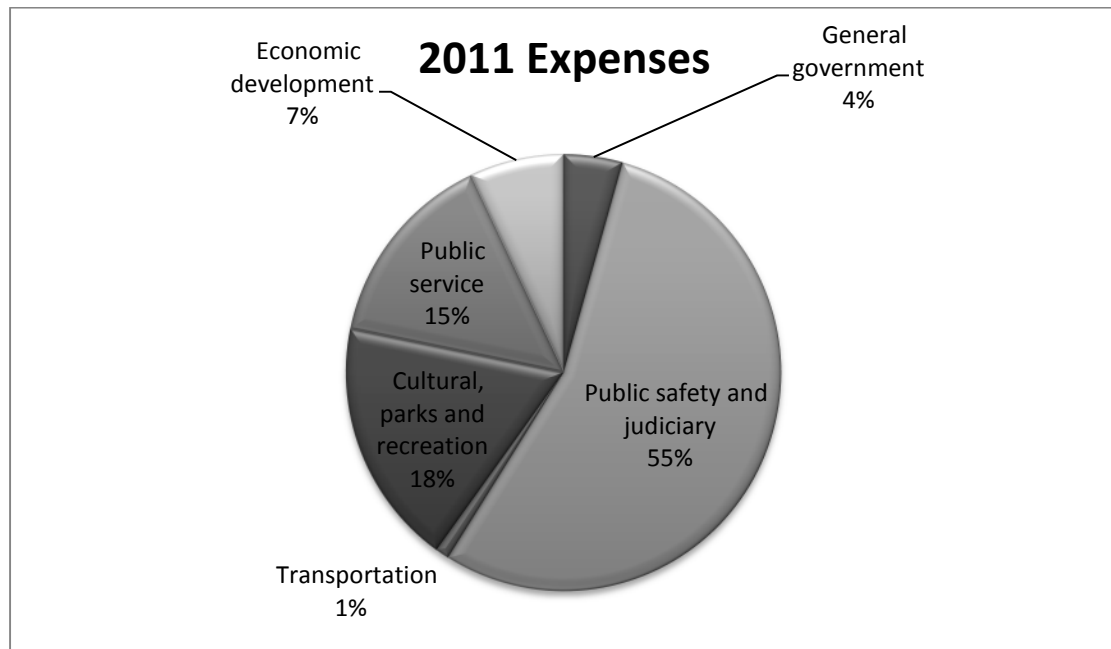
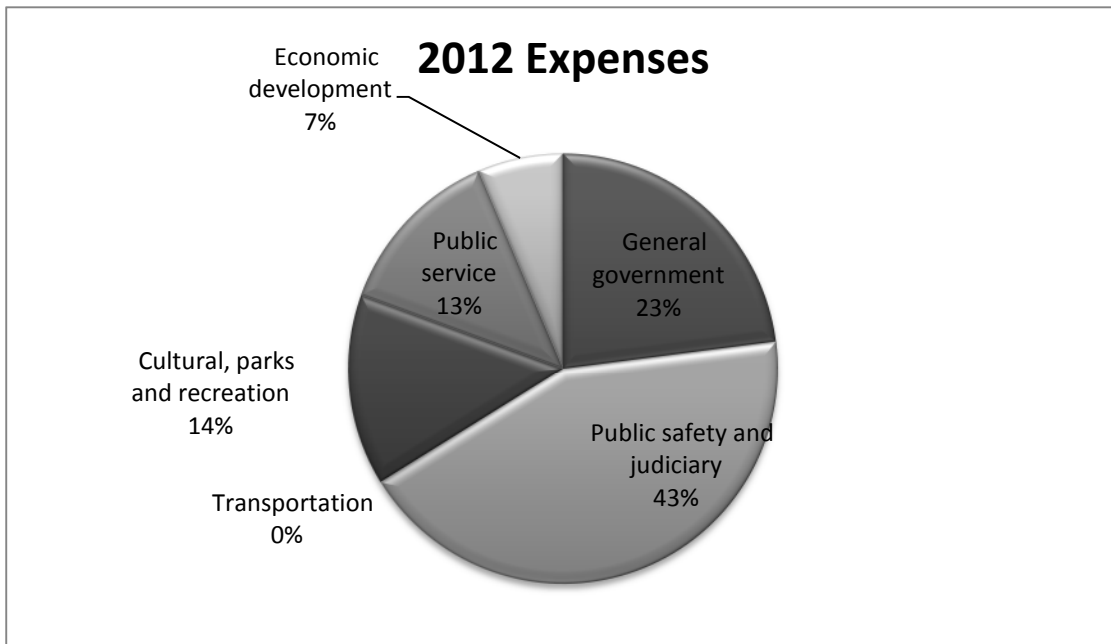
Operating expenses also noted an increase over fiscal year 2011 of 12%. This increase is a function of the repairs and improvements made to the City infrastructure during the fiscal year coupled with increase in personnel.



Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.

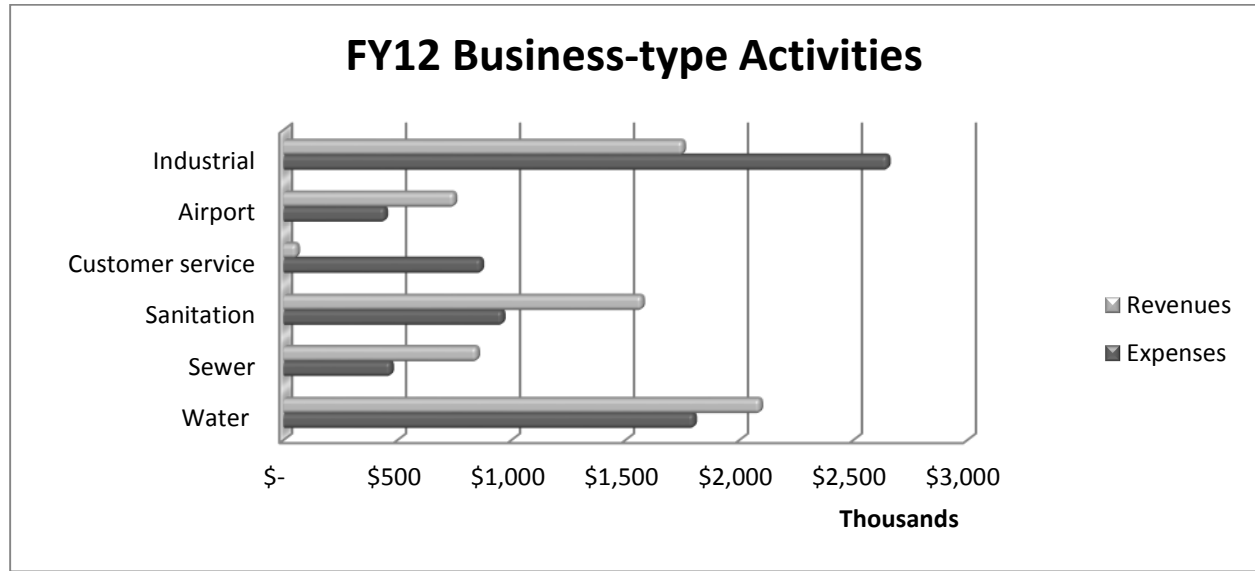


Taxes provided 81% of the City's governmental revenues in fiscal year 2012 compared to 76% in fiscal year 2011. Sales tax revenue showed a notable increase year over year.



For the year ended June 30, 2012, total expenses for governmental activities were \$11,037,464. Of this amount, public safety and judiciary with \$4,765,499, was the largest operating service department at 43% of the total cost of services for the City government. This compares to prior year in which public safety accounted for 55% of total expenses. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

**Business-type Activities**



Business-type activities are shown comparing operating costs to operating revenues generated by the related services. Sanitation, Sewer, and Water activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges. The Industrial Authority is funded with a dedicated sales tax, which is pledged against debt offerings. That sales tax is not considered operating income in the above chart.

For the fiscal year ended June 30, 2012, revenues from water, sewer, sanitation, and airport services covered the cost of operating their respective departments.

**General Fund Budgetary Highlights**

The original adopted General Fund budget for fiscal year 2012 was \$8,576,710. This was an increase of \$537,355 over the previous year’s budget of \$8,039,355. Total expenditures for the City were \$7,959,717, which is \$616,993 less than the approved budget. Total General Fund expenditures were less than approved budgeted amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2012, the City had \$57,025,165 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and utility improvements/infrastructure in business-type activities. Refer to the table below.

Primary Government Capital Assets

(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 3,274	\$ 3,163	\$ 440	\$ 440	\$ 3,714	\$ 3,603
Buildings	16,095	15,906	34,176	34,169	50,271	50,075
Machinery & equipment	18,171	16,784	2,264	2,111	20,435	18,895
Utility property & improvements	30,423	29,803	20,346	20,267	50,769	50,070
Total cost	\$ 67,963	\$ 65,656	\$ 57,226	\$ 56,987	\$ 125,189	\$ 122,643
Accumulated depreciation	33,194	30,744	14,117	12,661	47,311	43,405
Total capital assets, net	\$ 34,769	\$ 34,912	\$ 43,109	\$ 44,326	\$ 77,878	\$ 79,238

The most significant additions to the City's capital assets included an extended ladder truck, street and paving improvements, and waterline engineering and construction.

**Long-Term Debt**

At year-end, the City had \$19,747,452 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Business-type	
	Activities	
	2012	2011
Notes payable	20,853,805	22,746,555
less current portion	(1,106,353)	(1,483,076)
<b>Total long term debt</b>	<b>19,747,452</b>	<b>21,263,479</b>

**ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES**

Economic Environment

The national economic recession resulted in economic concerns and issues for the City. However, overall tax revenues reported a marked increase.

Fiscal Year 2013 Planning

The City of Elk City has approved a budget for the municipal entity that is based upon the need to maintain current levels of service to citizens. Governmental revenues are budgeted consistent with fiscal year 2012. Utility revenues are budgeted with a 5% increase over prior year due to enacted rate increases. Employee raises are included in the budget at 4%, totaling approximately \$316,500. The City planned over \$4.4 million in capital projects funded through existing sales tax revenues.

**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 City Clerk's Office at Elk City City Hall, 320 West 3<sup>rd</sup> St, Elk City, Oklahoma.

**City of Elk City, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2012**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Current Assets:			
Cash and cash equivalents	\$ 3,771,068	\$ 2,451,692	\$ 6,222,760
Investments	2,171,000	2,702,000	4,873,000
Due from other governments	1,161,927	357,110	1,519,037
Accounts receivable (net)	312,076	594,389	906,465
Grant receivable	45,983	-	45,983
Note receivable, current	-	222,592	222,592
Inventory	15,260	1,083,533	1,098,793
Due from other funds	(72,189)	112,057	39,868
Total current assets	<u>7,405,125</u>	<u>7,523,373</u>	<u>14,928,498</u>
Restricted assets:			
Cash and cash equivalents	5,876,024	2,947,339	8,823,363
Investments	8,665,000	4,300,000	12,965,000
Total restricted assets	<u>14,541,024</u>	<u>7,247,339</u>	<u>21,788,363</u>
Noncurrent Assets:			
Note receivable	-	1,880,634	1,880,634
Land and construction in progress	3,274,102	440,000	3,714,102
Other capital assets (net of accumulated depreciation)	31,495,507	42,669,361	74,164,868
Total noncurrent assets	<u>34,769,609</u>	<u>44,989,995</u>	<u>79,759,604</u>
<b>Total assets</b>	<u>\$ 56,715,758</u>	<u>\$ 59,760,707</u>	<u>\$ 116,476,465</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 414,221	\$ 456,723	\$ 870,944
Payroll liabilities	136,524	83,989	220,513
Compensated absences	310,186	74,890	385,076
Deferred income	-	2,270	2,270
Other liabilities	-	12,505	12,505
Accrued payables	-	102,322	102,322
Notes payable, current	-	1,106,353	1,106,353
Total current liabilities	<u>860,931</u>	<u>1,839,052</u>	<u>2,699,983</u>
Noncurrent liabilities:			
Other accrued liabilities	1,284,062	88,889	1,372,951
Notes payable, non-current	-	19,747,452	19,747,452
Total noncurrent liabilities	<u>1,284,062</u>	<u>19,836,341</u>	<u>21,120,403</u>
<b>Total liabilities</b>	<u>2,144,993</u>	<u>21,675,393</u>	<u>23,820,386</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	34,769,609	22,255,556	57,025,165
Reserved for restricted purposes	11,941,033	6,967,521	18,908,554
Unrestricted	7,860,123	8,862,237	16,722,360
<b>Total net assets</b>	<u>\$ 54,570,765</u>	<u>\$ 38,085,314</u>	<u>\$ 92,656,079</u>

**City of Elk City, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 2,534,571	\$ 120,084	\$ 272,927	\$ 188,604	\$ (1,952,956)
Public safety and judiciary	4,765,499	584,875	152,583	8,097	(4,019,944)
Transportation	4,223	-	-	187,071	182,848
Cultural, parks and recreation	1,589,021	304,532	55,938	18,000	(1,210,551)
Public service	1,434,168	529,397	-	-	(904,771)
Economic development	709,982	845,210	49,709	-	184,937
Total governmental activities	<u>11,037,464</u>	<u>2,384,098</u>	<u>531,157</u>	<u>401,772</u>	<u>(7,720,437)</u>
Business-type activities:					
Water	1,802,011	2,092,061	-	-	290,050
Sewer	472,371	849,924	-	-	377,553
Sanitation	961,897	1,573,669	-	-	611,772
Streets	1,217,750	-	106,581	-	(1,111,169)
Customer service	746,305	60,119	-	-	(686,186)
Airport	446,636	386,930	363,332	-	303,626
Industrial	3,060,311	1,719,442	34,429	-	(1,306,440)
Total business-type activities	<u>8,707,281</u>	<u>6,682,145</u>	<u>504,342</u>	<u>-</u>	<u>(1,520,794)</u>
Total primary government	<u>\$ 19,744,745</u>	<u>\$ 9,066,243</u>	<u>\$ 1,035,499</u>	<u>\$ 401,772</u>	<u>\$ (9,241,231)</u>

**City of Elk City, Oklahoma**  
**Statement of Activities (continued)**  
**Year Ended June 30, 2012**

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**Changes in Net Assets:**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Net (expense)/revenue	\$ (7,720,437)	\$ (1,520,794)	\$ (9,241,231)
General revenues:			
Taxes:			
Sales tax	11,414,688	3,804,896	15,219,584
Use tax	1,025,596	-	1,025,596
Franchise tax	533,190	-	533,190
Other taxes	288,282	-	288,282
Oil and gas royalties	587,709	-	587,709
Investment income	100,745	73,540	174,285
Transfers-Internal activity	(435,220)	435,220	-
Other	31,244	-	31,244
Total general revenues and transfers	<u>13,546,234</u>	<u>4,313,656</u>	<u>17,859,890</u>
Change in net assets	5,825,797	2,792,862	8,618,659
Net assets-beginning	45,954,211	34,420,299	80,374,510
Prior period adjustment	2,790,757	872,153	3,662,910
Net assets-ending	<u>\$ 54,570,765</u>	<u>\$ 38,085,314</u>	<u>\$ 92,656,079</u>

**City of Elk City, Oklahoma  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Economic Development</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,334,816	\$ 1,000,612	\$ 3,401,916	\$ 108,438	\$ 801,310	\$ 9,647,092
Investments	3,671,000	-	3,500,000	2,700,000	965,000	10,836,000
Due from other governments	604,715	-	557,212	-	-	1,161,927
Accounts receivable	312,076	-	-	-	-	312,076
Grant receivable	45,983	-	-	-	-	45,983
Inventory	-	-	-	-	15,260	15,260
Total assets	<u>\$ 8,968,590</u>	<u>\$ 1,000,612</u>	<u>\$ 7,459,128</u>	<u>\$ 2,808,438</u>	<u>\$ 1,781,570</u>	<u>\$ 22,018,338</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 123,525	\$ -	\$ 272,050	\$ 14,377	\$ 4,269	\$ 414,221
Due to other funds	72,189	-	-	-	-	72,189
Payroll liabilities	136,524	-	-	-	-	136,524
Compensated absences	310,186	-	-	-	-	310,186
Total liabilities	<u>642,424</u>	<u>-</u>	<u>272,050</u>	<u>14,377</u>	<u>4,269</u>	<u>933,120</u>
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	15,260	15,260
Restricted	1,589,914	1,000,612	-	-	192,567	2,783,093
Committed	840,800	-	7,187,078	-	1,130,062	9,157,940
Assigned	1,319,554	-	-	2,794,061	385,212	4,498,827
Unassigned	4,575,898	-	-	-	54,200	4,630,098
Total fund balances	<u>8,326,166</u>	<u>1,000,612</u>	<u>7,187,078</u>	<u>2,794,061</u>	<u>1,777,301</u>	<u>21,085,218</u>
Total liabilities and fund balances	<u>\$ 8,968,590</u>	<u>\$ 1,000,612</u>	<u>\$ 7,459,128</u>	<u>\$ 2,808,438</u>	<u>\$ 1,781,570</u>	<u>\$ 22,018,338</u>
Total fund balance- total governmental funds						\$ 21,085,218
Amounts reported for governmental activities in the Statement of Net assets are different because:						
Land and capital assets, net of accumulated depreciation, are not financial resources and, in the funds, and therefore, are not reported						
					3,274,102	
					64,689,217	
					<u>(33,193,710)</u>	
						34,769,609
Long-term portion of liabilities are not due and payable in the current period and are not reported						
						<u>(1,284,062)</u>
Net assets of governmental activities						<u>\$ 54,570,765</u>



**City of Elk City, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2012**

	General Fund	Debt Service	Capital Projects	Economic Development	Non-Major Funds	Total Governmental Funds
<b>REVENUES</b>						
Sales tax	\$ 5,231,732	\$ -	\$ 6,182,956	\$ -	\$ -	\$ 11,414,688
Use tax	1,025,596	-	-	-	-	1,025,596
Franchise tax	533,190	-	-	-	-	533,190
Other taxes	217,189	-	-	-	-	217,189
Licenses and permits	109,001	-	-	-	-	109,001
Rents & royalties	623,464	-	-	-	-	623,464
Fines and forfeitures	552,666	-	-	-	-	552,666
Charges for services	861,062	-	-	-	2,130	863,192
Intergovernmental revenues	506,387	-	-	-	-	506,387
Donations	116,152	-	-	-	-	116,152
Other revenues	216,332	-	90,330	49,709	879,840	1,236,211
Interest	92,168	259	672	417	7,229	100,745
Total revenues	<u>10,084,939</u>	<u>259</u>	<u>6,273,958</u>	<u>50,126</u>	<u>889,199</u>	<u>17,298,481</u>
<b>EXPENDITURES</b>						
General government:						
Managerial	518,992	-	-	-	-	518,992
City clerk	877,691	-	-	-	-	877,691
City treasurer	84,092	-	-	-	-	84,092
City attorney	42,351	-	-	-	-	42,351
General government	662,351	-	-	-	211	662,562
Total general government	<u>2,185,477</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211</u>	<u>2,185,688</u>
Public safety and judiciary:						
Police	2,167,887	-	-	-	3,383	2,171,270
Municipal court	84,403	-	-	-	-	84,403
Animal control	188,731	-	5,061	-	-	193,792
Fire	1,123,471	-	-	-	31,261	1,154,732
Ambulance	812,600	-	63,950	-	-	876,550
Total public safety and judiciary	<u>4,377,092</u>	<u>-</u>	<u>69,011</u>	<u>-</u>	<u>34,644</u>	<u>4,480,747</u>
Transportation:						
Street	-	-	-	-	-	-
Total transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cultural, parks and recreation:						
Museum	396,388	-	-	-	75	396,463
Library	186,713	-	-	-	-	186,713
Civic center	69,039	-	-	-	-	69,039
Park	323,559	-	1,484	-	-	325,043
Swimming pool	120,842	-	4,958	-	-	125,800
Total cultural, parks and recreation	<u>1,096,541</u>	<u>-</u>	<u>6,442</u>	<u>-</u>	<u>75</u>	<u>1,103,058</u>
Public service:						
Cemetery	139,184	-	-	-	-	139,184
Inspection	155,323	-	-	-	-	155,323
Landfill	-	-	24,381	-	-	24,381
Total public service	<u>294,507</u>	<u>-</u>	<u>24,381</u>	<u>-</u>	<u>-</u>	<u>318,888</u>
Economic development:						
Hotel/motel tax	-	-	-	-	499,104	499,104
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,104</u>	<u>499,104</u>
Capital outlay	242,664	-	2,065,204	-	-	2,307,868
Total expenditures	<u>8,196,281</u>	<u>-</u>	<u>2,165,038</u>	<u>-</u>	<u>534,034</u>	<u>10,895,353</u>
Excess (deficiency) of revenues over expenditures	1,888,658	259	4,108,920	50,126	355,165	6,403,128
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	580,029	-	577,553	19,000	802,939	1,979,521
Transfers out	(1,025,037)	(103,108)	(12,934)	-	(1,273,662)	(2,414,741)
Total other financing sources and uses	<u>(445,008)</u>	<u>(103,108)</u>	<u>564,619</u>	<u>19,000</u>	<u>(470,723)</u>	<u>(435,220)</u>
Net change in fund balances	1,443,650	(102,849)	4,673,539	69,126	(115,558)	5,967,908
Fund balances - beginning (restated)	4,363,809	1,103,461	2,241,489	2,724,935	1,892,859	12,326,553
Prior period adjustment	2,518,707	-	272,050	-	-	2,790,757
Fund balances - ending	<u>\$ 8,326,166</u>	<u>\$ 1,000,612</u>	<u>\$ 7,187,078</u>	<u>\$ 2,794,061</u>	<u>\$ 1,777,301</u>	<u>\$ 21,085,218</u>

**City of Elk City, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2012**

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Reconciliation of the change in fund balances - total governmental funds  
to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds \$ 5,967,908  
Amounts reported for governmental activities in the Statement of Activities are  
different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Capital asset purchases capitalized	2,307,868	
Depreciation expense	<u>(2,449,979)</u>	<u>(142,111)</u>

Change in Net Assets of Governmental Activities \$ 5,825,797

**City of Elk City, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Public Works Authority	Airport Authority	Industrial Authority	Elk City Online	Total Enterprise Funds
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 1,856,095	\$ 109,222	\$ 486,375	\$ -	\$ 2,451,692
Investments	1,702,000	-	1,000,000	-	2,702,000
Due from other funds	142,714	-	-	-	142,714
Other receivables	14,210	-	342,900	-	357,110
Accounts receivable, net	251,043	11,376	331,970	-	594,389
Note receivable, current	-	-	222,592	-	222,592
Inventory	381,363	59,395	642,775	-	1,083,533
Total current assets	<u>4,347,425</u>	<u>179,993</u>	<u>3,026,612</u>	<u>-</u>	<u>7,554,030</u>
Current assets:					
Restricted assets:					
Cash, including time deposits	279,818	-	2,667,521	-	2,947,339
Investments	-	-	4,300,000	-	4,300,000
Total restricted assets	<u>279,818</u>	<u>-</u>	<u>6,967,521</u>	<u>-</u>	<u>7,247,339</u>
Noncurrent assets:					
Note receivable	-	-	1,880,634	-	1,880,634
Capital assets (net)	15,576,424	537,991	26,985,616	9,330	43,109,361
Total noncurrent assets	<u>15,576,424</u>	<u>537,991</u>	<u>28,866,250</u>	<u>9,330</u>	<u>44,989,995</u>
<b>Total assets</b>	<u>\$ 20,203,667</u>	<u>\$ 717,984</u>	<u>\$ 38,860,383</u>	<u>\$ 9,330</u>	<u>\$ 59,791,364</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 214,928	\$ 35,758	\$ 206,037	\$ -	\$ 456,723
Payroll liabilities	142,828	11,121	4,930	-	158,879
Due to other funds	-	4,381	26,276	-	30,657
Other liabilities	-	12,505	2,270	-	14,775
Accrued interest payable	47,992	-	54,330	-	102,322
Notes payable, current	135,761	-	970,592	-	1,106,353
Total current liabilities	<u>541,509</u>	<u>63,765</u>	<u>1,264,435</u>	<u>-</u>	<u>1,869,709</u>
Noncurrent liabilities:					
Deferred income	-	-	88,889	-	88,889
Notes payable, non-current	6,413,818	-	13,333,634	-	19,747,452
Total noncurrent liabilities	<u>6,413,818</u>	<u>-</u>	<u>13,422,523</u>	<u>-</u>	<u>19,836,341</u>
<b>Total liabilities</b>	<u>6,955,327</u>	<u>63,765</u>	<u>14,686,958</u>	<u>-</u>	<u>21,706,050</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	9,026,845	537,991	12,681,390	9,330	22,255,556
Restricted	-	-	6,967,521	-	6,967,521
Unrestricted	4,221,495	116,228	4,524,514	-	8,862,237
<b>Total net assets</b>	<u>\$ 13,248,340</u>	<u>\$ 654,219</u>	<u>\$ 24,173,425</u>	<u>\$ 9,330</u>	<u>\$ 38,085,314</u>

**City of Elk City, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	<b>Public Works Authority</b>	<b>Airport Authority</b>	<b>Industrial Authority</b>	<b>Elk City Online</b>	<b>Total Enterprise Funds</b>
<b><u>Operating revenues:</u></b>					
Charges for services:					
Water charges	\$ 2,092,061	\$ -	\$ -	\$ -	\$ 2,092,061
Sewer charges	849,924	-	-	-	849,924
Sanitation charges	1,573,669	-	-	-	1,573,669
Sale of fuel and rock	-	340,190	1,718,092	-	2,058,282
Penalties	60,119	-	-	-	60,119
Total charges for services	4,575,773	340,190	1,718,092	-	6,634,055
Lease and rental income	-	46,573	-	-	46,573
Other fees and charges	363,332	167	1,350	3,225	368,074
Total operating revenues	4,939,105	386,930	1,719,442	3,225	7,048,702
<b><u>Operating expenses:</u></b>					
Cost of sales	-	307,495	1,072,030	-	1,379,525
Personal services	2,145,846	88,698	113,369	-	2,347,913
Materials and supplies	1,569,463	5,730	54,917	-	1,630,110
Other services and charges	606,989	28,528	307,375	-	942,892
Depreciation and amortization	596,246	16,185	835,602	7,478	1,455,511
Total operating expenses	4,918,544	446,636	2,383,293	7,478	7,755,951
Net operating income	20,561	(59,706)	(663,851)	(4,253)	(707,249)
<b><u>Nonoperating revenue (expense):</u></b>					
Investment income	27,700	888	44,952	-	73,540
Noncapital contributions	(59,153)	-	34,429	-	(24,724)
Intergovernmental revenue	106,581	-	3,804,896	-	3,911,477
Interest expense	(218,384)	-	(677,018)	-	(895,402)
Total nonoperating revenue (expense)	(143,256)	888	3,207,259	-	3,064,891
<b>Net Income before contributions and transfers</b>	(122,695)	(58,818)	2,543,408	(4,253)	2,357,642
Transfers from other funds	815,190	65,399	-	-	880,589
Transfers to other funds	(445,369)	-	-	-	(445,369)
<b>Change in net assets</b>	247,126	6,581	2,543,408	(4,253)	2,792,862
Net assets-beginning of year	13,001,214	647,638	20,757,864	13,583	34,420,299
Prior period adjustment	-	-	872,153	-	872,153
Net assets-end of year	\$ 13,248,340	\$ 654,219	\$ 24,173,425	\$ 9,330	\$ 38,085,314

City of Elk City, Oklahoma  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2012

	Public Works Authority	Airport Authority	Industrial Authority	Elk City Online	Total Enterprise Funds
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 5,029,005	\$ 385,930	\$ 1,727,816	\$ 3,225	\$ 7,145,976
Payments to suppliers	(2,288,971)	(310,748)	(1,683,021)	-	(4,282,740)
Payments to employees	(2,110,264)	(88,698)	(110,475)	-	(2,309,437)
<b>Net cash provided (used) by operating activities</b>	<b>629,770</b>	<b>(13,516)</b>	<b>(65,680)</b>	<b>3,225</b>	<b>553,799</b>
<b>Cash flows from non-capital financing activities:</b>					
Transfers from other funds	815,190	65,399	-	-	880,589
Transfers to other funds	(445,369)	-	-	(3,225)	(448,594)
Intergovernmental revenues	-	-	3,804,896	-	3,804,896
<b>Net cash provided (used) by non-capital financing activities</b>	<b>369,821</b>	<b>65,399</b>	<b>3,804,896</b>	<b>(3,225)</b>	<b>4,236,891</b>
<b>Cash flows from capital and related financing activities:</b>					
Purchase of capital assets	(314,621)	(56,098)	(22,711)	-	(393,430)
Capital grants and contributions	106,581	-	-	-	106,581
Issuance of capital debt	37,875	-	-	-	37,875
Principal paid on capital debt	(187,276)	-	(1,743,349)	-	(1,930,625)
Interest paid on capital debt	(242,130)	-	(161,179)	-	(403,309)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(599,571)</b>	<b>(56,098)</b>	<b>(1,927,239)</b>	<b>-</b>	<b>(2,582,908)</b>
<b>Cash flows from investing activities:</b>					
Purchase of investments	(1,000,000)	-	(4,500,000)	-	(5,500,000)
Investment income	27,700	888	44,952	-	73,540
<b>Net cash provided (used) by investing activities</b>	<b>(972,300)</b>	<b>888</b>	<b>(4,455,048)</b>	<b>-</b>	<b>(5,426,460)</b>
Net increase (decrease) in cash and cash equivalents	(572,280)	(3,327)	(2,643,071)	-	(3,218,678)
Cash & cash equivalents, June 30, 2011	2,708,193	112,549	5,796,967	-	8,617,709
Cash & cash equivalents, June 30, 2012	<u>\$ 2,135,913</u>	<u>\$ 109,222</u>	<u>\$ 3,153,896</u>	<u>\$ -</u>	<u>\$ 5,399,031</u>
Cash, including time deposits	\$ 1,856,095	\$ 109,222	\$ 486,375	\$ -	\$ 2,451,692
Restricted cash, including time deposits	279,818	-	2,667,521	-	2,947,339
Total cash and cash equivalents, end of year	<u>\$ 2,135,913</u>	<u>\$ 109,222</u>	<u>\$ 3,153,896</u>	<u>\$ -</u>	<u>\$ 5,399,031</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 20,561	\$ (59,706)	\$ (663,851)	\$ (4,253)	\$ (707,249)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	596,246	16,185	835,602	7,478	1,455,511
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	89,900	(1,000)	8,374	-	97,274
(Increase) decrease in inventory	15,055	(2,000)	38,724	-	51,779
Increase (decrease) in accounts payable	(127,574)	33,005	(192,935)	-	(287,504)
Increase (decrease) in payroll liabilities	35,582	-	2,894	-	38,476
Increase (decrease) in other liabilities	-	-	(94,488)	-	(94,488)
Total adjustments	609,209	46,190	598,171	7,478	1,261,048
<b>Net cash provided (used) by operating activities</b>	<b>\$ 629,770</b>	<b>\$ (13,516)</b>	<b>\$ (65,680)</b>	<b>\$ 3,225</b>	<b>\$ 553,799</b>

**City of Elk City, Oklahoma**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

	<b>District 2 Drug Task Force Trust Funds</b>	<b>Agency Funds</b>	<b>Total Fiduciary Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 126,238	\$ 113,594	\$ 239,832
Investments	3,625,000	96,000	3,721,000
Due from other governments	-	-	-
Property, plant and equipment, net	28,790	-	28,790
<b>Total assets</b>	<b>\$ 3,780,028</b>	<b>\$ 209,594</b>	<b>\$ 3,989,622</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 65,768	\$ -	\$ 65,768
Bonds and deposits subject to refund	-	179,640	179,640
Due to other funds	9,914	29,954	39,868
<b>Total liabilities</b>	<b>75,682</b>	<b>209,594</b>	<b>285,276</b>
<b>NET ASSETS HELD IN TRUST</b>			
District 2 drug task force funds	3,704,346	-	3,704,346
<b>Net assets held in trust</b>	<b>\$ 3,704,346</b>	<b>\$ -</b>	<b>\$ 3,704,346</b>

**City of Elk City, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fiduciary Net Assets**  
**Trust Fund**  
**Year Ended June 30, 2012**

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	<b>District 2 Drug Task Force Trust Funds</b>
<b><u>ADDITIONS</u></b>	
Forfeitures	\$ 89,738
Other Income	17,813
Interest	38,218
Total additions	145,769
<b><u>DEDUCTIONS</u></b>	
Personal Services	391,822
Supplies and Repairs	115,004
Depreciation	13,633
Total deductions	520,459
Change in net assets	(374,690)
<b><u>NET ASSETS HELD IN TRUST</u></b>	
Beginning of year	4,092,379
Prior period adjustment	(13,343)
End of year	\$ 3,704,346

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of the City of Elk City, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2012. The City operates under a charter with a Council-Manager form of government.

**A. Reporting Entity**

***Fund Types and Major Funds***

**Major Governmental Funds**

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund

Accounts for the accumulation of financial resources for the payment of principal and interest on the City's debt.

Capital Projects Fund

Accounts for the capital expenditures of the 1.625% limited purpose sales tax.

Economic Development Fund

Accounts for operations of the economic development of the City of Elk City.

**Major Proprietary Funds**

Elk City Public Works Authority

Accounts for the operating activities of the water, sewer, and sanitation utilities of the City. The City Council serves as the trustees of the Authority. The Elk City Public Works Authority was established in June 1981 and amended in March 1999.

Elk City Airport Authority

Accounts for the operating activities of the Elk City Municipal Airport. The City Council serves as the trustees of the Airport Authority established in July 1979.

Elk City Industrial Authority

Created in March 1967 to promote the development of industry within the City. The Industrial Authority includes the operations of the rock yard.

**Fiduciary Component Units (reported in fiduciary financial statements)**

District 2 Drug Task Force Trust

Established to account for the operations of the drug task force of the District

Agency Fund

Accounts for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. The City's Agency Fund is used to account for various deposits and bail bonds.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide financing services are blended into the City's primary government as an integral part of City operations although retaining separate legal identity. Component units that do not meet the criteria for blending are reported discretely. The City of Elk City blends all component units.

**B. Basic Financial Statements**

***Government-wide Financial Statements***

The government-wide financial statements include the statement of net assets and statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund



the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

***Fund Financial Statements***

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

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

District 2 Drug Task Force funds recognize revenue in the period the assets are seized. The Agency Fund is custodial in nature and does not measure results of operations.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both 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 to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

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

**C. Budget Policy and Practice**

***Budget Approval***

The City Manager submits an annual budget to the City Commission in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Commission for review, and public hearings are held to address priorities and the allocation of resources. In June, the Commission adopts the annual fiscal year budgets for City's operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Manager and must be approved by the Commission. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Commission review and approval process.

***Basis of Budgeting***

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Commission approval. Revisions to the budget were made throughout the year.

The budgets for operating funds and proprietary funds are prepared on the cash basis. Revenues are budgeted in the year they are expected to be received. Expenses are budgeted in the year they are expected to be paid.

**D. Policies Related to Assets, Liabilities, and Fund Equity**

***Cash and Investments***

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

***Inventories***

Inventories are similarly reported in government-wide and fund financial statements.

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and recorded as an expense at the time the item is used. Governmental inventory consists of maintenance supplies for the museum. Business-type inventory includes rock, maintenance parts, and repair supplies.

***Accounts Receivable***

Significant receivables for governmental activities include sales and use tax receivables and ambulance receivables. Business-type receivables consist mainly of amount due from customers primarily for rock sales and utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days. At June 30, 2012, the City has estimated an allowance of \$2,549.

***Restricted Assets***

Restricted assets include assets legally restricted for capital projects and special revenue funds funded through long-term debt, debt service reserves or grants. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

***Interfund Balances***

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

***Capital Assets, Depreciation, and Amortization***

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$4,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

- Buildings 40 years
- Machinery, furniture & equipment 5-10 years
- Infrastructure 40 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

***Compensated Absences***

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to all of their sick leave balance and all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report compensated absences payable to current employees.

***Long-Term Debt***

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability.

***Fund Equity***

**Fund Balance**

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

**Net Assets**

Both proprietary fund financial statements and government-wide financial statements report net assets. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net assets.

**Invested in capital assets, net of related debt**

The amount restricted consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted net assets**

Amounts reported as restricted consist of net assets with constraints placed on their 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.

**Governmental Fund Balances**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

**Non-spendable**

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

**Restricted**

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

**Committed**

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

**Assigned**

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

**Unassigned**

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

**E. Policies Related to Revenues and Expenses**

***Program Revenues***

**Charges for Services**

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

**Grants and Contributions**

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

**General Revenues**

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

Sales Tax

The City levied a 4% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to use. The unrestricted portion (1.375%) is recorded as sales tax revenue within the General Fund; 1.625% is restricted and recorded as sales tax revenue in the Capital Improvement fund, and 1% is restricted for debt payments in the Industrial Authority.

**(2) ASSETS AND LIABILITIES**

**A. Assets**

***Deposits and Investments***

**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

**Investments**

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

<u>Types of Investments</u>	<u>Primary Government</u>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
<b>Primary government</b>				
<b><u>INVESTMENTS:</u></b>				
Certificates of deposit	\$ 17,838,000	\$ 17,838,000	N/A	85
Total investments	<u>17,838,000</u>	<u>17,838,000</u>		
Total primary government investments	<u>\$ 17,838,000</u>	<u>\$ 17,838,000</u>		

**RECONCILIATION TO STATEMENT OF NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ 2,171,000	\$ 2,702,000	\$ 4,873,000
Investments, restricted	8,665,000	4,300,000	12,965,000
Total investments	<u>\$ 10,836,000</u>	<u>\$ 7,002,000</u>	<u>\$ 17,838,000</u>

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

**CITY OF ELK CITY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**Receivables and Uncollectable Amounts**

**Due from other governments**

Governmental activities report sales taxes receivable and grant receivable amounts as due from other governments. Sales tax receivable is comprised of amounts received after year-end for current year taxes on sales. Balances are considered fully collectible.

**Accounts Receivable**

Governmental activities report ambulance patient receivables totaling \$312,076.

Proprietary activities report accounts receivable of \$594,389 comprised of amounts due from rock yard vendors and citizens for utility services provided. The City has recorded an allowance of \$2,549 based upon historical management knowledge and experience.

**Note Receivable**

The Elk City Industrial Authority entered into a note receivable with Superior Fabrication, Inc. for the purpose of leasing a building valued at \$3,000,000, of which \$2,103,226 is still due to the city as of June 30, 2012. The note has a variable interest rate stated 4.95% at June 30, 2012. The terms of the note call for 180 monthly payments of principal and interest in the amount of \$27,408, and the note matures on August 1, 2022. Superior Fabrication, Inc. has the option to purchase the building at any time by paying the amount owed on the offsetting loan (Note 2(B)) or extending the agreement another 15 years after the agreement matures in 2022.

**Capital Assets**

**Changes in Capital Assets**

	<b>Primary Government</b>			
	<b>Balance at June 30, 2011</b>	<b>Additions</b>	<b>Deletions</b>	
<i>Governmental Activities</i>				
Land	\$ 3,163,050	\$ 111,052	\$ -	\$ 3,274,102
Buildings & structures	15,905,848	188,721	-	16,094,569
Machinery, furniture, & equipment	16,783,613	1,387,848	-	18,171,461
Infrastructure & improvements	29,802,939	620,248	-	30,423,187
Total	65,655,450	2,307,869	-	67,963,319
Less accumulated depreciation	30,743,731	2,449,979	-	33,193,710
Governmental fixed assets, net	<u>\$ 34,911,719</u>	<u>\$ (142,110)</u>	<u>\$ -</u>	<u>\$ 34,769,609</u>
<i>Business-type Activities</i>				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Buildings & structures	34,168,710	7,120	-	34,175,830
Machinery, furniture, & equipment	2,111,322	152,854	-	2,264,176
Infrastructure & improvements	20,266,961	78,888	-	20,345,849
Total	56,986,993	238,862	-	57,225,855
Less accumulated depreciation	12,660,983	1,455,511	-	14,116,494
Business-type fixed assets, net	<u>\$ 44,326,010</u>	<u>\$ (1,216,649)</u>	<u>\$ -</u>	<u>\$ 43,109,361</u>
<b>Total primary government</b>	<u>\$ 79,237,729</u>	<u>\$ (1,358,759)</u>	<u>\$ -</u>	<u>\$ 77,878,970</u>

**Depreciation Expense**

Primary Government				
Governmental Activities			Business-type Activities	
General government	\$	348,883	Water	\$ 596,246
Public safety & judiciary		284,752	Customer service	7,478
Transportation		4,223	Airport	16,185
Cultural, parks & recreation		485,963	Industrial	835,602
Public service		1,115,280		
Economic development		210,878	Total depreciation expense	\$ 1,455,511
Total depreciation expense		\$ 2,449,979		

**B. Liabilities**

**Notes and Bonds Payable**

**Business-Type Activities**

**Notes Payable:**

The Elk City Public Works Authority entered into a loan with the City of Sayre for a percentage of Oklahoma Department of Commerce loan funds. The funds were obtained for landfill improvements. The loan is non-interest bearing and has a final maturity date of June 28, 2019. Principal payments of \$521 are due each month. \$ 43,749

In fiscal year 2010, The Elk City Public Works Authority obtained a construction loan not to exceed an original amount \$8,825,000 from the Oklahoma Water Resources Board (OWRB) to finance construction of a waterline. The loan has a fixed interest rate of 3.09% plus an administrative fee of .50% per year and is payable in semi-annual installments of \$117,667 plus interest and administrative fees beginning September 15, 2011. The loan is secured with the Elk City Public Works Authority's assets and future revenues and matures March 15, 2041. The project was completed in January 2012 and the unused funds were de-obligated. The final loan was for \$8,686,856, reduced by \$2,000,000 of principal forgiveness through the American Recovery and Reinvestment Act of 2009. 6,505,830

The Elk City Industrial Authority entered into a loan agreement with First National Bank & Trust for the purpose of constructing a building for Superior Fabrication, Inc. The loan is offset with a note receivable with Superior Fabrication, Inc. (Note 2(A)) which has the same payment terms as this loan. The loan is payable in 180 monthly installments of principal and interest of \$27,408 and matures on August 1, 2022. The loan has a variable interest rate which was 4.95% on June 30, 2012. The loan can be paid of early if Superior Fabrication, Inc. chooses to purchase the building for the remaining cost of the loan. 2,103,226

**Conduit Debt Obligations:**

The Elk City Industrial Authority entered into two separate loans \$10,000,000 and \$7,000,000 with Bank of America for a total of \$17,000,000 to finance the construction of a school arena complex. Both loans are secured with a 1% sales tax on the gross receipts derived from all sales within the City approved by the citizens of Elk City during the year ended June 30, 2004. The loans carry a variable interest rate calculated at 65% of 6-month LIBOR plus 150 basis points. The Authority has entered in to an interest rate swap agreement that effectively establishes a fixed rate for each loan 5.43% and 5.4%, respectively. The loans are payable in annual installments ranging from \$709,000-\$1,336,000 plus interest each year until the loans mature in 2023. Refer to conduit debt further described below. 12,201,000

\$ 20,853,805

**CITY OF ELK CITY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**Conduit Debt**

The Elk City Industrial Authority issued three limited obligations to finance the construction of a school arena complex. This facility is owned by the Industrial Authority and leased by Elk City Public Schools and reported as an Industrial Authority asset. The debt is a limited obligation of the Industrial Authority and payable only from the dedicated 1 cent sales tax. This does not constitute a pledge of faith and the Authority has no obligation for the debt beyond the dedicated sales tax. The debt is reported under the Industrial Authority. At June 30, 2012, the Industrial Authority reported \$12,201,000 of outstanding conduit debt.

**Changes in Long-Term Debt**

<u>Type of Debt</u>	<u>Balance at July 1, 2011</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Public Works Authority					
City of Sayre	\$ 49,999	\$ -	\$ 6,250	\$ 43,749	\$ 6,250
OWRB	6,648,981	37,875	181,026	6,505,830	129,511
Total Public Works Authority	<u>6,698,980</u>	<u>37,875</u>	<u>187,276</u>	<u>6,549,579</u>	<u>135,761</u>
Industrial Authority					
First National Bank (SFI)	2,319,574	-	216,348	2,103,226	222,592
Conduit Debt	13,728,001	-	1,527,001	12,201,000	748,000
Total Industrial Authority	<u>16,047,575</u>	<u>-</u>	<u>1,743,349</u>	<u>14,304,226</u>	<u>970,592</u>
<b>Total business-type debt</b>	<u>\$ 22,746,555</u>	<u>\$ 37,875</u>	<u>\$ 1,930,625</u>	<u>\$ 20,853,805</u>	<u>\$ 1,106,353</u>

**Annual Debt Service Requirements**

<u>Year Ending June 30</u>	<u>Public Works Authority</u>		<u>Industrial Authority</u>		<u>Conduit Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 135,761	\$ 202,840	\$ 222,592	\$ 106,302	\$ 748,000	\$ 40,524
2014	140,518	198,746	234,563	94,331	789,000	42,746
2015	145,449	194,501	247,179	81,715	831,000	45,021
2016	149,960	190,618	260,473	68,422	877,000	47,513
2017	155,840	185,557	274,481	54,413	924,000	50,060
2018-2022	846,438	853,776	863,938	71,340	5,427,000	294,019
2023-2027	998,819	711,858	-	-	2,605,000	141,132
2028-2032	1,196,016	542,156	-	-	-	-
2033-2037	1,432,951	338,190	-	-	-	-
2038-2041	1,347,827	97,145	-	-	-	-
Totals	<u>\$ 6,549,579</u>	<u>\$ 3,515,387</u>	<u>\$ 2,103,226</u>	<u>\$ 476,523</u>	<u>\$ 12,201,000</u>	<u>\$ 661,015</u>

**C. Interfund Balances**

	<b>Transfer In</b>	<b>Transfer Out</b>
<b>GOVERNMENTAL ACTIVITIES</b>		
<i>GENERAL FUND</i>		
NON-MAJOR FUNDS	\$ 476,134	\$ 355,245
<i>CAPITAL PROJECTS</i>		
PUBLIC WORKS AUTHORITY	577,553	12,934
<i>ECONOMIC DEVELOPMENT</i>		
CAPITAL PROJECTS	19,000	-
<i>NON-MAJOR FUNDS</i>		
PUBLIC WORKS AUTHORITY	133,147	1,272,875
<b>BUSINESS-TYPE ACTIVITIES</b>		
<i>PUBLIC WORKS AUTHORITY</i>		
GENERAL FUND	815,190	379,970
AIRPORT AUTHORITY	-	65,399
<i>AIRPORT AUTHORITY</i>		
PUBLIC WORKS AUTHORITY	65,399	-
	<b>\$ 2,086,423</b>	<b>\$ 2,086,423</b>

**(3) FUND NET ASSETS AND FUND BALANCE**

*Prior Period Adjustment*

**Change in Presentation**

The City of Elk City elected to present sales tax and other tax revenues on an accrual basis in an effort to provide transparent financial information. This change is effective for the year ending June 30, 2012. Sales tax and other governmental revenues are considered measurable and available under the modified accrual basis of accounting. This change in presentation resulted in a prior period adjustment to the fund balance of the General Fund, the Capital Project fund, and the Elk City Industrial Authority where sales tax and other tax revenues are recorded.

Additionally, the Industrial Authority reported a prior period adjustment in the amount of \$488,885 related to the recognition of prepaid rent.

**(4) REVENUES AND EXPENSES**

*Interfund Transfers*

Refer to Note (2)C. Interfund Balances

**(5) PENSION AND POST-EMPLOYMENT PLANS**

The City participates in three employee pension systems as follows:

<b>Name of Plan</b>	<b>Type of Plan</b>
The Hartford Deferred Comp	457 Deferred Compensation Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

**A. Hartford Deferred Comp**

**Plan Description**

Substantially all of the City's full time employees, with the exception of police officers and firefighters, participate in a deferred compensation plan administered by The Hartford. The plan is funded through contributions as elected by the City Commission. Participants may contribute a portion of their salary to the plan under Internal Revenue Code section 457. The City contributes to the plan using a sliding scale dependent upon longevity.



The fair value of the plan assets for the City is \$2,298,853 as of June 30, 2012. For the year ended June 30, 2012, total contributions to the plan were \$215,452.

**B. Oklahoma Police and Firefighter's Pension and Retirement Systems**

**Plan Description**

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	8% of covered payroll	8% of covered payroll
City's contribution rate	13% per year, per firefighter	13% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contributions are required by Oklahoma State Statute. Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems; Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 7316-7335.

**(6) COMMITMENTS AND CONTINGENCIES**

**A. Landfill Closure and Post-Closure Care**

State and federal laws and regulations require the City of Elk City to place a final cover on landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure on the current landfill. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste as a liability based on landfill capacity used as of June 30, 2012. The landfill, which is currently in use, was estimated to have

used ninety-seven percent of its capacity as of June 30, 2012 and has approximately 2 years of capacity remaining. The financial statements reflect an accrual of \$1,248,061 as a liability in long-term debt to cover the estimated costs. This amount is only an estimate based on current circumstances and may change due to inflation, changes in technology, or changes in regulations.

**B. Litigation**

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. 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.

**C. Grant Program Involvement**

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**City of Elk City Oklahoma**  
**General Fund**  
**Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2012**

	Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>					
Sales tax	\$ 3,905,066	\$ 645,253	\$ 4,550,319	\$ 5,150,251	\$ 599,932
Use tax	1,039,009	850,000	1,889,009	1,532,127	(356,882)
Franchise tax	462,483	-	462,483	543,593	81,110
Other taxes	224,130	-	224,130	217,189	(6,941)
Licenses and permits	33,132	-	33,132	109,001	75,869
Rents & royalties	74,406	100,000	174,406	623,464	449,058
Fines and forfeitures	523,899	-	523,899	552,666	28,767
Charges for services	860,607	103,840	964,447	861,062	(103,385)
Intergovernmental revenues	123,782	-	123,782	506,387	382,605
Donations	-	-	-	116,152	116,152
Other revenues	106,623	94,363	200,986	216,332	15,346
Interest	77,879	-	77,879	92,168	14,289
Total revenues	<u>7,431,016</u>	<u>1,793,456</u>	<u>9,224,472</u>	<u>10,520,392</u>	<u>1,295,920</u>
<b>EXPENDITURES</b>					
<b>General government:</b>					
Managerial	430,887	292,148	723,035	578,992	144,043
Clerk	818,327	152,046	970,373	877,691	92,682
Treasurer	97,253	1,500	98,753	84,092	14,661
City Attorney	40,963	2,500	43,463	42,351	1,112
General Government	360,711	(282,198)	78,513	55,353	23,160
Maintenance	114,592	5,000	119,592	118,291	1,301
Information Technology	83,248	2,550	85,798	80,981	4,817
Toys for Tots	-	5,000	5,000	2,626	2,374
Reserve City Hall	-	6,500	6,500	5,728	772
<b>Public safety and judiciary:</b>					
Police & DOC	1,977,485	294,500	2,271,985	2,197,887	74,098
Municipal Court	78,093	4,500	82,593	71,803	10,790
Animal Control	163,384	15,700	179,084	171,331	7,753
Fire	1,048,121	121,550	1,169,671	1,123,471	46,200
Ambulance	743,209	75,750	818,959	812,600	6,359
<b>Culture and recreation:</b>					
Museum	318,816	97,250	416,066	396,388	19,678
Library	228,859	13,300	242,159	186,713	55,446
Civic Center	97,203	3,000	100,203	69,039	31,164
Park	310,104	85,200	395,304	323,559	71,745
Swimming Pool	96,736	32,500	129,236	120,842	8,394
<b>Public services</b>					
Cemetery	127,079	10,750	137,829	137,684	145
Inspection	133,500	19,500	153,000	152,923	77
Youth & Family	318,544	31,050	349,594	349,372	222
Total expenditures	<u>7,587,114</u>	<u>989,596</u>	<u>8,576,710</u>	<u>7,959,717</u>	<u>616,993</u>
Revenue over (under) expenditures	(156,098)	803,860	647,762	2,560,675	678,927
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	156,098	40,000	196,098	623,505	427,407
Net other financing sources (uses)	<u>156,098</u>	<u>40,000</u>	<u>196,098</u>	<u>623,505</u>	<u>427,407</u>
Revenues and other financing sources over (under) expenditures and other uses	-	843,860	843,860	3,184,180	1,106,334
Fund balance at beginning of year (Non-GAAP budgetary basis)				3,880,520	3,880,520
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 7,064,700</u>	<u>\$ 4,986,854</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and transfer accruals				1,261,466	
Fund balance at end of year (GAAP basis)				<u>\$ 8,326,166</u>	

**City of Elk City Oklahoma**  
**Capital Projects**  
**Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2012**

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>REVENUES</b>					
Sales tax	\$ 4,615,084	\$ 408,050	\$ 5,023,134	\$ 6,279,276	\$ 1,256,142
Interest	-	-	-	91,002	91,002
Total revenues	<u>4,615,084</u>	<u>408,050</u>	<u>5,023,134</u>	<u>6,370,278</u>	<u>1,347,144</u>
<b>EXPENDITURES</b>					
<b>Capital Projects</b>					
Airport	38,023	194,386	232,409	186,886	45,523
Ambulance	120,000	-	120,000	119,825	175
Managerial	-	35,000	35,000	33,617	1,383
Police	367,200	-	367,200	307,590	59,610
Fire	1,011,227	(23,773)	987,454	644,409	343,045
Animal Control	30,000	205,613	30,000	23,799	6,201
Cemetery	26,000	-	26,000	-	26,000
Park	275,000	-	275,000	31,711	243,289
Swimming Pool	5,000	-	5,000	4,958	42
Museum	250,000	(40,000)	210,000	6,200	203,800
Street	1,797,500	-	1,797,500	273,435	1,524,065
Right of way	40,000	-	40,000	39,594	406
Public facilities	30,000	(40,000)	30,000	-	30,000
Water	2,200,000	-	2,200,000	468,633	1,731,367
Sanitation	35,000	-	35,000	24,381	10,619
Landfill	125,000	-	125,000	-	125,000
Total expenditures	<u>6,349,950</u>	<u>331,226</u>	<u>6,515,563</u>	<u>2,165,038</u>	<u>4,350,525</u>
Revenue over (under) expenditures	(1,734,866)	76,824	(1,492,429)	4,205,240	(3,003,381)
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	(375,000)	130,613	(244,387)	(564,619)	(320,232)
Net other financing sources (uses)	<u>(375,000)</u>	<u>130,613</u>	<u>(244,387)</u>	<u>(564,619)</u>	<u>(320,232)</u>
Revenues and other financing sources over (under) expenditures and other uses	(2,109,866)	207,437	(1,736,816)	3,640,621	(3,323,613)
Fund balance at beginning of year (Non-GAAP budgetary basis)				3,261,295	3,261,295
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 6,901,916</u>	<u>\$ (62,318)</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and transfer accruals				285,162	
Fund balance at end of year (GAAP basis)				<u>\$ 7,187,078</u>	

**City of Elk City Oklahoma  
Economic Development  
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2012**

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>REVENUES</b>					
Rental Income	\$ 50,000	\$ 50,000	\$ 100,000	\$ 49,709	\$ (50,291)
Interest	-	11,750	11,750	417	(11,333)
Total revenues	<u>50,000</u>	<u>61,750</u>	<u>111,750</u>	<u>50,126</u>	<u>(61,624)</u>
<b>EXPENDITURES</b>					
<u>Economic Development</u>					
Personal Services	-	50,400	50,400	-	50,400
Materials & Supplies	-	45,000	45,000	-	45,000
Other Charges & Services	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service	-	-	-	-	-
Total expenditures	<u>-</u>	<u>95,400</u>	<u>95,400</u>	<u>-</u>	<u>95,400</u>
Revenue over (under) expenditures	50,000	(33,650)	16,350	50,126	(157,024)
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	(50,000)	50,400	400	19,000	18,600
Net other financing sources (uses)	<u>(50,000)</u>	<u>50,400</u>	<u>400</u>	<u>19,000</u>	<u>18,600</u>
Revenues and other financing sources over (under) expenditures and other uses	-	16,750	16,750	69,126	(138,424)
Fund balance at beginning of year (Non-GAAP budgetary basis)				2,724,935	2,724,935
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 2,794,061</u>	<u>\$ 2,586,511</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and transfer accruals				-	
Fund balance at end of year (GAAP basis)				<u>\$ 2,794,061</u>	

City of Elk City, Oklahoma  
Combining Balance Sheet  
Non-Major Governmental Funds (continued)  
June 30, 2012

	Street & Alley Fund	Improvement Fund	Civil Defense	Police Special Revenue	Fire Special Revenue	Cemetery Corpus Fund	Municipal Court Fund	Museum Building Fund	Special Library Fund
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 36,584	\$ 136,483	\$ -	\$ 2,414	\$ -	\$ -
Investments	100,000	15,000	2,000	-	7,000	60,000	-	-	60,000
Due from other governments	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	15,260	-
Total assets	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 36,584</u>	<u>\$ 143,483</u>	<u>\$ 60,000</u>	<u>\$ 2,414</u>	<u>\$ 15,260</u>	<u>\$ 60,000</u>
<b>LIABILITIES</b>									
Accounts payable	\$ -	\$ -	\$ -	\$ 75	\$ 1,780	\$ -	\$ 2,414	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>1,780</u>	<u>-</u>	<u>2,414</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>									
Nonspendable	-	-	-	-	-	-	-	15,260	-
Restricted	100,000	-	-	-	-	60,000	-	-	-
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	15,000	2,000	36,509	141,703	-	-	-	60,000
Unassigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>100,000</u>	<u>15,000</u>	<u>2,000</u>	<u>36,509</u>	<u>141,703</u>	<u>60,000</u>	<u>-</u>	<u>15,260</u>	<u>60,000</u>
Total liabilities and fund balances	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 36,584</u>	<u>\$ 143,483</u>	<u>\$ 60,000</u>	<u>\$ 2,414</u>	<u>\$ 15,260</u>	<u>\$ 60,000</u>

City of Elk City, Oklahoma  
Combining Balance Sheet  
Non-Major Governmental Funds (continued)  
June 30, 2012

	Revolving Loan Fund	Carousel Maintenance	Museum Exhibit Fund	Landfill	Clearing	Public Facilities	Hotel Tax Fund	Tax Incentive Fund	Total Non-Major Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 4,072	\$ 54,200	\$ -	\$ 534,990	\$ 32,567	\$ 801,310
Investments	5,000	100,000	25,000	450,000	-	41,000	100,000	-	965,000
Due from other governments	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	15,260
Total assets	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 454,072</u>	<u>\$ 54,200</u>	<u>\$ 41,000</u>	<u>\$ 634,990</u>	<u>\$ 32,567</u>	<u>\$ 1,781,570</u>
<b>LIABILITIES</b>									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,269
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,269</u>
<b>FUND BALANCES</b>									
Nonspendable	-	-	-	-	-	-	-	-	15,260
Restricted	-	-	-	-	-	-	-	32,567	192,567
Committed	-	-	-	454,072	-	41,000	634,990	-	1,130,062
Assigned	5,000	100,000	25,000	-	-	-	-	-	385,212
Unassigned	-	-	-	-	54,200	-	-	-	54,200
Total fund balances	<u>5,000</u>	<u>100,000</u>	<u>25,000</u>	<u>454,072</u>	<u>54,200</u>	<u>41,000</u>	<u>634,990</u>	<u>32,567</u>	<u>1,777,301</u>
Total liabilities and fund balances	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 454,072</u>	<u>\$ 54,200</u>	<u>\$ 41,000</u>	<u>\$ 634,990</u>	<u>\$ 32,567</u>	<u>\$ 1,781,570</u>

**City of Elk City, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**

June 30, 2012

	Street & Alley Fund	Improvement Fund	Civil Defense	Police Special Revenue	Fire Special Revenue	Cemetery Corpus Fund	Municipal Court Fund	Museum Building Fund	Special Library Fund
<b>REVENUES</b>									
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	75	-	2,055	-
Fines & forfeitures	-	-	-	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-	-	-
Other income	-	2,801	-	3,545	28,170	-	-	-	114
Donations	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	127	618	-	-	-	-
Total revenues	<u>-</u>	<u>2,801</u>	<u>-</u>	<u>3,672</u>	<u>28,788</u>	<u>75</u>	<u>-</u>	<u>2,055</u>	<u>114</u>
<b>EXPENDITURES</b>									
General government:									
General government	-	-	-	-	-	-	-	-	-
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Public safety and judiciary:									
Police	-	-	-	3,383	-	-	-	-	-
Fire	-	-	-	-	31,261	-	-	-	-
Ambulance	-	-	-	-	-	-	-	-	-
Total public safety and judiciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,383</u>	<u>31,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transportation:									
Street	-	-	-	-	-	-	-	-	-
Total transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cultural, parks and recreation:									
Museum	-	-	-	-	-	-	-	75	-
Library	-	-	-	-	-	-	-	-	-
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>-</u>
Public Service:									
Landfill	-	-	-	-	-	-	-	-	-
Total public services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development:									
Economic development	-	-	-	-	-	-	-	-	-
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,383</u>	<u>31,261</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>2,801</u>	<u>-</u>	<u>289</u>	<u>(2,473)</u>	<u>75</u>	<u>-</u>	<u>1,980</u>	<u>114</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in/(out)	(76,375)	(41,839)	(6,775)	148	99,694	(25,798)	-	(233,916)	(95,910)
Total other financing sources and uses	<u>(76,375)</u>	<u>(41,839)</u>	<u>(6,775)</u>	<u>148</u>	<u>99,694</u>	<u>(25,798)</u>	<u>-</u>	<u>(233,916)</u>	<u>(95,910)</u>
Net change in fund balances	(76,375)	(39,038)	(6,775)	437	97,221	(25,723)	-	(231,936)	(95,796)
Fund balances - beginning	176,375	54,038	8,775	36,072	44,482	85,723	-	247,196	155,796
Fund balances - ending	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 36,509</u>	<u>\$ 141,703</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 15,260</u>	<u>\$ 60,000</u>



**City of Elk City, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**

June 30, 2012

	Revolving Loan Fund	Carousel Maintenance	Museum Exhibit Fund	Landfill	Clearing	Public Facilities	Hotel Tax Fund	Tax Incentive Fund	Total Non-Major Funds
<b>REVENUES</b>									
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	-	2,130
Fines & forfeitures	-	-	-	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	845,210	-	879,840
Donations	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	3,757	946	-	1,732	49	7,229
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,757</u>	<u>946</u>	<u>-</u>	<u>846,942</u>	<u>49</u>	<u>889,199</u>
<b>EXPENDITURES</b>									
General government:									
General government	-	-	-	-	211	-	-	-	211
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211</u>
Public safety and judiciary:									
Police	-	-	-	-	-	-	-	-	3,383
Fire	-	-	-	-	-	-	-	-	31,261
Ambulance	-	-	-	-	-	-	-	-	-
Total public safety and judiciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,644</u>
Transportation:									
Street	-	-	-	-	-	-	-	-	-
Total transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cultural, parks and recreation:									
Museum	-	-	-	-	-	-	-	-	75
Library	-	-	-	-	-	-	-	-	-
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>
Public Service:									
Landfill	-	-	-	-	-	-	-	-	-
Total public services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development:									
Economic development	-	-	-	-	-	-	499,104	-	499,104
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,104</u>	<u>-</u>	<u>499,104</u>
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211</u>	<u>-</u>	<u>499,104</u>	<u>-</u>	<u>534,034</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,757</u>	<u>735</u>	<u>-</u>	<u>347,838</u>	<u>49</u>	<u>355,165</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in/(out)	(4,069)	(85,127)	(18,343)	-	-	(14,931)	-	32,518	(470,723)
Total other financing sources and uses	<u>(4,069)</u>	<u>(85,127)</u>	<u>(18,343)</u>	<u>-</u>	<u>-</u>	<u>(14,931)</u>	<u>-</u>	<u>32,518</u>	<u>(470,723)</u>
Net change in fund balances	(4,069)	(85,127)	(18,343)	3,757	735	(14,931)	347,838	32,567	(115,558)
Fund balances - beginning	9,069	185,127	43,343	450,315	53,465	55,931	287,152	-	1,892,859
Fund balances - ending	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 454,072</u>	<u>\$ 54,200</u>	<u>\$ 41,000</u>	<u>\$ 634,990</u>	<u>\$ 32,567</u>	<u>\$ 1,777,301</u>

**City of Elk City, Oklahoma**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2012**

	<b>Water Meter Deposit Fund</b>	<b>Municipal Court Bond Fund</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 112,181	\$ 1,413	\$ 113,594
Investments	96,000	-	96,000
Total assets	<u>\$ 208,181</u>	<u>\$ 1,413</u>	<u>\$ 209,594</u>
<b>LIABILITIES</b>			
Due to other funds	\$ 29,954	\$ -	\$ 29,954
Bonds and deposits subject to refund	178,227	1,413	179,640
Total liabilities	<u>\$ 208,181</u>	<u>\$ 1,413</u>	<u>\$ 209,594</u>

# Derrel S. White, CPA

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

To the City Council  
City of Elk City, OK

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Elk City, OK, as of and for the year ended June 30, 2012, which collectively comprise the City of Elk City, OK's basic financial statements and have issued our report thereon dated December 19, 2012. Our opinion on the financial statements as a whole was unqualified. 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 City of Elk City, OK, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Elk City, OK'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 City of Elk City, OK's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elk City, OK's internal control over financial reporting.

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Elk City, OK'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 are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "D. White, CPA". The signature is stylized and cursive.

Derrel S. White, CPA

Woodward, OK

December 19, 2012