

City of

Eufaula, Oklahoma



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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**THE CITY OF EUFAULA,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

TABLE OF CONTENTS

| | |
|--|-------|
| Independent Auditor’s Report on the Basic Financial Statements | 5-6 |
| Management’s Discussion and Analysis | 7-13 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position (Modified Cash Basis)..... | 15 |
| Statement of Activities (Modified Cash Basis)..... | 16 |
| Governmental Funds Financial Statements: | |
| Balance Sheet (Modified Cash Basis)..... | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis)..... | 19 |
| Proprietary Funds Financial Statements: | |
| Statement of Net Position (Modified Cash Basis) | 21 |
| Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)..... | 22 |
| Statement of Cash Flows (Modified Cash Basis)..... | 23 |
| Footnotes to the Basic Financial Statements | 24-40 |
| Supplemental and Other Information: | |
| Budgetary Comparison Information | |
| Budgetary Comparison Schedule (Budgetary Basis) | 42 |
| Footnotes to Budgetary Comparison Schedules..... | 43 |
| Combining Non-Major Governmental Funds Schedules | |
| Combining Balance Sheet (Modified Cash Basis)..... | 44 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis)..... | 45 |
| Combining Proprietary Fund Schedules | |
| Combining Schedule of Net Position (Modified Cash Basis) - EPWA..... | 46 |
| Combining Schedule of Revenues, Expenditures and Changes in Net Position (Modified Cash Basis) - Eufaula Public Works Authority..... | 47 |
| Debt Service Coverage Information | |
| Schedule of Debt Service Coverage Requirement | 48 |
| Schedule of Debt Reserve Requirement Compliance..... | 48 |
| State Awards Information | |
| Schedule of Expenditures of State Awards..... | 49 |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of
City of Eufaula, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Eufaula, Oklahoma (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eufaula, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, and where applicable, cash flows – modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplemental combining fund schedules – modified cash basis, and debt service coverage information, and the other information including management's discussion and analysis and budgetary comparison information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining funds schedules – modified cash basis and debt service coverage information, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund schedules and debt service coverage information are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Management's discussion and analysis and budgetary comparison information, as listed in the table of contents, has 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 it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Orledge & Associates, P.C.

Edmond, Oklahoma

October 15, 2013

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

The management of the City of Eufaula is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$364,457, and the assets of the City exceed its liabilities at June 30, 2013, by \$2,275,600 (net position). Of this amount, \$1,042,581 (unrestricted net position) may be used to meet any of the government's ongoing obligations to citizens and creditors.
- At June 30, 2013, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$867,574.
- At the end of fiscal year 2013, unassigned fund balance on a modified cash basis for the General Fund was \$425,666, or 17.0% of annual revenues.

ABOUT THE CITY

The City of Eufaula is an incorporated municipality with a population of approximately 2,639 located in McIntosh County in eastern Oklahoma. The City is a statutory aldermanic form of government and operates under State law and City ordinances that provide for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected for a four year term
- Judicial – the Municipal Judge is an attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Public Works Authority, certain utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

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

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

- **The City of Eufaula** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

- **The Eufaula Public Works Authority (EPWA)** – public trust created August 4, 1976, pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City, with the City Council members serving as the trustees – *reported as part of the primary government*
- **The Eufaula Economic Development Authority (EEDA)** – public trust created July 11, 2005, pursuant to 60 O.S. § 176 that operates the economic development services of the City, governed by trustees comprised of the entire City Council – *reported as part of the primary government*
- **The Eufaula Industrial Authority (EIA)** – public trust created April 2, 1980, pursuant to 60 O.S. § 176 that operates the industrial development services of the City, governed by trustees comprised of the entire City Council – *normally reported as part of the primary government*. The authority is inactive.
- **The Eufaula Recreation Authority (ERA)** – public trust created April 10, 1970, pursuant to 60 O.S. § 176 that operates the recreational services of the City, governed by trustees comprised of the entire City Council – *reported as part of the primary government*
- **The Eufaula Airport Authority (EAA)** – public trust created March 2, 1982, pursuant to 60 O.S. § 176 that operates the municipal airport services of the City, governed by seven trustees comprised of citizens appointed by the City Council – *normally reported as a discretely presented component unit for reporting purposes*. The authority is inactive.

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

Basis of Accounting and Presentation

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

These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables/payables
- assets that normally convert to cash or cash equivalents (certificates of deposit, marketable investments, and receivables resulting from cash
- liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Eufaula (the "City"), the Eufaula Public Works Authority (the "Public Works Authority"), the Eufaula Economic Development Authority (the "Economic Development Authority") and the Eufaula Recreation Authority. Included in this report are government-wide statements for each of the two categories of activities – governmental and business-type.

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

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

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

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, recreation and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting.

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds - The City operates two proprietary funds, the Eufaula Public Works Authority (major fund), and the Eufaula Economic Development Authority (major fund). When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis. The City's proprietary funds are the Eufaula Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities, and the Eufaula Economic Development Authority that accounts for the operation of economic activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 24-40 of this report.

THE CITY AS A WHOLE

For the year ended June 30, 2013, net position on a modified cash basis for the governmental and business-type activities increased \$364,457.

Following is a summary of net position reported on a modified cash basis for the City of Eufaula.

Net Position (Modified Cash Basis)
June 30, 2013

TABLE 1
NET POSITION (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|---------------------------|-------------------------|---------------|---------------|--------------------------|-----------------|---------------|-----------------|-----------------|---------------|
| | (Restated) | | | (Restated) | | | (Restated) | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | | | |
| Cash and cash equivalents | \$ 873 | \$ 697 | 25% | \$ 1,480 | \$ 1,283 | 15% | \$ 2,353 | \$ 1,980 | 19% |
| Total assets | <u>873</u> | <u>697</u> | 25% | <u>1,480</u> | <u>1,283</u> | 15% | <u>2,353</u> | <u>1,980</u> | 19% |
| Liabilities | 5 | 4 | 25% | 71 | 64 | 11% | 76 | 68 | 12% |
| Total liabilities | <u>5</u> | <u>4</u> | 25% | <u>71</u> | <u>64</u> | 11% | <u>76</u> | <u>68</u> | 12% |
| Net position | | | | | | | | | |
| Restricted | 427 | 394 | 8% | 806 | 884 | -9% | 1,233 | 1,278 | -4% |
| Unrestricted | 441 | 299 | 47% | 602 | 335 | 80% | 1,043 | 634 | 65% |
| Total net position | <u>\$ 868</u> | <u>\$ 693</u> | 25% | <u>\$ 1,408</u> | <u>\$ 1,219</u> | 16% | <u>\$ 2,276</u> | <u>\$ 1,912</u> | 19% |

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2013

TABLE 2
CHANGES IN NET POSITION (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|--------------------------------------|-------------------------|---------------|---------------|--------------------------|-----------------|---------------|-----------------|-----------------|---------------|
| | (Restated) | | | (Restated) | | | (Restated) | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | | | |
| Revenues | | | | | | | | | |
| Charges for service | \$ 261 | \$ 211 | 24% | \$ 1,419 | \$ 1,277 | 11% | \$ 1,680 | \$ 1,488 | 13% |
| Operating grants and contributions | 69 | 229 | -70% | 4 | - | - | 73 | 229 | -68% |
| Capital grants and contributions | 232 | 54 | 330% | 3,176 | 852 | 273% | 3,408 | 906 | 276% |
| Taxes | 2,207 | 2,152 | 3% | - | - | - | 2,207 | 2,152 | 3% |
| Intergovernmental revenue | 65 | 66 | -2% | - | - | - | 65 | 66 | -2% |
| Investment income | 1 | 1 | 0% | 1 | 1 | 0% | 2 | 2 | 0% |
| Miscellaneous | 109 | 95 | 15% | 1 | 12 | -92% | 110 | 107 | 3% |
| Total revenues | 2,944 | 2,808 | 5% | 4,601 | 2,142 | 115% | 7,545 | 4,950 | 52% |
| Expenses | | | | | | | | | |
| General government | 537 | 588 | -9% | - | - | - | 537 | 588 | -9% |
| Public safety | 872 | 860 | 1% | - | - | - | 872 | 860 | 1% |
| Streets | 84 | 87 | -3% | - | - | - | 84 | 87 | -3% |
| Culture, parks and recreation | 141 | 180 | -22% | - | - | - | 141 | 180 | -22% |
| Airport | 142 | 2 | 7000% | - | - | - | 142 | 2 | 7000% |
| Tourism | 4 | 4 | 0% | - | - | - | 4 | 4 | 0% |
| Principal on long-term debt | 128 | 50 | 156% | - | - | - | 128 | 50 | 156% |
| Interest on long-term debt | 8 | 12 | -33% | - | - | - | 8 | 12 | -33% |
| Water | - | - | - | 1,013 | 1,091 | -7% | 1,013 | 1,091 | -7% |
| Sewer | - | - | - | 3,912 | 1,613 | 143% | 3,912 | 1,613 | 143% |
| Sanitation | - | - | - | 331 | 340 | -3% | 331 | 340 | -3% |
| Economic development | - | - | - | 9 | 82 | -89% | 9 | 82 | -89% |
| Total expenses | 1,916 | 1,783 | 7% | 5,265 | 3,126 | 68% | 7,181 | 4,909 | 46% |
| Excess (deficiency) before transfers | 1,028 | 1,025 | 0% | (664) | (984) | 33% | 364 | 41 | 788% |
| Transfers | (853) | (663) | -29% | 853 | 663 | 29% | - | - | |
| Change in net position | 175 | 362 | -52% | 189 | (321) | 159% | 364 | 41 | 788% |
| Beginning net position, restated | 693 | 331 | 109% | 1,219 | 1,540 | -21% | 1,912 | 1,871 | 2% |
| Ending net position | \$ 868 | \$ 693 | 25% | \$ 1,408 | \$ 1,219 | 16% | \$ 2,276 | \$ 1,912 | 19% |

Governmental Activities

The City's governmental activities had an increase in net position of \$175,424. The increase is due in part to an increase in capital improvement fee revenue of \$70,413 from year, an increase in capital grants and taxes, and an increase in net transfers out of approximately \$190,000.

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

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

| | Total Expense of Services | | % Inc. (Dec.) | Net Revenue (Expense) of Services | | % Inc. (Dec.) |
|-----------------------------|------------------------------|----------------|------------------|---|------------------|------------------|
| | 2013 | 2012 | | 2013 | 2012 | |
| | General government | \$ 537 | \$ 588 | -9% | (\$387) | (\$301) |
| Public safety | 872 | 860 | 1% | (685) | (734) | 7% |
| Highways and streets | 84 | 87 | -3% | (58) | (63) | 8% |
| Culture and recreation | 141 | 180 | -22% | (82) | (136) | 40% |
| Cemetery | - | - | 0% | 15 | 12 | -25% |
| Airport | 142 | 2 | 7000% | (18) | (2) | -800% |
| Tourism | 4 | 4 | 0% | (3) | (4) | 25% |
| Principal on long-term debt | 128 | 50 | 156% | (128) | (50) | -156% |
| Interest on long-term debt | 8 | 12 | -33% | (8) | (12) | 33% |
| Total | <u>1,916</u> | <u>\$1,783</u> | 7% | <u>(\$1,354)</u> | <u>(\$1,290)</u> | -5% |

Business-type Activities

The business-type activities had an increase in net position of \$189,033, due mainly to an increase in transfers in of approximately \$190,000 and a significant utility rate increase. Capital grants increased approximately \$2.3 million, while expenditures also increased approximately \$2.3 million.

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

| | Total Expense of Services | | % Inc. Dec. | Net Revenue (Expense) of Services | | % Inc. Dec. |
|----------------------|------------------------------|-----------------|----------------|---|-----------------|----------------|
| | 2013 | 2012 | | 2013 | 2012 | |
| | Water | \$ 1,013 | \$ 1,091 | -7% | \$ (264) | \$ (388) |
| Sewer | 3,912 | 1,613 | 143% | (410) | (593) | 31% |
| Sanitation | 331 | 340 | -3% | 17 | (9) | 289% |
| Economic Development | 9 | 82 | -89% | (9) | (5) | -80% |
| Total | <u>\$ 5,265</u> | <u>\$ 3,126</u> | 68% | <u>\$ (666)</u> | <u>\$ (995)</u> | 33% |

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2013 fiscal year, the governmental funds reported a combined fund balance of \$867,574. For the year ended June 30, 2013, the General Fund's total fund balance increased by \$137,192. The proprietary funds reported combined net position of \$1,408,026. The EPWA's total net position increased by \$189,278, while EEDA's total net position decreased by \$245.

CITY OF EUFAULA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

Budgetary Highlights

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues over final estimates by \$129,129 or an 8.1% positive variance. General Fund actual expenditures were under final appropriations by \$47,381 or a 2.9% positive variance.

Debt Administration

At year-end, the City had \$12,086,295 in long-term debt outstanding, reported on a modified cash basis, which represents a \$2,829,397 increase from the prior year.

TABLE 6
Long-Term Debt
(In Thousands)

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | | <u>Total</u> |
|----------------|---------------------|---------------|----------------------|-----------------|------------------|-----------------|-------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | | <u>Percentage</u> |
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>Change</u> |
| Revenue bonds | \$ - | \$ - | \$ 6,910 | \$ 7,145 | \$ 6,910 | \$ 7,145 | -3.3% |
| Notes payable | - | - | 5,089 | 1,934 | 5,089 | 1,934 | 163.1% |
| Capital leases | 88 | 178 | - | - | 88 | 178 | -50.6% |
| Totals | \$ 88 | \$ 178 | \$ 11,999 | \$ 9,079 | \$ 12,087 | \$ 9,257 | 30.6% |

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2013-2014 budget has decreased approximately \$3 million from FY 2012-2013 due to the completion of the wastewater treatment plant/collection system improvements. FY 12-13 had a budget for this project of \$3,586,000 which was completed prior to the start of FY 13-14.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at P.O. Box 684, Eufaula, Oklahoma 74432 or telephone at 918-689-2534.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Statement of Net Position (Modified Cash Basis) – June 30, 2013

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|-----------------------------|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 872,603 | \$ 1,479,522 | \$ 2,352,125 |
| Total assets | <u>872,603</u> | <u>1,479,522</u> | <u>2,352,125</u> |
| LIABILITIES | | | |
| Payroll withholding payable | - | 122 | 122 |
| Due to bondholders | 5,029 | - | 5,029 |
| Deposits subject to refund | - | 71,374 | 71,374 |
| Total liabilities | <u>5,029</u> | <u>71,496</u> | <u>76,525</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Cemetery | 20,584 | - | 20,584 |
| Streets | 326 | - | 326 |
| Grants | 85,258 | - | 85,258 |
| Public safety | 296 | - | 296 |
| Capital improvements | 230,763 | 6,822 | 237,585 |
| Debt service | - | 799,440 | 799,440 |
| Recreation | 89,530 | - | 89,530 |
| Unrestricted | 440,817 | 601,764 | 1,042,581 |
| Total net position | <u>\$ 867,574</u> | <u>\$ 1,408,026</u> | <u>\$ 2,275,600</u> |

See accompanying notes to these financial statements.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2013

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|----------------------|---------------------|---|--------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and | Capital Grants and | Governmental Activities | Business-type Activities | Total |
| Primary Government | | | | | | | |
| Governmental activities: | | | | | | | |
| General Government | \$ 537,344 | \$ 129,416 | \$ 20,418 | \$ - | \$ (387,510) | \$ - | \$ (387,510) |
| Public Safety | 872,173 | 97,965 | 6,816 | 82,861 | (884,731) | - | (684,731) |
| Highways and Streets | 83,587 | - | 25,834 | - | (57,753) | - | (57,753) |
| Culture and Recreation | 140,954 | 17,941 | 16,020 | 25,200 | (81,793) | - | (81,793) |
| Cemetery | 341 | 15,700 | - | - | 15,359 | - | 15,359 |
| Airport | 142,199 | - | - | 123,821 | (18,378) | - | (18,378) |
| Tourism | 3,524 | - | - | - | (3,524) | - | (3,524) |
| Debt service: | | | | | | | |
| Principal on Long-term Debt | 127,754 | - | - | - | (127,754) | - | (127,754) |
| Interest on Long-term Debt | 8,189 | - | - | - | (8,189) | - | (8,189) |
| Total governmental activities | 1,916,075 | 261,022 | 69,088 | 231,682 | (1,354,283) | - | (1,354,283) |
| Business-type activities: | | | | | | | |
| Water | 1,012,756 | 746,888 | 1,900 | - | - | (263,968) | (263,968) |
| Sewer | 3,912,085 | 324,402 | 1,900 | 3,178,046 | (408,737) | - | (408,737) |
| Sanitation | 330,446 | 347,740 | - | - | - | 17,294 | 17,294 |
| Economic Development | 9,265 | - | - | - | - | (9,265) | (9,265) |
| Total business-type activities | 5,264,552 | 1,419,030 | 3,800 | 3,176,046 | - | (665,676) | (665,676) |
| Total primary government | \$ 7,180,627 | \$ 1,680,052 | \$ 72,888 | \$ 3,407,728 | (1,354,283) | (665,676) | (2,019,959) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Sales and use taxes | | | | | 1,997,130 | - | 1,997,130 |
| Franchise taxes and public service taxes | | | | | 131,503 | - | 131,503 |
| Hotel/motel taxes | | | | | 45,034 | - | 45,034 |
| E911 taxes | | | | | 32,914 | - | 32,914 |
| Intergovernmental revenue not restricted to specific programs | | | | | 65,136 | - | 65,136 |
| Unrestricted investment earnings | | | | | 986 | 1,163 | 2,149 |
| Miscellaneous | | | | | 109,550 | 1,000 | 110,550 |
| Transfers | | | | | (852,546) | 852,546 | - |
| Total general revenues and transfers | | | | | 1,529,707 | 854,709 | 2,384,416 |
| Change in net position | | | | | 175,424 | 189,033 | 364,457 |
| Net position - beginning (restated) | | | | | 692,150 | 1,218,953 | 1,911,143 |
| Net position - ending | | | | | \$ 867,574 | \$ 1,408,326 | \$ 2,275,600 |

See accompanying notes to these financial statements.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

| | <u>General Fund</u> | <u>Capital Improvements Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|--|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 430,895 | \$ 231,125 | \$ 210,783 | \$ 872,603 |
| Total assets | <u>\$ 430,895</u> | <u>\$ 231,125</u> | <u>\$ 210,783</u> | <u>\$ 872,603</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Due to bondholders | \$ 5,029 | \$ - | \$ - | \$ 5,029 |
| Total liabilities | <u>5,029</u> | <u>-</u> | <u>-</u> | <u>5,029</u> |
| Fund balances: | | | | |
| Restricted | - | 230,763 | 195,994 | 426,757 |
| Assigned | | 362 | 14,789 | 15,151 |
| Unassigned | 425,666 | - | - | 425,666 |
| Total fund balances | <u>425,666</u> | <u>231,125</u> | <u>210,783</u> | <u>867,574</u> |
| Total liabilities and fund balances | <u>\$ 430,895</u> | <u>\$ 231,125</u> | <u>\$ 210,783</u> | <u>\$ 872,603</u> |

See accompanying notes to these financial statements.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2013

| | <u>General Fund</u> | <u>Capital Improvements Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--|---|---|
| REVENUES | | | | |
| Taxes | \$ 2,128,633 | \$ - | \$ 45,034 | \$ 2,173,667 |
| Intergovernmental | 150,025 | - | 167,481 | 317,506 |
| Charges for services | 15,700 | 116,766 | 17,941 | 150,407 |
| Fines and forfeitures | 97,965 | - | - | 97,965 |
| Licenses and permits | 12,650 | - | - | 12,650 |
| Investment income | 573 | 362 | 51 | 986 |
| Miscellaneous | 93,484 | - | 59,730 | 153,214 |
| Total revenues | <u>2,499,030</u> | <u>117,128</u> | <u>290,237</u> | <u>2,906,395</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 507,851 | - | 13,443 | 521,294 |
| Public Safety | 790,448 | - | 19,823 | 810,271 |
| Highway and streets | 75,504 | - | 8,093 | 83,597 |
| Culture and recreation | 80,373 | - | 43,006 | 123,379 |
| Cemetery | 341 | - | - | 341 |
| Tourism | 3,524 | - | - | 3,524 |
| Airport | - | - | 4,759 | 4,759 |
| Capital Outlay | 48,216 | 12,310 | 184,751 | 245,277 |
| Debt Service: | | | | |
| Principal | 46,638 | - | 81,116 | 127,754 |
| Interest and other charges | 6,016 | - | 2,173 | 8,189 |
| Total expenditures | <u>1,558,911</u> | <u>12,310</u> | <u>357,164</u> | <u>1,928,385</u> |
| Excess (deficiency) of revenues over expenditures | <u>940,119</u> | <u>104,818</u> | <u>(66,927)</u> | <u>978,010</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from long-term debt | 37,650 | - | - | 37,650 |
| Transfers in | 1,133,386 | 36,028 | 28,148 | 1,197,562 |
| Transfers out | (1,973,963) | (61,890) | (1,945) | (2,037,798) |
| Total other financing sources and uses | <u>(802,927)</u> | <u>(25,862)</u> | <u>26,203</u> | <u>(802,586)</u> |
| Net change in fund balances | 137,192 | 78,956 | (40,724) | 175,424 |
| Fund balances - beginning, restated | 288,474 | 152,169 | 251,507 | 692,150 |
| Fund balances - ending | <u>\$ 425,666</u> | <u>\$ 231,125</u> | <u>\$ 210,783</u> | <u>\$ 867,574</u> |

See accompanying notes to these financial statements.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2013

| | Enterprise Funds | | |
|---------------------------------|---|---|---------------------|
| | Eufaula Public Works Authority | Eufaula Economic Development Authority | Totals |
| ASSETS | | | |
| Cash and cash equivalents | \$ 600,461 | \$ 1,425 | \$ 601,886 |
| Restricted: | | | |
| Cash and cash equivalents | 877,636 | - | 877,636 |
| Total assets | <u>1,478,097</u> | <u>1,425</u> | <u>1,479,522</u> |
| LIABILITIES | | | |
| Payroll liabilities payable | - | 122 | 122 |
| Deposits subject to refund | 71,374 | - | 71,374 |
| Total liabilities | <u>71,374</u> | <u>122</u> | <u>71,496</u> |
| NET POSITION | | | |
| Restricted for debt service | 799,440 | - | 799,440 |
| Restricted for capital projects | 6,822 | - | 6,822 |
| Unrestricted | 600,461 | 1,303 | 601,764 |
| Total net position | <u>\$ 1,406,723</u> | <u>\$ 1,303</u> | <u>\$ 1,408,026</u> |

See accompanying notes to these financial statements.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013

| | Eufaula Public Works Authority | Eufaula Economic Development Authority | Totals |
|---|---|---|---------------------|
| REVENUES | | | |
| Water | \$ 702,337 | \$ - | \$ 702,337 |
| Sewer | 300,792 | - | 300,792 |
| Sanitation | 330,557 | - | 330,557 |
| Water and sewer taps | 15,775 | - | 15,775 |
| Penalties | 47,101 | - | 47,101 |
| Miscellaneous | 22,468 | - | 22,468 |
| Total operating revenues | <u>1,419,030</u> | <u>-</u> | <u>1,419,030</u> |
| OPERATING EXPENSES | | | |
| Administration | 213,213 | - | 213,213 |
| Water | 521,600 | - | 521,600 |
| Sewer | 175,701 | - | 175,701 |
| Sanitation | 330,446 | - | 330,446 |
| Economic development | - | 8,165 | 8,165 |
| Total operating expenses | <u>1,240,960</u> | <u>8,165</u> | <u>1,249,125</u> |
| Operating income (loss) | <u>178,070</u> | <u>(8,165)</u> | <u>169,905</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Investment income | 1,163 | - | 1,163 |
| Miscellaneous revenue | - | 1,000 | 1,000 |
| Loan proceeds | 3,176,046 | - | 3,176,046 |
| Operating grants and contributions | 3,800 | - | 3,800 |
| Capital outlay | (3,351,590) | (1,100) | (3,352,690) |
| Debt service: | | | |
| Principal retirement | (256,545) | - | (256,545) |
| Interest expense and fees | (393,882) | - | (393,882) |
| Total non-operating revenue (expenses) | <u>(821,008)</u> | <u>(100)</u> | <u>(821,108)</u> |
| Income (loss) before transfers | <u>(642,938)</u> | <u>(8,265)</u> | <u>(651,203)</u> |
| Transfers in | 1,965,216 | 8,020 | 1,973,236 |
| Transfers out | <u>(1,133,000)</u> | <u>-</u> | <u>(1,133,000)</u> |
| Change in net position | 189,278 | (245) | 189,033 |
| Total net position - beginning (restated) | 1,217,445 | 1,548 | 1,218,993 |
| Total net position - ending | <u>\$ 1,406,723</u> | <u>\$ 1,303</u> | <u>\$ 1,408,026</u> |

See accompanying notes to these financial statements.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2013

| | Eufaula Public Works Authority | Eufaula Economic Development Authority | Totals |
|--|---|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,419,030 | \$ - | \$ 1,419,030 |
| Payments to suppliers | (694,667) | (6,365) | (701,032) |
| Payments to employees | (546,690) | (1,784) | (548,474) |
| Receipts of customer meter deposits | 24,490 | - | 24,490 |
| Refunds of customer meter deposits | (16,438) | - | (16,438) |
| Other receipts/payments | 3,800 | 1,000 | 4,800 |
| Net cash provided by (used in) operating activities | <u>189,525</u> | <u>(7,149)</u> | <u>182,376</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | 1,965,216 | 8,020 | 1,973,236 |
| Transfers to other funds | (1,133,000) | - | (1,133,000) |
| Net cash provided by noncapital financing activities | <u>832,216</u> | <u>8,020</u> | <u>840,236</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchases of capital assets | (3,351,590) | (1,100) | (3,352,690) |
| Proceeds from debt | 3,176,046 | - | 3,176,046 |
| Principal paid on debt | (393,882) | - | (393,882) |
| Interest and fiscal agent fees paid on debt | (256,545) | - | (256,545) |
| Net cash provided by capital and related financing activities | <u>(825,971)</u> | <u>(1,100)</u> | <u>(827,071)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | 1,163 | - | 1,163 |
| Net cash provided by investing activities | <u>1,163</u> | <u>-</u> | <u>1,163</u> |
| Net increase (decrease) in cash and cash equivalents | 196,933 | (229) | 196,704 |
| Balances - beginning of year | <u>1,281,164</u> | <u>1,854</u> | <u>1,282,818</u> |
| Balances - end of year | <u>\$ 1,478,097</u> | <u>\$ 1,425</u> | <u>\$ 1,479,522</u> |
| Reconciliation to Statement of Net Position: | | | |
| Cash and cash equivalents | \$ 600,461 | \$ 1,425 | \$ 601,886 |
| Restricted cash and cash equivalents - current | 877,636 | - | 877,636 |
| Total cash and cash equivalents, end of year | <u>\$ 1,478,097</u> | <u>\$ 1,425</u> | <u>\$ 1,479,522</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) | \$ 178,070 | \$ (8,165) | \$ 169,905 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating grants and contributions | 3,800 | - | 3,800 |
| Miscellaneous revenue | - | 1,000 | 1,000 |
| Change in assets and liabilities: | | | |
| Payroll liabilities payable | - | 16 | 16 |
| Accrued payroll payable | (397) | - | (397) |
| Deposits subject to refund | 8,052 | - | 8,052 |
| Net cash provided by (used in) operating activities | <u>\$ 189,525</u> | <u>\$ (7,149)</u> | <u>\$ 182,376</u> |

See accompanying notes to these financial statements.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Position and Activities:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

In determining the financial reporting entity, the City fully complies with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 61, "The Financial Reporting Entity: Omnibus" that requires the primary government and all component units of which the primary government is financially accountable be included in the financial report.

The City's financial reporting entity includes six separate legal entities reported as the primary government and component units.

- **The City of Eufaula** – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities – *reported as part of the primary government*
- **The Eufaula Public Works Authority** – that operates the water, wastewater and sanitation services of the City - *reported as part of the primary government (blended component unit)*
- **The Eufaula Economic Development Authority** – that operates the economic development services within the City - *reported as part of the primary government (blended component unit)*
- **The Eufaula Industrial Authority** – that operates the industrial development services within the City (*Authority currently inactive*)
- **The Eufaula Recreation Authority** – that operates the recreational services within the City - *reported as part of the primary government (blended component unit)*
- **The Eufaula Airport Authority** – that operates the municipal airport services of the City (*Authority currently inactive*)

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and, through its public trusts, certain utility services including water, wastewater, and sanitation, recreational, and economic development activities.

All of the component units (Authorities) except the Eufaula Airport Authority (currently inactive) have the City Council as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authorities. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources.

In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

- cash-based interfund receivables/payables
- assets that normally convert to cash or cash equivalents (certificates of deposit, marketable investments, and receivables resulting from cash
- liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned.

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

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

- General government: License and permits, operating and capital grants
- Public safety: Fine revenue, fire runs, operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Culture and recreation: Recreational fees and operating grants
- Cemetery: Cemetery fees

Governmental Funds:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Capital Improvements Fund – accounts for revenues received from the CIP fee and used for capital projects

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

Special Revenue Funds:

- Street Fund – accounts for revenues received from excess of one-half percent sales tax above debt service requirements on the allocated bonds related to the 2002 defeased bonds to be used for street improvements
- Police Drug Fund – accounts for monies received from donations and drug seizures and to be used for law enforcement purposes only
- Eufaula Recreation Authority – accounts for hotel/motel taxes and recreations fees used to operate recreation activities.
- FEMA Fund – accounts for FEMA grant program activity. Used for expenditures and receipts associated with emergency situations

Capital Project Funds:

- Cemetery Perpetual Fund – accounts for 25 percent of cemetery revenues (12.5 percent required per State statute) restricted for cemetery capital improvements
- Airport Fund – accounts for revenue received and expenditures made for airport grant project
- Grant Fund (CDBG) – capital project fund, which accounts for funds of the Community Development Block Grant used for the Pur Ice building project

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Funds:

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

Major Funds:

- Eufaula Public Works Authority (EPWA) – accounts for the operation of the water, wastewater, and sanitation activities
- Eufaula Economic Development Authority (EEDA) – accounts for economic development activities

The proprietary funds are reported on a modified cash basis, as defined above.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

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

C. Cash, Cash Equivalents, and Investments

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

D. Assets Other Than Cash

Assets other than cash are reported at the amount of cash and cash equivalents associated with the transaction or event that resulted in their acquisition.

E. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 10.

F. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. More information is provided in Note 3. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance. The City currently has no fund balance that meets the definition of committed fund balance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.

- e. **Unassigned** – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

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

Net Position:

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net position* - All other net position that does not meet the definition of "restricted".

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

G. Internal and Interfund Balances and Transfers

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

H. New Accounting Pronouncements

The City implemented the following accounting standards during fiscal year ended June 30, 2013:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity: Omnibus – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – A few sentences were removed from "Section B – Proprietary Funds" note

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The only change required from the early implementation of this statement are changing the words “Net Assets” in the town’s financial report to “Net Position”.

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities – This had no impact on the City’s financial report.

2. Deposits and Investments

For the year ended June 30, 2013, the City recognized \$2,149 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2013, the primary government held the following deposits and investments:

| <u>Primary Government:</u> | Credit | Carrying |
|---|---------------|----------------------------|
| <u>Type</u> | Rating | Value |
| Petty cash | | \$ 370 |
| Deposits: | | |
| Demand deposits | | 1,545,493 |
| | | <u>1,545,863</u> |
| Investments: | | |
| Money Market Fund | AAA | 806,262 |
| | | <u>806,262</u> |
| Total deposits and investments | | <u><u>\$ 2,352,125</u></u> |
| Reconciliation to Statement of Net Assets: | | |
| Cash and cash equivalents | | \$ 2,352,125 |
| | | <u><u>\$ 2,352,125</u></u> |

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

As of June 30, 2013, the City was fully collateralized and therefore not exposed to custodial credit risk as defined above.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. Title 60 public trusts are not limited by the same investment limitations of their municipal beneficiary. The investments held by the Public Works Authority are part of the 2005 revenue bond trustee accounts, which are covered and authorized under the said indenture.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. As noted in the schedule of deposits and investments above, at June 30, 2013, the investments were limited to shares of money market funds invested in U.S. Treasury securities which have an average maturity of less than one year.

Concentration of Investment Credit Risk

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

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2013 are as follows:

| | Cash and cash equivalents |
|---------------------------|------------------------------|
| 2005 Sinking Fund | \$ 174,940 |
| 2005 Sinking Fund Reserve | 624,500 |
| 2005 Construction Fund | 6,822 |
| Meter deposits | 71,374 |
| Total | \$ 877,636 |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

3. Fund Balances and Net Position

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54 and Proprietary Fund Statement of Net Position:

| | General Fund | Capital Improvement Fund | Other Governmental Funds | Total |
|---------------------------|-------------------|-----------------------------|-----------------------------|-------------------|
| Fund Balance: | | | | |
| Restricted for: | | | | |
| Grant purposes | \$ - | \$ - | \$ 85,258 | \$ 85,258 |
| Street improvements | - | - | 326 | 326 |
| Law enforcement | - | - | 296 | 296 |
| Cemetery care | - | - | 20,584 | 20,584 |
| Capital improvements | - | 230,763 | - | 230,763 |
| Recreation | - | - | 89,530 | 89,530 |
| | <u>-</u> | <u>230,763</u> | <u>195,994</u> | <u>426,757</u> |
| Assigned for: | | | | |
| Grant purposes | - | - | - | - |
| Capital improvements | - | 362 | 10,949 | 11,311 |
| Cemetery care | - | - | 1,624 | 1,624 |
| Airport | - | - | 2,216 | 2,216 |
| | <u>-</u> | <u>362</u> | <u>14,789</u> | <u>15,151</u> |
| Unassigned | <u>425,666</u> | <u>-</u> | <u>-</u> | <u>425,666</u> |
| Total Fund Balance | <u>\$ 425,666</u> | <u>\$ 231,125</u> | <u>\$ 210,783</u> | <u>\$ 867,574</u> |

Enterprise Fund:

Restricted for:

 Capital improvements

6,822

 Debt service

799,440

Total restricted net position

\$ 806,262

4. Sales Tax Revenue

Sales tax revenue represents a 3 ½ cent tax on each dollar of taxable sales of which all 3 ½ cents are transferred to the Eufaula Public Works Authority to be used to secure debt payments. Any unused portion is transferred back to the General Fund.

5. Property Tax Levy

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

6. Lease Agreements

EEDA constructed and then leased a facility to a third party for economic development purposes. Under terms of the lease, monthly rental payments of \$5,052 are due through February 2031, with a final payment of \$520,300 due March 2031. Total payments received during the year under the lease agreement totaled \$0. See Note 10 for additional information.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

7. Internal Balances and Transfers Between Funds and Legal Entities

Internal transfers between funds and legal entities are comprised of the following:

| Transfer From | Transfer To | Amount | Purpose of Transfer |
|--------------------------------|--|---------------------|------------------------------|
| General Fund | Eufaula Public Works Authority | \$ 1,890,065 | Sales tax transfer |
| General Fund | Eufaula Public Works Authority | 24,851 | Operational subsidy |
| General Fund | Eufaula Public Works Authority | 1,180 | Reimbursement for expenses |
| General Fund | Capital Improvements Fund | 36,028 | Reimbursement for fire grant |
| General Fund | Cemetery Perpetual Care Fund | 3,663 | Required Cemetery Transfer |
| General Fund | Grant Fund | 9,750 | Grant money match |
| General Fund | FEMA Fund | 406 | Payroll reimbursement |
| General Fund | Eufaula Economic Development Authority | 8,020 | Operational subsidy |
| Grant Fund | Eufaula Public Works Authority | 1,559 | Reimbursement for expenses |
| Street Fund | General Fund | 386 | Write off interfund balance |
| Capital Improvements Fund | Airport Fund | 14,329 | Reimbursement for expenses |
| Capital Improvements Fund | Eufaula Public Works Authority | 47,561 | Debt payments |
| Eufaula Public Works Authority | General Fund | 1,133,000 | Operational subsidy |
| Total | | \$ 3,170,798 | |

Reconciliation to Fund Financial Statements:

| | Transfers In | Transfers Out | Net Transfers |
|--------------------|---------------------|--------------------|---------------------|
| Governmental Funds | \$ 1,197,562 | \$ (2,037,798) | \$ (840,236) |
| Proprietary Funds | - | 1,973,236 | 1,973,236 |
| | \$ 1,197,562 | \$ (64,562) | \$ 1,133,000 |

Reconciliation to Statement of Activities:

| | |
|---|-------------------|
| Transfers net balance | (840,236) |
| Transfer of capital outlay from governmental to business-type | (12,310) |
| | \$ 280,454 |

8. Risk Management

The primary government is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for worker's compensation and property liability coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

9. Retirement Plan Participation

The City of Eufaula participates in three pension or retirement plans:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multi-employer defined benefit pension plan

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Oklahoma State Firefighters Pension System

Pursuant to the requirements of Title 11, section 22-102, the City of Eufaula participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by state law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions. For 2013, the City's annual required contribution was \$1,140 for the OFPRS plan and was equal to the City's actual contribution.

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

Oklahoma State Police Pension System

The City of Eufaula, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2013, the City's annual required contribution was \$36,967 for the OPPRS plan and was equal to the City's actual contribution.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 605
Oklahoma City, OK 73116-7335

OMRF Defined Benefit Plan

The City contributes to the City of Eufaula Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Eligibility Factors, Contribution Methods and Benefit Provisions

| Provision | OMRF Plan |
|-----------------------------------|---|
| a. Eligible to Participate | Full-time, non-uniformed employees of the City upon hire. |
| b. Contribution Requirements: | |
| -Authorization | By City ordinance |
| -Actuarially Determined | Yes |
| -Employer Rate | 5.42% of covered payroll |
| -Employee Rate | 3.75% of earnings |
| c. Period Required to Vest | 7 years of credited service |
| d. Eligibility for Distribution | -Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement with 7 years of service -Marital death benefit with 7 years of service |
| e. Benefit Determination Base | Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service |
| f. Benefit Determination Methods: | |
| -Normal Retirement | 1.875% of final average salary multiplied by credited years of service |
| -Early Retirement | Actuarially reduced benefit based upon age and years of service at termination |
| -Disability Retirement | Same as normal retirement |
| -Death Benefit | 50% of employee's accrued benefit, but terminates upon spouse remarriage |
| -Prior to 7 Years Service | Return of employee contributions with accrued interest |
| g. Form of Benefit Payments | Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent. |

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

Summary of Contributions:

| Oklahoma Municipal Retirement Fund | | | Oklahoma Police Pension and Retirement System | | | Oklahoma Firefighter's Pension and Retirement System | | |
|------------------------------------|-----------------------|------------------------|---|-----------------------|------------------------|--|-----------------------|------------------------|
| Fiscal Year | Required Contribution | Percentage Contributed | Fiscal Year | Required Contribution | Percentage Contributed | Fiscal Year | Required Contribution | Percentage Contributed |
| 2011 | 28,411 | 100% | 2011 | 34,967 | 100% | 2011 | 1,140 | 100% |
| 2012 | 32,549 | 100% | 2012 | 38,196 | 100% | 2012 | 1,140 | 100% |
| 2013 | 31,042 | 100% | 2013 | 36,967 | 100% | 2013 | 1,140 | 100% |

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

10. Commitments and Contingencies

For the year ended June 30, 2013, the reporting entity's long-term debt changed as follows:

| <u>Type of Debt</u> | <u>Balance July 01, 2012</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2013</u> | <u>Due Within One Year</u> |
|---------------------------------------|----------------------------------|---------------------|-------------------|----------------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Capital lease payable | \$ 177,757 | \$ 37,650 | \$ 127,754 | \$ 87,653 | \$ 37,164 |
| Total Governmental Activities | \$ 177,757 | \$ 37,650 | \$ 127,754 | \$ 87,653 | \$ 37,164 |
| Business-Type Activities: | | | | | |
| Notes Payable | \$ 1,934,141 | \$ 3,176,046 | \$ 21,545 | \$ 5,088,642 | 156,325 |
| Revenue bonds payable | 7,145,000 | - | 235,000 | 6,910,000 | 170,000 |
| Total Business-Type Activities | 9,079,141 | 3,176,046 | 256,545 | 11,998,642 | 326,325 |
| Total Long-Term Debt | \$ 9,256,898 | \$ 3,213,696 | \$ 384,299 | \$ 12,086,295 | \$ 363,489 |

Governmental Activities:

At June 30, 2013, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable

| | |
|---|------------------|
| \$190,000 lease obligation for purchase of fire truck, payable in monthly installments of \$2,062, final payment due September 2016 | \$ 71,726 |
| \$37,650 lease obligation for purchase of police cars, payable in monthly installments of \$2,316, due February 2014 | 15,927 |
| Total Capital Leases Payable | \$ 87,653 |

Business-Type Activities:

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2013, includes the following:

Eufaula Public Works Authority:

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to EPWA, and their outstanding balances at June 30, 2013, includes the following:

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Long-Term Note Commitments

Note payable to CAT Financial, original amount of \$93,713, payable in monthly installments of \$1,692 with a 3.2% interest rate, final payment due April 2017. \$ 70,168

Note payable to Oklahoma Water Resources Board, original amount of \$4,035,000, \$428,685 available to be drawn down, payable in semi-annual installments each June and December 1 beginning December 2013, final installment due June 1, 2043 with a 2.06% interest rate and an administration fee of 0.5% payable semi-annually on the principal outstanding.

Total Notes Payable 3,606,315
\$ 3,676,483

Revenue Bonds

2005 Series Revenue Bonds, original issue amount of \$8,250,000, dated December 1, 2005, issued by Eufaula Public Works Authority, secured by utility revenues and pledged sales tax, interest rate of 3.5% to 5.0%, final payment due December 2030. \$ 6,910,000

Net Revenue Bonds Payable \$ 6,910,000

Eufaula Economic Development Authority:

Long-term debt commitments payable from net revenues generated by the economic development resources of the EEDA, and their outstanding balances at June 30, 2013, includes the following:

Long-Term Note Commitments

Oklahoma Department of Commerce note dated February 22, 2007, authorized amount of \$400,000, payable in monthly installments of \$1,667, including principal with a 0% interest rate, with a final payment due February 2031, secured by the lease agreement described in Note 6. See below for additional information. \$ 370,000

Note payable to Bank of Eufaula dated December 31, 2010, original amount \$1,058,115, due in monthly installments of \$5,052, interest rate of 4.0%, final balloon installment of \$518,709 due March 2031, secured by the lease agreement described in Note 6. See below for additional information.

Total Note Payable 1,042,159
\$ 1,412,159

Third Party Lease Agreement:

As discussed in Note 6, the City leases a facility to a third party for economic development purposes. Construction of the leased facility was financed with bank debt and a promissory note from the Oklahoma Department of Commerce (ODOC), which are described above. Both the bank debt and the ODOC note are secured by the lease agreement described in Note 6. Payments were collected by the City from the third party through May 2012 pursuant to the terms of the lease agreement. In the current year, the City determined that the third party would not make any further lease payments as required under the agreement. As a result, the City stopped making its related debt service payments on the facility to the bank effective July 2012. In December 2012, the bank

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

initiated litigation against the City and the third party demanding immediate repayment of the bank loan plus accrued interest. The ultimate disposition of this matter cannot be determined at this time, and no adjustments have been made in the accompanying financial statements regarding this matter.

In August 2012, the City modified the terms of its loan with ODOC. Under terms of the modified loan, monthly payments of \$1,667 are due beginning March 2013, with a 0% interest rate. Due to the nature of the threatened and pending litigation, the City has not made any payments to ODOC in this fiscal year.

Long-term debt service requirements to maturity are as follows:

| Year Ended June 30, | Governmental | | Business-Type | | | |
|----------------------------|---------------------------|----------------|--------------------|--------------------|--------------------|--------------------|
| | Capital Lease Obligations | | Notes Payable | | Revenue Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$37,164 | \$3,792 | \$156,325 | \$138,064 | \$170,000 | \$328,644 |
| 2015 | 22,435 | 2,312 | 151,741 | 142,649 | 185,000 | 321,322 |
| 2016 | 23,700 | 1,047 | 155,574 | 138,816 | 200,000 | 313,306 |
| 2017 | 4,354 | 512 | 152,622 | 134,999 | 220,000 | 303,606 |
| 2018 | - | - | 142,761 | 131,321 | 235,000 | 292,231 |
| 2019-2023 | - | - | 768,580 | 601,834 | 1,495,000 | 1,258,602 |
| 2024-2028 | - | - | 870,574 | 499,839 | 2,125,000 | 837,069 |
| 2029-2033 | - | - | 1,422,970 | 356,919 | 2,280,000 | 206,000 |
| 2034-2038 | - | - | 793,945 | 173,374 | - | - |
| 2039-2043 | - | - | 902,235 | 65,081 | - | - |
| Total | \$87,653 | \$7,663 | \$5,517,327 | \$2,382,896 | \$6,910,000 | \$3,860,780 |
| Less: Amount not yet drawn | | | (428,685) | | | |
| | | | <u>\$5,088,642</u> | | | |

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged all three and one-half cents (or 100%) of future sales tax revenues and net utility revenues to repay the \$8,250,000 Series 2005 Utility System Refunding Revenue Bonds. Proceeds from the bonds provided financing for capital assets and refunded Series 1999, Series 2000, and Series 2002 Utility Revenue Bonds. The bonds are payable from pledged sales tax revenues and net utility revenues and are payable through 2031. The total principal and interest payable for the remainder of the life of these bonds is \$10,770,780. Pledged sales taxes received in the current year were \$1,890,065 and net utility revenues were \$179,233. Debt service payments of \$571,850 for the current fiscal year were 27.6% of both pledged sales taxes and net utility revenues of \$2,069,298.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2013 is \$26,530 for governmental activities and \$21,026 for business-type activities.

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Other Post-Employment Benefits:

For the year ended June 30, 2013, the City provided post-employment benefits (other than pension) to retired employees. The City accounts for these costs on a pay-as-you-go basis. These benefits are in the form of health insurance for retired employees. The retirees pay 100% of the City's established blended premium for active and retired employees.

Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation 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.

Federal and State Award Programs:

The City of Eufaula participates in various federal or state grant/loan programs from year to year. In 2013, the City's involvement in federal and state award programs was material. 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. The City has not been notified of any noncompliance with federal or state award requirements.

Budgetary Noncompliance:

The following departments had excess expenditures over available appropriations:

| | |
|--------------------|----------|
| General Fund: | |
| General Government | \$17,979 |
| Transfers Out | 23,505 |

11. Prior Period Adjustment

Net position was restated due to the following items:

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

| | Governmental | Enterprise Funds | | Government-Wide | | |
|---|--|-------------------------|-----------------|------------------------------------|-------------------------------------|--|
| | Fund Recreation Authority | EPWA | EEDA | Governmental Activities | Business-type Activities | Discretely-presented Component Unit |
| Beginning fund balance/net position, as previously reported | \$ - | \$ 219,708 | \$ 52,642 | \$ 2,351,379 | \$ 272,350 | \$ 76,386 |
| Reclassification of public trust from discretely- presented to governmental fund | 76,386 | - | - | 76,386 | - | (76,386) |
| Removal of capital assets due to change in basis of accounting | - | (6,134,042) | (1,463,253) | (1,913,372) | (7,597,295) | - |
| Removal of unamortized debt issuance costs due to change in basis of accounting | - | (535,203) | - | - | (535,203) | - |
| Removal of long-term debt due to change in basis of accounting | - | 7,666,982 | 1,412,159 | 177,757 | 9,079,141 | - |
| Beginning fund balance/net position, restated | \$ 76,386 | \$ 1,217,445 | \$ 1,548 | \$ 692,150 | \$ 1,218,993 | \$ - |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

SUPPLEMENTAL AND OTHER INFORMATION

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Budgetary Comparison Schedule (Budgetary Basis) – General Fund – Year Ended June 30, 2013

| | General Fund | | | |
|--|--------------------|--------------------|--------------------|--|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| Beginning Budgetary Fund Balance | \$ 288,474 | \$ 288,474 | \$ 288,474 | \$ 0 |
| Resources (Inflows): | | | | |
| Taxes | 230,800 | 229,200 | 238,568 | 9,368 |
| Intergovernmental | 119,502 | 105,843 | 125,174 | 19,331 |
| Charges for services | 13,000 | 13,000 | 15,700 | 2,700 |
| Fines and forfeitures | 69,500 | 69,500 | 97,965 | 28,465 |
| Licenses and permits | 13,200 | 13,200 | 12,650 | (550) |
| Investment Income | 793 | 793 | 573 | (220) |
| Miscellaneous | 22,417 | 23,835 | 93,484 | 69,649 |
| Transfers in | 1,133,000 | 1,133,000 | 1,133,386 | 386 |
| Total Resources (Inflows) | <u>1,602,212</u> | <u>1,588,371</u> | <u>1,717,500</u> | <u>129,129</u> |
| Amounts available for appropriation | <u>\$1,890,686</u> | <u>\$1,876,845</u> | <u>\$2,005,974</u> | <u>129,129</u> |
| Charges to Appropriations (Outflows): | | | | |
| Administration | 66,500 | 66,500 | 65,426 | 1,074 |
| Tourism | 4,800 | 4,800 | 3,524 | 1,276 |
| Police | 796,324 | 796,324 | 795,514 | 810 |
| Fire | 89,850 | 65,685 | 58,154 | 7,531 |
| General government | 424,446 | 454,429 | 442,425 | 12,004 |
| Library | 8,950 | 8,950 | 6,022 | 2,928 |
| Cemetery | 500 | 500 | 341 | 159 |
| Summer recreation | 10,000 | 10,000 | 5,810 | 4,190 |
| Streets | 57,900 | 57,900 | 45,504 | 12,396 |
| Parks | 77,400 | 77,400 | 68,541 | 8,859 |
| Transportation | 30,000 | 30,000 | 30,000 | - |
| Transfers out | 35,542 | 55,201 | 59,047 | (3,846) |
| Total Charges to Appropriations | <u>1,602,212</u> | <u>1,627,689</u> | <u>1,580,308</u> | <u>47,381</u> |
| Ending Budgetary Fund Balance | <u>\$ 288,474</u> | <u>\$ 249,156</u> | <u>\$ 425,666</u> | <u>\$ 176,510</u> |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on a budgetary basis which differs from the modified cash basis within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.
3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

| | General Fund |
|--|---------------------|
| Resources budgetary basis | \$1,717,500 |
| Add sales tax budgeted as transfers | 1,890,065 |
| Add cigarette tax budgeted as transfers | 24,851 |
| Deduct transfers in | (1,133,386) |
| Revenue - modified cash basis | \$2,499,030 |
| | |
| Charges to appropriations budgetary basis | \$1,580,308 |
| Add capital outlay from capital lease purchase | 37,650 |
| Deduct transfers out | (59,047) |
| Expenditures - modified cash basis | \$1,558,911 |

4. Although considered immaterial, the following expenditures were over available appropriations:

| | |
|---------------|----------------|
| General Fund: | |
| Transfers Out | \$3,846 |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

**Combining Balance Sheet – Non-Major Governmental Funds (Modified Cash Basis) –
June 30, 2013**

| | <u>Special Revenue Funds</u> | | | | <u>Capital Project Funds</u> | | | <u>Total Governmental Funds</u> |
|--------------------------------------|------------------------------|-----------------------------|---------------------------------|------------------|--|-------------------------|-------------------|---|
| | <u>Street Fund</u> | <u>Police Drug Fund</u> | <u>Recreation Authority</u> | <u>FEMA Fund</u> | <u>Cemetery Perpetual Fund</u> | <u>Airport Fund</u> | <u>Grant Fund</u> | |
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 326 | \$ 296 | \$ 89,530 | \$ 20,421 | \$ 22,208 | \$ 2,216 | \$ 75,786 | \$ 210,783 |
| Total assets | <u>\$ 326</u> | <u>\$ 296</u> | <u>\$ 89,530</u> | <u>\$ 20,421</u> | <u>\$ 22,208</u> | <u>\$ 2,216</u> | <u>\$ 75,786</u> | <u>\$ 210,783</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Total liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund balances: | | | | | | | | |
| Restricted | 326 | 296 | 89,530 | 20,421 | 20,584 | - | 64,837 | 195,994 |
| Assigned | - | - | - | - | 1,624 | 2,216 | 10,949 | 14,789 |
| Total fund balances | <u>326</u> | <u>296</u> | <u>89,530</u> | <u>20,421</u> | <u>22,208</u> | <u>2,216</u> | <u>75,786</u> | <u>210,783</u> |
| Total liabilities and fund balances | <u>\$ 326</u> | <u>\$ 296</u> | <u>\$ 89,530</u> | <u>\$ 20,421</u> | <u>\$ 22,208</u> | <u>\$ 2,216</u> | <u>\$ 75,786</u> | <u>\$ 210,783</u> |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2013

| | Special Revenue Funds | | | | Capital Project Funds | | | Total-Other Governmental Funds |
|---|-----------------------|---------------------|-------------------------|------------------|-------------------------------|-----------------|------------------|--------------------------------------|
| | Street Fund | Police Drug Fund | Recreation Authority | FEMA Fund | Cemetery Perpetual Fund | Airport Fund | Grant Fund | |
| REVENUES | | | | | | | | |
| Taxes | \$ - | \$ - | \$ 45,034 | \$ - | \$ - | \$ - | \$ - | \$ 45,034 |
| Intergovernmental | - | - | - | 20,418 | - | 123,821 | 23,242 | 167,481 |
| Charges for services | - | - | 17,941 | - | - | - | - | 17,941 |
| Investment income | - | - | - | - | 15 | - | 36 | 51 |
| Miscellaneous | 159 | 1,336 | 10,750 | - | - | 4,910 | 42,575 | 59,730 |
| Total revenues | <u>159</u> | <u>1,336</u> | <u>73,725</u> | <u>20,418</u> | <u>15</u> | <u>128,731</u> | <u>66,853</u> | <u>290,237</u> |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| General government | - | - | - | 13,443 | - | - | - | 13,443 |
| Public Safety | - | 2,266 | - | - | - | - | 17,557 | 19,823 |
| Highways and streets | 93 | - | - | - | - | - | 8,000 | 8,093 |
| Culture and recreation | - | - | 43,006 | - | - | - | - | 43,006 |
| Airport | - | - | - | - | - | 4,759 | - | 4,759 |
| Capital Outlay | - | - | - | 16,050 | - | 137,440 | 13,686 | 184,751 |
| Debt Service | | | | | | | | |
| Principal | - | - | - | 81,116 | - | - | - | 81,116 |
| Interest and other charges | - | - | - | 2,173 | - | - | - | 2,173 |
| Total Expenditures | <u>93</u> | <u>2,266</u> | <u>60,561</u> | <u>112,782</u> | <u>-</u> | <u>142,199</u> | <u>39,243</u> | <u>357,164</u> |
| Excess (deficiency) of revenues over expenditures | <u>66</u> | <u>(930)</u> | <u>13,144</u> | <u>(92,364)</u> | <u>15</u> | <u>(13,468)</u> | <u>28,610</u> | <u>(66,927)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers in | - | - | - | 406 | 3,663 | 14,329 | 9,750 | 28,148 |
| Transfers out | (386) | - | - | - | - | - | (1,559) | (1,945) |
| Total other financing sources and uses | <u>(386)</u> | <u>-</u> | <u>-</u> | <u>406</u> | <u>3,663</u> | <u>14,329</u> | <u>8,191</u> | <u>26,203</u> |
| Net change in fund balances | <u>(320)</u> | <u>(930)</u> | <u>13,144</u> | <u>(91,958)</u> | <u>3,678</u> | <u>661</u> | <u>34,801</u> | <u>(40,724)</u> |
| Fund balances - beginning, restated | 646 | 1,226 | 76,386 | 112,379 | 18,530 | 1,355 | 40,985 | 251,507 |
| Fund balances - ending | <u>\$ 326</u> | <u>\$ 296</u> | <u>\$ 89,530</u> | <u>\$ 20,421</u> | <u>\$ 22,208</u> | <u>\$ 2,216</u> | <u>\$ 75,786</u> | <u>\$ 210,783</u> |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

**Proprietary Fund Accounts Combining Schedule of Net Position (Modified Cash Basis) – Eufaula
Public Works Authority – June 30, 2013**

| | <u>EPWA</u> | <u>EPWA-CWSRF</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 591,296 | \$ 9,165 | \$ 600,461 |
| Restricted: | | | |
| Cash and cash equivalents | <u>877,636</u> | <u>-</u> | <u>877,636</u> |
| Total assets | <u>1,468,932</u> | <u>9,165</u> | <u>1,478,097</u> |
| LIABILITIES | | | |
| Deposits subject to refund | <u>71,374</u> | <u>-</u> | <u>71,374</u> |
| Total liabilities | <u>71,374</u> | <u>-</u> | <u>71,374</u> |
| NET POSITION | | | |
| Restricted for debt service | 799,440 | - | 799,440 |
| Restricted for capital projects | 6,822 | - | 6,822 |
| Unrestricted | <u>591,296</u> | <u>9,165</u> | <u>600,461</u> |
| Total net position | <u>\$ 1,397,558</u> | <u>\$ 9,165</u> | <u>\$ 1,406,723</u> |

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Proprietary Fund Accounts Combining Schedule of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) – Eufaula Public Works Authority - Year Ended June 30, 2013

| | <u>EPWA</u> | <u>EPWA-CWSRF</u> | <u>Total</u> |
|--|---------------------|-------------------|---------------------|
| REVENUES | | | |
| Water | \$ 702,337 | \$ - | \$ 702,337 |
| Sewer | 300,792 | - | 300,792 |
| Sanitation | 330,557 | - | 330,557 |
| Water and sewer taps | 15,775 | - | 15,775 |
| Penalties | 47,101 | - | 47,101 |
| Miscellaneous | 22,468 | - | 22,468 |
| Total operating revenues | <u>1,419,030</u> | <u>-</u> | <u>1,419,030</u> |
| OPERATING EXPENSES | | | |
| Administration | 213,213 | - | 213,213 |
| Water | 521,600 | - | 521,600 |
| Sewer | 175,476 | 225 | 175,701 |
| Sanitation | 330,446 | - | 330,446 |
| Total Operating Expenses | <u>1,240,735</u> | <u>225</u> | <u>1,240,960</u> |
| Operating income (loss) | <u>178,295</u> | <u>(225)</u> | <u>178,070</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest and investment revenue | 1,041 | 122 | 1,163 |
| Loan proceeds | - | 3,176,046 | 3,176,046 |
| Operating grants and contributions | 3,800 | - | 3,800 |
| Capital outlay | (39,050) | (3,312,540) | (3,351,590) |
| Debt service: | | | |
| Principal retirement | (256,545) | - | (256,545) |
| Interest expense and fees | (346,196) | (47,686) | (393,882) |
| Total non-operating revenue (expenses) | <u>(636,950)</u> | <u>(184,058)</u> | <u>(821,008)</u> |
| Income (loss) before transfers | <u>(458,655)</u> | <u>(184,283)</u> | <u>(642,938)</u> |
| Transfers in | 1,917,655 | 47,561 | 1,965,216 |
| Transfers out | (1,133,000) | - | (1,133,000) |
| Change in net position | 326,000 | (136,722) | 189,278 |
| Total net position - beginning, (restated) | 1,071,558 | 145,887 | 1,217,445 |
| Total net position - ending | <u>\$ 1,397,558</u> | <u>\$ 9,165</u> | <u>\$ 1,406,723</u> |

CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Schedule of Debt Service Coverage Requirement – Year Ended June 30, 2013

| | |
|--|--------------------|
| Gross Revenue Available for Debt Service: | |
| Operating revenues of leased systems | \$1,419,030 |
| Sales tax pledged and transferred | 1,890,065 |
| Interest income | 1,163 |
| Total Gross Revenues Available | 3,310,258 |
| System Operating Expenses | 1,240,960 |
| Net Revenues Available for Debt Service | \$2,069,298 |
| | |
| Debt Service Requirements: | |
| Average annual debt service - 2005 Revenue Bonds | \$591,952 |
| Total Debt Service Requirements | \$591,952 |
| Coverage | 350% |
| Coverage Requirement | 125% |

Schedule of Debt Reserve Requirement Compliance

| | |
|--|-----------------------|
| | <u>RESERVE</u> |
| | <u>ACCOUNT</u> |
| Required Balance, June 30, 2013 | \$624,500 |
| Balance in Reserve Accounts, June 30, 2013 | \$624,500 |
| Excess (Deficiency) | - |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

Schedule of Expenditures of State Awards – Year Ended June 30, 2013

| Federal/State Grantor/Pass Through Agency Grantor/Program Title | Federal CFDA Number | Grant # | Award Amount | Awards Expended |
|--|------------------------------------|---------------------|--------------------------|----------------------------|
| STATE AWARDS: | | | | |
| <u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> | | | | |
| Forestry Grant - 2009 | N/A | N/A | \$ 5,100 | \$ 3,380 |
| Forestry Grant - 2010 | N/A | N/A | 5,100 | 1,070 |
| Forestry Grant - 2011 | N/A | N/A | 4,398 | 4,398 |
| Forestry Grant - 2012 | N/A | N/A | 4,413 | 2,104 |
| Forestry Grant - 2013 | N/A | N/A | 4,484 | - |
| | | | <u>\$ 23,495</u> | <u>\$ 10,952</u> |
| <u>OKLAHOMA ARTS COUNCIL:</u> | | | | |
| Arts Council Grant | N/A | N/A | <u>\$ 1,270</u> | <u>\$ 1,270</u> |
| <u>OKLAHOMA DEPARTMENT OF TRANSPORTATION:</u> | | | | |
| Utility Relocation | N/A | STPY-146C(064) UT | <u>\$ 149,723</u> | <u>\$ 5,734</u> |
| <u>EASTERN OKLAHOMA DEVELOPMENT DISTRICT:</u> | | | | |
| 2009 REAP | N/A | 2009 REAP | \$ 20,000 | \$ 17,198 |
| 2012 REAP | N/A | 2012 REAP Fumd 4905 | 20,000 | |
| 2013 REAP | N/A | REAP FY 2013 | 20,000 | |
| | | | <u>\$ 60,000</u> | <u>\$ 17,198</u> |
| <u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u> | | | | |
| Passed through the Oklahoma Department of Civil Emergency Management: | | | | |
| FEMA - 2011 Flood Event | N/A | FEMA-DR-1988 | \$ 20,418 | \$ 20,418 |
| Fire Grant | N/A | N/A | 1,026 | 744 |
| | | | <u>\$ 21,444</u> | <u>\$ 21,162</u> |
| <u>OKLAHOMA AERONAUTICS COMMISSION:</u> | | | | |
| OAC Grant - Airport Runway Construction | N/A | N/A | <u>\$ 17,865</u> | <u>\$ 17,865</u> |
| Total State Awards | | | <u><u>\$ 273,797</u></u> | <u><u>\$ 74,181</u></u> |

**CITY OF EUFAULA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

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CITY OF EUFAULA, OKLAHOMA
SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES
JUNE 30, 2013

CITY OF EUFAULA, OKLAHOMA

TABLE OF CONTENTS

PAGE

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:

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

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

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

| | |
|---|---|
| Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | 3 |
| Schedule of Expenditures of Federal Awards | 5 |
| Schedule of Findings and Questioned Costs | 6 |
| Schedule of Prior Audit Findings | 8 |

INDEPENDENT AUDITOR'S 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 Eufaula, Oklahoma

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eufaula, Oklahoma, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2013. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma

October 15, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council
City of Eufaula, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Eufaula, Oklahoma (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in

accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated October 15, 2013, which contained unqualified opinions on those financial statements. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling 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 basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Orledge & Associates, P.C.

Edmond, Oklahoma
January 4, 2011

CITY OF EUFAULA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified
not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified
not considered to be material weakness(es)? _____ yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with
OMB Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 66.458 | Clean Water State Revolving Fund |

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

CITY OF EUFAULA, OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

None

Internal Control Findings

2013-1

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

None

Internal Control Findings

None

CITY OF EUFAULA, OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

Finding 2013-1

Criteria:

Adequate internal controls require separation of incompatible duties or functions.

Condition:

The City has not separated certain incompatible duties among its staff.

Cause:

Due primarily to limited staff size, the City has not segregated certain incompatible duties among its employees.

Effect:

Without adequate internal controls, unauthorized transactions may occur and go undetected.

Recommendation:

We recommend that the City be aware of its limitations and that efforts be made to overcome these limitations. For instance, the City should require all receipts to be immediately stamped "for deposit only", work to insure that personnel with check signing duties do not also have accounting or bookkeeping functions, and that if accessible, system generated exception reports over payroll and customer utility accounts be reviewed by independent personnel.

City's Response:

The City is aware of its limitations and efforts will be made to address these issues so that one person does not have both bookkeeping functions and access to the underlying assets.

CITYOF EUFAULA, OKLAHOMA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

Finding 12-1; Deposits with Financial Institutions

Criteria: Oklahoma state statutes require that all uninsured deposits of municipal funds in financial institutions must be secured by the financial institution with acceptable collateral.

Condition: As of June 30, 2012, deposits totaling approximately \$479,000 were not insured or collateralized as required by state law.

Cause: The City maintains in excess of twenty accounts. We rely on the bank to assist us in identifying any major changes in cumulative deposits.

Effect: Because of the failure to adequately collateralize its deposits, the City was exposed to potential losses resulting from custodial credit risk up to \$479,000 as of June 30, 2012.

Recommendation: We recommend that the City have procedures in place to ensure that all applicable deposits are adequately insured or collateralized throughout the year.

City's Response: Upon identification, the City contacted the bank and received additional pledged collateral in the amount of \$1,000,000 in August 2012. The City will implement additional monitoring procedures to more accurately ensure collateralization is maintained throughout the year.

Update: This condition was resolved in the current year.