

CITY OF SEMINOLE, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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**INDEPENDENT AUDITOR'S
REPORT**

DILLON & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
1401 S. DOUGLAS BLVD., SUITE a
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA
bobdilloncpa@gmail.com

Phone: (405) 732-1800
Fax : (405) 737-7446

INDEPENDENT AUDITOR'S REPORT

City Council
City of Seminole
Seminole, Oklahoma

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2012, on our consideration of the City of Seminole's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 47 and the notes on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basis financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Seminole's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Dillon & Associates, P.C.

Midwest City, Oklahoma
August 23, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The following discussion and analysis of the City of Seminole's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 12.

Financial Highlights

- The assets of the City of Seminole exceeded its liabilities at the close of the most recent fiscal year by \$20,220,654 (net assets), an increase of \$725,430 or 3.7% from the prior year.
- During the year, the City's expenses for governmental activities were \$6,673,837 and were funded by program revenues of \$1,109,999, and further funded with taxes and other general revenues, grants and net transfers that totaled \$4,542,230.
- In the business-type activities, which are primarily utilities, had program expenses of \$4,710,212 and were funded by program revenues of \$3,750,688 and other general revenues and net transfers that totaled \$1,499,669.
- Sales and use taxes increased by \$199,680 or 4.0% over the prior fiscal year.
- At June 30, 2012, the General Fund reported an unreserved, undesignated fund balance of \$429,136, a increase of \$271,136 from the prior year.
- The City's total debt decreased by \$1,075,969 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Seminole's basic financial statements. The City of Seminole's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad view of the City of Seminole's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Seminole's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Seminole is improving or deteriorating.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Seminole that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Seminole include general government, public safety, and public works. The business-type activities of the City of Seminole are comprised of the Seminole Utilities Authority which operates the City's water and wastewater operations.

The government-wide financial statements include the City of Seminole and the Seminole Utilities Authority. Although the Seminole Utilities Authority is legally a separate entity, it functions for all practical purposes as departments of the City of Seminole, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Seminole, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Seminole can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-17 of this report.

Proprietary funds. The City maintains three types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its public works authority.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Seminole Utilities Authority, which is considered to be major fund of the City.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has two fiduciary funds-the meter deposit fund and the municipal court fund, which are agency funds.

The fiduciary fund financial statements can be found on page 21 of the report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-46 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on page 47 of this report.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general fund. Combining and individual fund statements and schedules can be found on pages 48-49 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$20,220,654 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (52.2%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Assets
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 1,403	1,389	11,073	11,023	12,476	12,412
Capital assets	6,960	7,422	19,452	19,926	26,412	27,348
Total assets	<u>8,363</u>	<u>8,811</u>	<u>30,525</u>	<u>30,949</u>	<u>38,888</u>	<u>39,760</u>
Long-term debt	596	824	16,547	18,306	17,143	19,130
Other liabilities	222	627	1,302	508	1,524	1,135
Total liabilities	<u>818</u>	<u>1,451</u>	<u>17,849</u>	<u>18,814</u>	<u>18,667</u>	<u>20,265</u>
Net assets:						
Invested in capital						
assets, net of debt	6,328	6,556	4,232	1,621	10,560	8,177
Restricted	973	435	6,845	8,576	7,818	9,011
Unrestricted	244	369	1,598	1,938	1,842	2,307
Total net assets	<u>\$ 7,545</u>	<u>7,360</u>	<u>12,675</u>	<u>12,135</u>	<u>20,220</u>	<u>19,495</u>

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

A portion of the City's net assets (38.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$1,841,885 may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$725,430 during the current fiscal year. This increase represents the overall excess of revenues over expenses, including depreciation of \$1,403,552.

Governmental activities. Governmental activities increased the City's net assets by \$185,285. The key element of this increase is an overall increase in revenues.

For the most part, increases in expenses resulted from the charging of depreciation expense on capital assets to various functional areas.

Business-type activities. Business-type activities increased the City's net assets by \$540,145. The key element of this increase is an overall increase in revenues.

Table 2
Changes in Net Assets (In Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues						
Charge for services	\$ 1,110	666	3,751	4,089	4,861	4,755
Operating grants	24	370	-	-	24	370
Capital grants	566	734	205	4,192	771	4,926
General revenues:						
Sales and use taxes	5,167	4,967	-	-	5,167	4,967
Franchise taxes (fees)	421	396	-	-	421	396
Other taxes	398	395	-	-	398	395
Investment income	8	10	55	74	63	84
Other	372	600	33	329	405	929
Total revenues	<u>8,066</u>	<u>8,138</u>	<u>4,044</u>	<u>8,684</u>	<u>12,110</u>	<u>16,822</u>

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Expenses:						
General government	1,697	2,651	2,348	2,123	4,045	4,774
Public safety	2,440	2,511	-	-	2,440	2,511
Public works	1,838	1,596	-	-	1,838	1,596
Cultural and recreation	699	727	-	-	699	727
Water	-	-	565	590	565	590
Sewer	-	-	996	951	996	951
Reynold's activity center	-	-	566	358	566	358
Ambulance	-	-	-	285	-	285
Economic development	-	-	236	1,255	236	1,255
Total expenses	<u>6,674</u>	<u>7,485</u>	<u>4,711</u>	<u>5,562</u>	<u>11,385</u>	<u>13,047</u>
Increase before transfers	1,392	653	(667)	3,122	725	3,775
Transfers	(1,207)	(1,468)	1,207	1,468	-	-
Change in net assets	185	(815)	540	4,590	725	3,775
Contributed capital	-	494	-	-	-	494
Beginning net assets	<u>7,360</u>	<u>7,681</u>	<u>12,135</u>	<u>7,545</u>	<u>19,495</u>	<u>15,226</u>
Ending net assets	<u>\$ 7,545</u>	<u>7,360</u>	<u>12,675</u>	<u>12,135</u>	<u>20,220</u>	<u>19,495</u>

The fund balance of the City's general fund increased by \$271,136 during the current fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Seminole Utilities Authority at the end of the year amounted to \$1,500,886. Net assets increased by \$1,018,387 compared to the prior year.

- Operating revenues increased by \$47,478 from the prior year, mainly related to water and sewer revenue.
- Operating expenses (excluding depreciation) increased by \$120,956 over the prior year, mainly in the water and sewer departments.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund Budgetary Highlights

There were differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$6,934,837 were \$243,402 less than the estimated revenues in the budget of \$6,691,435. Actual expenditures of \$4,851,578 were \$8,396 more than the \$4,843,182 approved in budget appropriations. After transfers out of \$1,812,123 to other governmental funds, the City increased its carryforward funds by \$271,136. The amount of carryover funds budget for expenditure was \$429,136.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$27,347,750 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Construction of the water tower.
- Construction of water and wastewater lines and treatment facilities.

Table 3
Capital Assets
(In Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Construction in progress	\$ -	-	-	7,762	-	7,762
Land	305	305	14	14	319	319
Buildings	2,391	2,366	13,774	6,341	16,165	8,707
Machinery and equipment	4,143	4,052	1,946	1,435	6,089	5,487
Vehicles	2,448	2,279	369	369	2,817	2,648
Infrastructure	15,933	15,933	15,552	15,552	31,485	31,485
Less: Accum. depreciation	(18,260)	(17,513)	(12,203)	(11,547)	(30,463)	(29,060)
Total capital assets, net	\$ 6,960	7,422	19,452	19,926	26,412	27,348

Additional information of the City's capital assets can be found in Note 2.D. To the basic financial statements.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$18,327,269. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and bank notes) of \$17,694,607 and general obligation bonds of \$560,000 and a capital lease of \$72,662.

Table 4
Long-term Debt
(In Thousands)

	Governmental		Business-type		Total	
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds \$	560	710	-	-	560	710
Notes payable	-	-	494	561	494	561
Revenue bonds	-	-	17,200	18,060	17,200	18,060
Other	73	156	-	-	73	156
Total long-term debt	\$ 633	866	17,694	18,621	18,327	19,487

The City's total debt decreased by \$844,431 during the current fiscal year. The key factors in this decrease were the principal payments on revenue notes, revenue bonds and general obligation bonds.

Additional information on the City's long-term debt can be found in Notes 2.G. To the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012-2013 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. A potential downturn of the national economy is expected to have limited effect on the local economy for the coming year. Employment costs are stable and sales tax revenues continue to increase over previous periods. Utility revenues are expected to continue to increase at a moderate rate.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

These indicators were taken into account when adopting the general fund budget for 2012-2013.

❖ Revenues, transfers in and expenses for the City's general fund are expected to increase slightly over the actual amounts received and expended in the fiscal year ended June 30, 2012.

❖ As for the City's proprietary fund activities, we expect a slight growth in the revenues and expenses over those received in 2012.

All of these factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, funding agencies, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Seminole, 401 N. Main Street, P.O. Box 1218, Seminole, Oklahoma 74868.

BASIC FINANCIAL STATEMENTS

City of Seminole, Oklahoma
Statement of Net Assets
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	SEDC
ASSETS				
Current assets:				
Pooled cash and cash equivalents	\$ 831,936	289,910	1,121,846	534,137
Investments	51,538	639,650	691,188	-
Receivables, net of allowance for uncollectibles:				
Accounts	-	391,495	391,495	5,841
Taxes	517,125	224,699	741,824	-
Due from other governments	-	110,457	110,457	-
Internal balances	2,476	18,963	21,439	-
Restricted assets:				
Restricted cash and investments	-	8,776,379	8,776,379	1,307,719
Total current assets	<u>1,403,075</u>	<u>10,451,553</u>	<u>11,854,628</u>	<u>1,847,697</u>
Noncurrent assets:				
Debt issuance costs, net of accumulated amortization	-	620,813	620,813	236,367
Capital assets, net of accumulated depreciation	6,960,275	19,452,201	26,412,476	7,706,724
Total noncurrent assets	<u>6,960,275</u>	<u>20,073,014</u>	<u>27,033,289</u>	<u>7,943,091</u>
Total assets	<u>8,363,350</u>	<u>30,524,567</u>	<u>38,887,917</u>	<u>9,790,788</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	-	34,915	34,915	371
Accrued interest payable	-	299,859	299,859	227,246
Current portion of long-term obligations	222,662	966,883	1,189,545	175,000
Total current liabilities	<u>222,662</u>	<u>1,301,657</u>	<u>1,524,319</u>	<u>402,617</u>
Noncurrent liabilities:				
Bonds payable	410,000	16,079,475	16,489,475	6,882,164
Notes payable	-	429,705	429,705	-
Accrued compensated absences	185,512	38,252	223,764	-
Total noncurrent liabilities	<u>595,512</u>	<u>16,547,432</u>	<u>17,142,944</u>	<u>6,882,164</u>
Total liabilities	<u>818,174</u>	<u>17,849,089</u>	<u>18,667,263</u>	<u>7,284,781</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,327,612	4,232,050	10,559,662	422,315
Restricted for:				
Capital improvements	311,166	624,561	935,727	-
Debt service	259,403	4,606,752	4,866,155	1,307,719
Facility maintenance	-	1,613,857	1,613,857	-
Other purposes	403,371	-	403,371	-
Unrestricted	243,624	1,598,258	1,841,882	775,973
Total net assets	<u>\$ 7,545,176</u>	<u>12,675,478</u>	<u>20,220,654</u>	<u>2,506,007</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 1,696,629	850,506	-	(846,123)
Public safety	2,439,845	259,493	16,193	(2,164,159)
Public works	1,838,460	-	-	(1,348,279)
Culture and recreation	698,903	-	8,083	(614,845)
Total government activities	<u>6,673,837</u>	<u>1,109,999</u>	<u>24,276</u>	<u>(4,973,406)</u>
Business-type activities:				
Administration	2,348,107	383,088	-	(1,965,019)
Water	565,104	1,056,567	-	491,463
Sewer	996,342	1,264,396	-	268,054
Sanitation	-	640,161	-	640,161
Reynold's activity center	565,862	406,476	-	45,962
Economic development	234,797	-	-	(234,797)
Total business-type activities	<u>4,710,212</u>	<u>3,750,688</u>	<u>-</u>	<u>(754,176)</u>
Total primary government	<u>11,384,049</u>	<u>4,860,687</u>	<u>24,276</u>	<u>(5,727,582)</u>
COMPONENT UNITS				
Seminole Economic Development Council	1,118,081	940,471	-	(177,610)
Total component units	<u>\$ 1,118,081</u>	<u>940,471</u>	<u>-</u>	<u>(177,610)</u>

City of Seminole, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	SEDC
Change in net assets:				
Net (expense) revenue	\$ (4,973,406)	(754,176)	(5,727,582)	(177,610)
General revenues:				
Taxes:				
Sales and use	5,167,151	-	5,167,151	-
Franchise	420,809	-	420,809	-
Other	397,578	-	397,578	-
Unrestricted investment income	8,322	54,522	62,844	-
Miscellaneous	371,724	32,906	404,630	-
Transfers - internal activity	(1,206,893)	1,206,893	-	-
Total general revenues and transfers	<u>5,158,691</u>	<u>1,294,321</u>	<u>6,453,012</u>	<u>-</u>
Change in net assets	185,285	540,145	725,430	(177,610)
Net assets - beginning	<u>7,359,891</u>	<u>12,135,333</u>	<u>19,495,224</u>	<u>2,683,617</u>
Net assets - ending	<u>\$ 7,545,176</u>	<u>12,675,478</u>	<u>20,220,654</u>	<u>2,506,007</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
 Governmental Funds
 Balance Sheet
 June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ (85,423)	917,359	831,936
Investments	-	51,539	51,539
Receivables, net	480,101	5,042	485,143
Due from other funds	2,476	-	2,476
Due from Seminole Economic Development Council	31,982	-	31,982
Total assets	429,136	973,940	1,403,076
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	-	-	-
Total liabilities (Note 2)	-	-	-
Fund balances:			
Reserved for:			
Debt service	-	311,166	311,166
Capital improvements	-	259,403	259,403
Unreserved, reported in:			
General fund	429,136	-	429,136
Special revenue funds	-	403,371	403,371
Total fund balances	429,136	973,940	1,403,076
Total liabilities and fund balances	\$ 429,136	973,940	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not required in the funds.	6,960,275
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(560,000)
Capital lease payable	(72,663)
Accrued compensated absences	(185,512)
	(818,175)
Net assets of governmental activities	\$ 7,545,176

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 5,587,959	281,287	5,869,246
Intergovernmental	124,161	582,563	706,724
Licenses and permits	28,772	-	28,772
Charge for services	808,223	13,511	821,734
Fines and forfeitures	259,493	-	259,493
Interest	5,894	2,428	8,322
Miscellaneous	120,335	251,389	371,724
Total revenues	<u>6,934,837</u>	<u>1,131,178</u>	<u>8,066,015</u>
EXPENDITURES			
Current:			
General government	1,559,931	285,382	1,845,313
Public safety	2,329,392	216,496	2,545,888
Public works	524,302	1,026,296	1,550,598
Culture and recreation	437,953	71,762	509,715
Total expenditures	<u>4,851,578</u>	<u>1,599,936</u>	<u>6,451,514</u>
Excess (deficiency) of revenues over expenditures	<u>2,083,259</u>	<u>(468,758)</u>	<u>1,614,501</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	860,000	605,230	1,465,230
Transfers out	<u>(2,672,123)</u>	-	<u>(2,672,123)</u>
Total other financing sources and uses	<u>(1,812,123)</u>	<u>605,230</u>	<u>(1,206,893)</u>
Net change in fund balances	271,136	136,472	407,608
Fund balances-beginning	158,000	837,468	995,468
Fund balances-ending	<u>\$ 429,136</u>	<u>973,940</u>	<u>1,403,076</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ 407,608

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.

Capital outlay expenditures, net	285,710
Depreciation expense	(747,424)
	(461,714)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Neither transaction, however, has any effect on net assets.	233,390
Change in accrued compensated absences	6,001
	239,391

Change in net assets of governmental activities. \$ 185,285

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

	Business-type Activities - Enterprise Funds					Total Enterprise Funds
	Seminole Utilities Authority	Capital Improvements	Seminole Gas Authority	Seminole Community Wellness Authority	Seminole Medical Authority	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 204,316	41,507	31,745	12,342	-	289,910
Investments	-	583,054	-	-	56,596	639,650
Receivables, accounts net of allowance for doubtful accounts	374,711	-	16,784	-	-	391,495
Due from other governments	224,699	-	-	-	-	224,699
Due from Seminole Schools	110,457	-	-	-	-	110,457
Internal balances	18,963	-	-	-	-	18,963
Restricted assets - cash and investments	5,980,895	1,081,154	-	1,714,330	-	8,776,379
Total current assets	<u>6,914,041</u>	<u>1,705,715</u>	<u>48,529</u>	<u>1,726,672</u>	<u>56,596</u>	<u>10,451,553</u>
Non-current assets:						
Bond issuance costs, net of accumulated amortization	620,813	-	-	-	-	620,813
Capital assets, net of accumulated depreciation	11,764,723	-	-	7,687,478	-	19,452,201
Total non-current assets	<u>12,385,536</u>	<u>-</u>	<u>-</u>	<u>7,687,478</u>	<u>-</u>	<u>20,073,014</u>
Total assets	<u>19,299,577</u>	<u>1,705,715</u>	<u>48,529</u>	<u>9,414,150</u>	<u>56,596</u>	<u>30,524,567</u>
LIABILITIES						
Current liabilities:						
Accounts payable	14,820	-	20,095	-	-	34,915
Accrued interest payable	299,859	-	-	-	-	299,859
Current portion of long-term obligations	966,883	-	-	-	-	966,883
Total current liabilities	<u>1,281,562</u>	<u>-</u>	<u>20,095</u>	<u>-</u>	<u>-</u>	<u>1,301,657</u>
Non-current liabilities:						
Revenue bonds payable, net of current portion	16,079,475	-	-	-	-	16,079,475
Notes payable, net of current portion	429,705	-	-	-	-	429,705
Accrued compensated absences	38,252	-	-	-	-	38,252
Total non-current liabilities	<u>16,547,432</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,547,432</u>
Total liabilities	<u>17,828,994</u>	<u>-</u>	<u>20,095</u>	<u>-</u>	<u>-</u>	<u>17,849,089</u>
NET ASSETS						
Invested in capital assets, net of related debt	(4,637,055)	1,081,154	-	7,787,951	-	4,232,050
Restricted:						
Debt service	4,606,752	-	-	-	-	4,606,752
Construction	-	624,561	-	-	-	624,561
Facility maintenance	-	-	-	1,613,857	-	1,613,857
Unrestricted	1,500,886	-	28,434	12,342	56,596	1,598,258
Total net assets	<u>\$ 1,470,583</u>	<u>1,705,715</u>	<u>28,434</u>	<u>9,414,150</u>	<u>56,596</u>	<u>12,675,478</u>

See accompanying notes to the basic financial statement.

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

	Business-type Activities - Enterprise Funds					
	Seminole Utilities Authority	Capital Improvements	Seminole Gas Authority	Seminole Community Wellness Authority	Seminole Medical Authority	Total Enterprise Funds
<u>OPERATING REVENUES:</u>						
Charges for services						
Water	\$ 1,056,567	-	-	-	-	1,056,567
Wastewater	1,264,396	-	-	-	-	1,264,396
Sanitation	640,161	-	-	-	-	640,161
Other	141,723	-	241,365	-	-	383,088
Reynold's Center	-	-	-	406,476	-	406,476
Total operating revenues	<u>3,102,847</u>	<u>-</u>	<u>241,365</u>	<u>406,476</u>	<u>-</u>	<u>3,750,688</u>
<u>OPERATING EXPENSES:</u>						
General and administration	1,057,571	164,546	31,696	-	-	1,253,813
Water	341,991	7,169	-	-	-	349,160
Wastewater	739,196	11,617	-	-	-	750,813
Utilities	-	454	234,343	-	-	234,797
Reynold's Center	-	-	-	405,487	-	405,487
Depreciation and amortization	637,250	-	-	160,375	-	797,625
Total operating expenses	<u>2,776,008</u>	<u>183,786</u>	<u>266,039</u>	<u>565,862</u>	<u>-</u>	<u>3,791,695</u>
Operating income (loss)	<u>326,839</u>	<u>(183,786)</u>	<u>(24,674)</u>	<u>(159,386)</u>	<u>-</u>	<u>(41,007)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>						
Miscellaneous revenues	32,906	-	-	-	-	32,906
Private grants	-	-	-	205,348	-	205,348
Interest income	40,035	3,479	-	10,057	951	54,522
Capital project expenditures	(50,000)	-	-	-	-	(50,000)
Interest expense and fiscal charges	(868,516)	-	-	-	-	(868,516)
Total nonoperating revenues (expenses)	<u>(845,575)</u>	<u>3,479</u>	<u>-</u>	<u>215,405</u>	<u>951</u>	<u>(625,740)</u>
<u>OPERATING TRANSFERS</u>						
Transfers in	2,469,433	200,000	-	-	-	2,669,433
Transfers out	(932,310)	(530,230)	-	-	-	(1,462,540)
Total operating transfers	<u>1,537,123</u>	<u>(330,230)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,206,893</u>
Change in net assets	<u>1,018,387</u>	<u>(510,537)</u>	<u>(24,674)</u>	<u>56,019</u>	<u>951</u>	<u>540,146</u>
Net assets - beginning	452,196	2,216,252	53,108	9,358,131	55,645	12,135,332
Net assets-ending	<u>\$ 1,470,583</u>	<u>1,705,715</u>	<u>28,434</u>	<u>9,414,150</u>	<u>56,596</u>	<u>12,675,478</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Total Enterprise Funds
	Seminole Utilities Authority	Capital Improvements	Seminole Gas Authority	Seminole Community Wellness Authority	Seminole Medical Authority	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Receipts from customers	\$ 3,112,852	-	241,365	406,476	-	3,760,693
Payments to suppliers	(1,718,395)	(190,052)	(260,275)	(452,271)	-	(2,620,993)
Payments to employees	(495,930)	-	-	-	-	(495,930)
Net cash provided (used) by operating activities	<u>898,527</u>	<u>(190,052)</u>	<u>(18,910)</u>	<u>(45,795)</u>	<u>-</u>	<u>643,770</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>						
Change in interfund receivables/payables	10,005	-	-	-	-	10,005
Miscellaneous revenues	32,906	-	-	-	-	32,906
Operating transfers in (out)	1,537,123	(330,230)	-	-	-	1,206,893
Net cash provided (used) by noncapital financing activities	<u>1,580,034</u>	<u>(330,230)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,249,804</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Grant receipts	-	-	-	205,348	-	205,348
Principal paid on long-term debt	(925,969)	-	-	-	-	(925,969)
Interest expense and fiscal charges	(727,019)	-	-	-	-	(727,019)
Decrease (increase) in restricted assets	(626,419)	536,772	-	(75,119)	-	(164,766)
Capital expenditures for governmental activities	(50,000)	-	-	-	-	(50,000)
(Acquisition) disposition of capital assets	(238,735)	-	-	(86,040)	-	(324,775)
Net cash provided (used) by capital and related financing activities	<u>(2,568,142)</u>	<u>536,772</u>	<u>-</u>	<u>44,189</u>	<u>-</u>	<u>(1,987,181)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Decrease (increase) in investments	-	(583,054)	-	-	(56,596)	(639,650)
Interest received	40,035	3,479	-	10,057	951	54,522
Net cash provided (used) by investing activities	<u>40,035</u>	<u>(579,575)</u>	<u>-</u>	<u>10,057</u>	<u>(55,645)</u>	<u>(585,128)</u>
Net increase (decrease) in cash and cash equivalents	(49,546)	(563,085)	(18,910)	8,451	(55,645)	(678,735)
Cash and cash equivalents, beginning of the year	253,862	604,592	50,655	3,891	55,645	968,645
Cash and cash equivalents, end of the year	<u>\$ 204,316</u>	<u>41,507</u>	<u>31,745</u>	<u>12,342</u>	<u>-</u>	<u>289,910</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>						
Operating income (loss)	326,839	(183,786)	(24,674)	(159,386)	-	(41,007)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Cash flows reported in other categories:						
Depreciation and amortization expense	637,250	-	-	160,375	-	797,625
Change in assets and liabilities:						
Receivable, net	13,596	-	8,617	-	-	22,213
Accounts payable	(55,416)	(6,266)	(2,853)	(46,784)	-	(111,319)
Accrued expenses	(23,742)	-	-	-	-	(23,742)
Total adjustments	<u>571,688</u>	<u>(6,266)</u>	<u>5,764</u>	<u>113,591</u>	<u>-</u>	<u>684,777</u>
Net cash provided by (used in) operating activities	<u>\$ 898,527</u>	<u>(190,052)</u>	<u>(18,910)</u>	<u>(45,795)</u>	<u>-</u>	<u>643,770</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2012

	Agency Funds	
	Meter Deposit Fund	Municipal Court Fund
ASSETS		
Cash and cash equivalents	\$ 82,789	4,450
Internal balances	(18,963)	(2,476)
Investments	43,864	-
Total assets	107,690	1,974
 LIABILITIES		
Customer deposits	107,690	-
Due to bondholders	-	1,974
Due to other governments	-	-
Total liabilities	107,690	1,974
 NET ASSETS	\$ -	-

See accompanying notes to the basic financial statement.

**NOTES TO BASIC
FINANCIAL STATEMENTS**

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Seminole, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City of Seminole, Oklahoma (the City) operates under a council-manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), public works (streets and highways), culture and recreation, general government and administration, along with utility services to include water, wastewater, and sanitation.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended component units. The Seminole Utilities Authority (SUA) serves all the citizens of the City and is governed by a board comprised of the City's elected council (Trustees). The rates for user charges and debt authorization are approved by the city council. The SUA was created April 30, 1985, to finance, develop, and operate the water, wastewater, and sanitation activities of the City. The SUA is reported as an enterprise fund type.

The Seminole Medical Authority was created August 10, 1982 to operate and maintain the Seminole municipal hospital and ambulance service. The hospital was sold in 2004 and is currently owned and operated by Integris Health.

The Seminole Recreation Authority was created October 9, 2001 to promote and finance economic development in the City of Seminole.

The Seminole Gas Authority was created in 1996 to finance and operate the sale and transmission of natural gas to industrial customers. The Seminole Medical Authority and Seminole Gas Authority are reported as proprietary fund types, while the Seminole Recreation Authority is reported as a special revenue fund type.

Discretely presented component unit. The Seminole Economic Development Council (SEDC) was created July 15, 1998 to promote and finance economic development in the City of Seminole. The SEDC is reported as a discrete component unit of the City, because its governing body is not substantially the same as the City Council.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING

The City's basic financial statements consist of government-wide statements, including a statement of net assets, and a statement of activities, and fund financial statements, which provide a more detailed level of financial statement information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specially associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that government believes is important enough for financial statement users to be reported as a major fund. Each is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting - The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued

Governmental Funds - are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurements focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, gasoline excise taxes, cigarette taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund - is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Proprietary Funds - are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20 the City adopted only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do no conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds - are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs, incurred and/or net income is necessary for capital maintenance, public policy, or management accountability. The following is the City's major enterprise funds:

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued

Seminole Utilities Authority - accounts for the operations of providing public works (electric, water, sewer, and refuse) to the City.

Seminole Gas Authority - accounts for the operations of providing natural gas to specific industrial customers of the City.

Seminole Community Wellness Authority - accounts for the operations of the Reynolds Community Center.

Fiduciary Funds - account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in agency capacity. The City's only fiduciary fund is agency funds that are composed of customer deposit funds.

C. ASSETS, LIABILITIES AND EQUITY

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt investments with a maturity date of more than three months from the date of issue are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held at the Trustee Bank in Escrow, Debt Service, Reserve and Construction Accounts. Under the terms and provisions of the Debt Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the debt and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any debt is outstanding. Monies contained in accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. ASSETS, LIABILITIES AND EQUITY - Continued

3. Fair Value of Financial Statements

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 for the governmental and proprietary funds.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. ASSETS, LIABILITIES AND EQUITY - Continued

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage systems, lighting systems and similar assets that immovable and of value only to the City. Such infrastructure assets acquired are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	35-60 years	35-60 years
Building improvements	35-60 years	35-60 years
Furniture and fixtures	5-10 years	5-10 years
Machinery and equipment	5-20 years	5-20 years
Vehicles	5-10 years	5-10 years
Infrastructure - Parks	25-99 years	25-99 years
Infrastructure - Water/sewer	25-99 years	25-99 years
Infrastructure - Streets	15-25 years	15-25 years

8. Deferred Charges

Debt issuance costs are amortized ratably over the repayment period of the applicable bond or note using the straight-line method. Deferred loss on early retirement of debt is being amortized over the life of the refunded issue and is presented net of related debt as required by Governmental Accounting Standards Board Statement No. 23.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. ASSETS, LIABILITIES AND EQUITY - Continued

9. Compensated Absences

The City's policies regarding vacation, compensatory, holiday time and sick leave permit employees to accumulate varying amounts as determined by management and contracts with employee groups. Accumulated vested vacation pay is accrued as it is earned. For governmental funds, the non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. Only the current portion is reported in the governmental funds, and is calculated based on historical trends. In business-type/enterprise funds, both the current and long-term liabilities are recorded.

In accordance with the guidelines set forth by Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay.

The Fraternal Order of Police accrue sick leave at eight hours per month, with the maximum limit of 800 hours. All other employees accrue eight hours of sick leave per month with a maximum limit of 800 hours. Sick leave is not recorded until paid. Employees who retire meeting the City's retirement requirements, shall be paid one-half (1/2) of their accrued sick leave up to a maximum of four hundred (400) hours.

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associates with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditure and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. ASSETS, LIABILITIES AND EQUITY - Continued

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance between amounts that are considered *nonspendable* (i.e. fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments and receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. ASSETS, LIABILITIES AND EQUITY - Continued

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS

The following notes present detailed information to support the amounts reported in the basic financial statements for the City's various assets, liabilities, net assets/fund balances, revenues and expenditures/expenses.

A. CASH AND INVESTMENTS

A summary of cash and investments shown in the statement of net assets is as follows:

Cash and equivalents	\$ 1,121,846
Investments	<u>691,188</u>
Total	<u>\$ 1,813,034</u>

The local government had the following deposits and investments at June 30, 2012:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 1,121,846	1,121,846	-	-
Money market mutual funds	AAA	-	-	-	-
Time deposits	(1)	<u>691,188</u>	-	-	<u>691,188</u>
Total		<u>\$ 1,813,034</u>	<u>1,121,846</u>	<u>-</u>	<u>691,188</u>

(1) Note subject to rating

Standard and Poor's (S&P) was the source for all credit ratings reported above.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

A. CASH AND INVESTMENTS - Continued

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately \$6,571,830 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with the securities held by the City or by its agent in the City's name.

Investment Interest Credit Risk

The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choice other than the limitation of the state law as follows:

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

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 100% in Certificates of deposit (\$691,188).

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

B. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Receivables as of June 30, 2012, for the City of Seminole's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Seminole Utilities Authority	Seminole Gas Authority	Total
Receivables:					
Taxes	\$ 417,715	5,042	224,699	-	647,456
Accounts	-	-	464,281	16,784	481,065
Other	94,368	-	110,457	-	204,825
Gross receivables	<u>512,083</u>	<u>5,042</u>	<u>799,437</u>	<u>16,784</u>	<u>1,333,346</u>
Less: Allowance for uncollectibles	-	-	89,570	-	89,570
Net total receivables	<u>\$ 512,083</u>	<u>5,042</u>	<u>709,867</u>	<u>16,784</u>	<u>1,243,776</u>

C. RESTRICTED ASSETS

The revenue bonds and notes as issued from time-to-time by the City, include restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. All funds are on deposit with trustee banks.

SUA Utility Sales Tax Revenue Bonds, Series 2006 :

Project account	\$ 1,074,284
Debt service	869,510
Debt service reserve	1,046,234

SUA Utility Revenue Bonds, Series 2010 :

Project account	1,081,154
Debt service	102,871
Debt service reserve	220,848

SUA Utility Sales Tax Revenue Bonds, Series 2004 :

Debt service	348,579
Debt service reserve	494,380

Accounts not held at trustee bank :

Debt service	1,824,189
Total restricted assets	<u>\$ 7,062,049</u>

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

D. CAPITAL ASSETS

Capital asset balances and activities for the year ended Jun 30, 2012, were as follows:

	Beginning	Additions	Retirements	Ending
<i>Governmental activities</i>				
Capital assets not being depreciated :				
Land	\$ 304,926	-	-	304,926
Total capital assets not being depreciated	304,926	-	-	304,926
Capital assets being depreciated :				
Buildings and improvements	2,366,313	25,314	-	2,391,627
Machinery and equipment	4,051,626	91,948	-	4,143,574
Vehicles	2,279,455	168,447	-	2,447,902
Infrastructure	15,932,692	-	-	15,932,692
Total capital assets being depreciated	24,630,086	285,709	-	24,915,795
Less accumulated depreciation for :				
Buildings and improvements	(1,768,585)	(46,887)	-	(1,815,472)
Machinery and equipment	(3,776,276)	(48,870)	-	(3,825,146)
Vehicles	(1,379,775)	(153,631)	-	(1,533,406)
Infrastructure	(10,588,386)	(498,036)	-	(11,086,422)
Total accumulated depreciation	(17,513,022)	(747,424)	-	(18,260,446)
Total capital assets being depreciated, net	7,117,064	(461,715)	-	6,655,349
Governmental activities capital assets, net	\$ 7,421,990	(461,715)	-	6,960,275
<i>Business-type activities</i>				
Capital assets not being depreciated :				
Land and construction in progress	\$ 7,775,702	-	(7,761,813)	13,889
Total capital assets not being depreciated	7,775,702	-	(7,761,813)	13,889
Capital assets being depreciated :				
Buildings and improvements	6,340,909	7,432,937	-	13,773,846
Machinery and equipment	1,435,086	511,444	-	1,946,530
Vehicles	369,637	-	-	369,637
Infrastructure	15,551,711	-	-	15,551,711
Total capital assets being depreciated	23,697,343	7,944,381	-	31,641,724
Less accumulated depreciation for :				
Buildings and improvements	(1,883,870)	(303,025)	-	(2,186,895)
Machinery and equipment	(1,055,856)	(72,358)	-	(1,128,214)
Vehicles	(350,397)	(9,706)	-	(360,103)
Infrastructure	(8,257,161)	(271,039)	-	(8,528,200)
Total accumulated depreciation	(11,547,284)	(656,128)	-	(12,203,412)
Total capital assets being depreciated, net	12,150,059	7,288,253	-	19,438,312
Business-type activities capital assets, net	\$ 19,925,761	7,288,253	(7,761,813)	19,452,201

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

D. CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 7,317
Public safety	183,394
Public works	367,525
Cultural and recreation	<u>189,188</u>
Total depreciation expense - governmental activities	<u><u>747,424</u></u>

Business-type activities:

Water	215,944
Sewer	245,529
General government	34,280
Reynolds Center	<u>160,375</u>
Total depreciation expense - business-type activities	<u><u>\$ 656,128</u></u>

E. DEPOSITS SUBJECT TO REFUND

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2012, cash and investments included \$126,653 available for refund of customer deposits, while the liability to customers was \$107,690.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2012, \$1,974 was being held that was subject to refund.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

F. LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The capital lease obligation is as follows:

Governmental activities :

Lease purchase agreement with Emergency One, Inc. through Oshkosh Capital, dated July 17, 2007, payable in monthly installments of \$7,284, including interest at 4.78%, through April 25, 2013 for one pumper unit	\$ <u>72,662</u>
Total capital lease obligation - governmental activities	\$ <u><u>72,662</u></u>

The assets acquired through a capital lease is as follows:

Governmental activities :

Asset : One fire pumper unit	\$ 448,230
Less : Accumulated depreciation	(144,430)
Total net book value	\$ <u><u>303,800</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, are as follows:

Governmental activities:

<u>Year Ending June 30,</u>	
2013	72,841
Total required payments	<u>72,841</u>
Less: Interest expense	(179)
Total principal payments	\$ <u><u>72,662</u></u>

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

G. LONG-TERM LIABILITIES

Long-term liabilities of the City of Seminole as of June 30, 2012, are as summarized as follows:

Governmental Activities

\$660,000 General Obligation Waterworks Bonds, Series 1993, dated November 1, 1993, payable in annual principal installments of \$35,000 through November 1, 2012 and a final installment of \$65,000 due November 1, 2013, with interest at 3.40% to 5.65%	\$ 100,000
\$2,025,000 Hospital Bonds, Series 1996, dated February 1, 1996, payable in an initial installment of \$70,000 due February 1, 1999 and annual installments of \$115,000 due February 1, 2000 through February 1, 2016, with interest at 4.35% to 8.00%	460,000
Total general obligation bonds	<u>560,000</u>
Total governmental activities	<u><u>\$ 560,000</u></u>

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

G. LONG-TERM LIABILITIES - Continued

Business-type activities:

Revenue bonds:

\$2,205,000 Seminole Utilities Authority Sales Tax Revenue Bonds, Series 2010. Bonds dated December 1, 2010, due in annual installments of \$165,000 to \$455,000 through December 1, 2020, with interest at 3.00% to 5.00%, secured by a lien against sales tax revenues. \$ 2,040,000

\$12,800,000 Seminole Utility System Sales Tax Revenue Bonds, Series 2006A and 2006B. Bonds dated September 1, 2006, due in annual principal installments of \$355,000 to \$1,115,000 through September 1, 2026, with interest at 3.50% to 6.25%, secured by a lien against sales tax revenues. 10,830,000

\$7,725,000 Seminole Utility System Sales Tax Revenue Bonds, Series 2004A and 2004B. Bonds dated August 1, 2004, due in annual principal installments of \$205,000 to \$935,000 through August 1, 2022, with interest at 4.00% to 5.70%, secured by a lien against sales tax revenues. 4,330,000

17,200,000

Less : Unamortized bond discount (151,043)

Less : Unamortized loss on refunding (79,482)

Net revenue bonds payable 16,969,475

Notes payable:

Obligation to State of Oklahoma, CDBG-EDIF Note #9174 dated July 1, 2002, due in monthly principal installments of \$1,581 to through July 1, 2022, with interest at 0.00%. 189,689

Notes payable to a local bank with varying terms and maturities 304,898

Total net revenue bonds and notes payable 17,464,062

Total business-type activities \$ 17,464,062

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

G. LONG-TERM LIABILITIES - Continued

Long-term liabilities transactions for the year ended June 30, 2012, and changes therein were as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Governmental activities					
General obligation bonds:					
Series 1993	\$ 135,000	-	35,000	100,000	35,000
Series 1996	575,000	-	115,000	460,000	115,000
Total governmental activities	<u>710,000</u>	<u>-</u>	<u>150,000</u>	<u>560,000</u>	<u>150,000</u>
Business-type activities					
Revenue bonds payable:					
Series 2010	2,205,000	-	165,000	2,040,000	170,000
Series 2006	11,260,000	-	430,000	10,830,000	450,000
Series 2004	4,595,000	-	265,000	4,330,000	270,000
Notes payable:					
CDBG-EDIF #9174	208,658	-	18,969	189,689	18,969
Bank	31,442	-	4,575	26,867	4,800
Bank	140,217	-	13,344	126,873	22,733
Bank	54,139	-	13,438	40,701	14,144
Bank	126,120	-	15,643	110,477	16,238
Total business-type activities	<u>18,620,576</u>	<u>-</u>	<u>925,969</u>	<u>17,694,607</u>	<u>966,884</u>
Component unit					
Revenue bonds payable:					
Series 2009	\$ <u>7,710,000</u>	<u>-</u>	<u>165,000</u>	<u>7,545,000</u>	<u>165,000</u>

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

G. LONG-TERM LIABILITIES - Continued

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt, excluding accrued compensated absences, with interest rates applicable at June 30, 2012 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
	2013	\$ 150,000	31,545	988,951	849,771	175,000
2014	180,000	22,191	1,019,887	802,400	185,000	537,295
2015	115,000	13,685	1,063,850	754,298	195,000	528,045
2016	115,000	6,900	1,109,465	705,597	225,000	517,808
2017	-	-	1,146,875	653,511	235,000	505,432
2018-2022	-	-	6,335,579	2,400,691	1,435,000	2,282,235
2023-2027	-	-	6,030,000	822,313	2,035,000	1,678,256
2028-2032	-	-	-	-	3,060,000	755,013
Totals	\$ 560,000	74,321	17,694,607	6,988,581	7,545,000	7,349,691

The City, through its public trust, has, in substance, defeased certain outstanding bond issues by placing deposits in an irrevocable trust escrow account for the purchase of U.S. Government securities to pay the principal and interest on the refunded bonds as they are due and payable. For financial reporting purposes both the defeased bonds outstanding and the escrowed securities have been excluded from the financial statements. As of June 30, 2012, the remaining outstanding defeased bonds were as follows:

1993 Utility System Revenue Bonds	\$ 1,215,000
1998 Utility System Refunding Revenue Bonds	1,235,000
2000 Taxable Sales Tax Revenue Bonds	3,765,000
Total outstanding defeased bonds	<u>\$ 6,215,000</u>

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

G. LONG-TERM LIABILITIES - Continued

Pledge of Future Revenues

Sales Tax Pledge - The City has pledged two percent (or 2.00%) of future sales tax revenues to repay the 2004, 2006 and 2010 Revenue Bonds which are payable through 2027. Proceeds from the bonds provided financing for construction of various capital projects. The total principal and interest payable for the remaining life of the bonds is \$24,143,716. Pledged sales taxes received in the current year was \$2,469,433. Debt service payments on the 2004, 2006 and 2010 Revenue Bonds of \$1,726,371 for the current fiscal year were 70% of pledged sales tax. Other sources of revenues such as water and sewer are also pledged.

H. DEBT ISSUANCE COSTS

Debt issuance costs of \$1,034,515 have been capitalized on enterprise fund sales tax revenue notes and refunding revenue bonds, and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2012, \$73,369 in debt issuance costs were amortized.

I. COMPENSATED ABSENCIES

Full-time employees with at least one year of service earn vacation of ten to twenty-five days per year depending on years of service completed. A maximum of five days may be carried over from one benefit year into another. Payment in lieu of vacation is limited to a maximum of five days. In accordance with guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation and sick leave as follows:

Governmental activities	\$	185,512
Business-type activities		38,252
Total accrued compensated absences	\$	223,764

J. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Municipal Court Fund - Agency	General Fund	\$ 2,476
Seminole Utilities Authority	Meter Deposit Fund	18,963
		\$ 21,439

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

J. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transactions:

	Transfers In		
	General <u>Fund</u>	Nonmajor <u>Governmental</u>	Seminole <u>Utilities</u> <u>Authority</u>
Transfer out:			
General fund	\$ -	75,000	2,469,433
Nonmajor governmental	-	-	-
Seminole Utilities Authority	860,000	530,230	-
Totals	<u>\$ 860,000</u>	<u>605,230</u>	<u>2,469,433</u>

NOTE 3 - OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a matter of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A loss Fund has been established from the proceeds of the fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION - Continued

B. CONTINGENT LIABILITIES

General Litigation

The City and Utilities Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City.

While the outcome of the above noted proceedings cannot be predicted, due to the self-insurance reserves maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance reserves would not have a material adverse effect on the financial condition of the City.

Grant Program Involvement

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

C. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government entity, the City and its component units are subject to various federal, state and local laws and contractual regulations. Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the City (excluding public trusts). At June 30, 2012, the City did not have deficits in any funds.

D. EMPLOYEE RETIREMENT SYSTEMS AND PLANS

The City of Seminole participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost sharing multiple-employer defined benefit plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City maintains the City of Seminole Deferred Compensation Plan, an eligible deferred compensation plan within the meaning of Section 457(b) of the Internal Revenue Code.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION - Continued

D. EMPLOYEE RETIREMENT SYSTEMS AND PLANS - Continued

Oklahoma Police Pension and Retirement Plan

All City police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OPPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

Oklahoma Police Pension and Retirement Plan - Continued

The required contributions from the City for the OPPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	\$ 60,085	60,085
2011	56,510	56,510
2010	49,363	49,363

Oklahoma Firefighters' Pension and Retirement Plan

All City fire department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters' Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OFPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 north Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contributions from the City for the OFPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	\$ 78,932	78,932
2011	86,994	86,994
2010	48,772	48,772

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION - Continued

D. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS - Continued

City of Seminole, Oklahoma Employee Retirement Plan (the DC Plan)

The City of Seminole, Oklahoma Employee Retirement Plan, is a single-employer defined contribution money purchase pension plan covering City employees not covered by other plans. The Plan operates as a trust administered by the Ameritas Life Insurance. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. All regular, full-time City employees not covered by other plans are eligible to participate in the Plan after six months of service. Benefits vest after five years of service, as follows:

Years of Service	Vested Percentage
Less than five years	0%
Five years	50%
Six years	60%
Seven years	70%
Eight years	80%
Nine years	90%
Ten years	100%

Benefits to be paid to employees at a future date are dependent on the sum of the employee contributions with interest, the City financed contributions with interest, and the respective employee vesting percentage as established by the plan. There are no guaranteed retirement benefits in the plan, and the City disclaims any liability between the employer and the employee regarding benefits in the plan. Any and all claims of the employee may be satisfied only out of the funds held in the plan under the individual employee's account. Each employee receives a year-end statement of his account and selects how the funds are invested.

Funding Policy - The employee contributes 2% of compensation to the Plan, and the employer contributes 10% of employee compensation. Contributions to the Plan for the year ended June 30, 2012, for employees and employer were \$23,706 and \$118,481, respectively. For the year ended June 30, 2012, the City's covered payroll was \$1,255,624. Covered payroll refers to all compensation paid by the City of Seminole to active employees covered by the Plan on which contributions are based.

E. PROPERTY TAXES

Property taxes levied by the City are billed and collected by the county treasurer's office and remitted to the City in the month following collection. Property taxes are levied annually in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on the property in the following October. The City recognizes the tax in the year it is collected, which is not considered to be materially different from the year earned. For years ended June 30, 2012 and 2011, the City's net assessed valuation of taxable real and personal property aggregated \$27,342,669 and \$27,165,325 while the property taxes levied per \$1,000 of net assessed valuation were \$6.33 and \$6.32, respectively.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION - Continued

F. OTHER POST-EMPLOYMENT BENEFITS

City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State Law, police and firefighters' union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2012, approximately no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2012, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2012 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reporting amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

City of Seminole, Oklahoma
Notes to the Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION - Continued

F. OTHER POST-EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

G. COMPLIANCE WITH BOND INDENTURES

The bond indentures for the Authority to maintain the net revenue available for debt service of at least 1.25 times the maximum annual amount to be paid into the Sinking Fund. The amount available is computed as follows:

Gross revenue available for debt service :	
Pledged sales tax	\$ 2,469,433
System-wide Gross Revenues - Water & Wastewater	2,320,963
System-wide Operating Expense - Exclusive of capital improvements, debt service and depreciation	
Water and wastewater	(1,130,044)
Net revenues available for debt service	<u>\$ 3,660,352</u>
 Annual amount to be paid into Sinking Fund	 <u>\$ 1,743,378</u>
 Coverage	 <u>2.10</u>
 Coverage requirement	 <u>1.25</u>

NOTE 4 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 23, 2012, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Seminole, Oklahoma
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		Over (Under)
REVENUES				
Taxes	\$ 5,450,026	5,450,026	5,587,959	137,933
Intergovernmental	65,767	65,767	124,161	58,394
Licenses and permits	27,640	27,640	28,772	1,132
Charge for services	759,191	759,191	808,223	49,032
Fines and forfeitures	220,743	220,743	259,493	38,750
Interest	6,988	6,988	5,894	(1,094)
Miscellaneous	161,080	161,080	120,335	(40,745)
Total revenues	<u>6,691,435</u>	<u>6,691,435</u>	<u>6,934,837</u>	<u>243,402</u>
EXPENDITURES				
General government:				
General government	1,287,000	1,274,662	1,260,606	14,056
City council	1,500	499	499	-
City manager	83,212	90,648	90,648	-
City clerk	94,544	75,706	75,706	-
City attorney	39,580	40,671	40,671	-
Municipal court	82,421	91,801	91,801	-
Public safety:				
Police	1,038,149	925,825	925,825	-
Fire and ambulance	1,298,200	1,387,985	1,387,985	-
Emergency management	15,180	15,582	15,582	-
Public works:				
Streets	283,960	263,062	263,032	30
Fleet maintenance	56,169	55,442	55,442	-
Community services	138,088	128,048	128,048	-
Cemetery	64,977	62,619	59,619	3,000
Airport	22,299	18,161	18,161	-
Culture and recreation:				
Senior citizens bus	25,076	25,206	25,206	-
Parks	182,262	146,714	146,714	-
Golf course	76,010	70,543	70,543	-
Sportsman lake	52,027	54,178	54,178	-
Library	110,136	97,999	123,481	(25,482)
Senior citizens crafts	17,083	17,831	17,831	-
Total expenditures	<u>4,967,873</u>	<u>4,843,182</u>	<u>4,851,578</u>	<u>(8,396)</u>
Excess (deficiency) of revenues over (under) expenditures	1,723,562	1,848,253	2,083,259	235,006
OTHER FINANCING SOURCES (USES)				
Transfers	<u>(1,621,134)</u>	<u>(1,748,824)</u>	<u>(1,812,123)</u>	<u>(63,299)</u>
Net change in fund balances	102,428	99,429	271,136	171,707
Fund balances - beginning	175,212	175,212	158,000	(17,212)
Fund balances - ending	<u>\$ 277,640</u>	<u>274,641</u>	<u>429,136</u>	<u>154,495</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
Notes to Required Supplemental Information
For the Year Ended June 30, 2012

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise fund adopts budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Council Members (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

**OTHER SUPPLEMENTARY
INFORMATION**

City of Seminole, Oklahoma
 Nonmajor Governmental Funds
 Combining Balance Sheet
 June 30, 2012

	Special Revenue								Debt Service	Capital Projects		Permanent	Total
	Street & Alley	Library Funds	Vacation Liability	Tourism	Park User Fees	Animal Control	Airport Trust	Seminole Recreation Authority	Sinking Fund	Capital Improvements	Grant Fund	Cemetery Perpetual Care	Nonmajor Governmental Funds
ASSETS													
Cash and cash equivalents	\$ 117,877	3,867	17,647	8,516	6,638	890	17,167	30,290	259,403	102,531	208,635	143,898	917,359
Investments	-	10,000	-	-	-	41,539	-	-	-	-	-	-	51,539
Receivables, net	5,042	-	-	-	-	-	-	-	-	-	-	-	5,042
TOTAL	122,919	13,867	17,647	8,516	6,638	42,429	17,167	30,290	259,403	102,531	208,635	143,898	973,940
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund balances:													
Reserved for:													
Debt service	-	-	-	-	-	-	-	-	259,403	-	-	-	259,403
Capital improvements	-	-	-	-	-	-	-	-	-	102,531	208,635	-	311,166
Unreserved:													
Designated	122,919	13,867	17,647	8,516	6,638	42,429	17,167	30,290	-	-	-	143,898	403,371
Total Fund Balances	122,919	13,867	17,647	8,516	6,638	42,429	17,167	30,290	259,403	102,531	208,635	143,898	973,940
TOTAL	\$ 122,919	13,867	17,647	8,516	6,638	42,429	17,167	30,290	259,403	102,531	208,635	143,898	973,940

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma
 Nonmajor Governmental Funds
 Statement of Revenues, Expenses and Changes in Fund Net Assets
 For the Year Ended June 30, 2012

	Special Revenue							Seminole Recreation Authority	Debt Service Sinking Fund	Capital Projects		Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Street & Alley	Library Funds	Vacation Liability	Tourism	Park User Fees	Animal Control	Airport Trust			Capital Improvements	Grant Fund		
REVENUES													
Taxes	\$ 64,883	-	-	46,818	-	-	-	-	169,586	-	-	-	281,287
Intergovernmental	-	8,083	-	-	6,890	-	-	-	-	-	567,590	-	582,563
Charge for services	-	-	-	-	4,585	5,330	-	-	-	-	-	3,596	13,511
Interest	-	-	-	-	-	904	51	48	1,425	-	-	-	2,428
Miscellaneous	206	-	-	-	-	-	15,593	-	-	14,500	221,090	-	251,389
Total revenues	<u>65,089</u>	<u>8,083</u>	<u>-</u>	<u>46,818</u>	<u>11,475</u>	<u>6,234</u>	<u>15,644</u>	<u>48</u>	<u>171,011</u>	<u>14,500</u>	<u>788,680</u>	<u>3,596</u>	<u>1,131,178</u>
EXPENDITURES													
Current:													
General government	-	-	-	-	-	-	-	-	190,287	54,934	40,161	-	285,382
Public safety	-	-	-	-	-	4,022	-	-	-	212,474	-	-	216,496
Public works	51,521	-	-	-	-	-	28,912	-	-	331,276	614,587	-	1,026,296
Cultural and recreational	-	12,155	-	51,352	8,255	-	-	-	-	-	-	-	71,762
Total expenditures	<u>51,521</u>	<u>12,155</u>	<u>-</u>	<u>51,352</u>	<u>8,255</u>	<u>4,022</u>	<u>28,912</u>	<u>-</u>	<u>190,287</u>	<u>598,684</u>	<u>654,748</u>	<u>-</u>	<u>1,599,936</u>
Excess (deficiency) of revenues over expenditures	<u>13,568</u>	<u>(4,072)</u>	<u>-</u>	<u>(4,534)</u>	<u>3,220</u>	<u>2,212</u>	<u>(13,268)</u>	<u>48</u>	<u>(19,276)</u>	<u>(584,184)</u>	<u>133,932</u>	<u>3,596</u>	<u>(468,758)</u>
OTHER FINANCING SOURCES (USES)													
Transfers in	-	-	-	-	-	-	-	-	-	605,230	-	-	605,230
Transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>605,230</u>	<u>-</u>	<u>-</u>	<u>605,230</u>
Net change in fund balances	13,568	(4,072)	-	(4,534)	3,220	2,212	(13,268)	48	(19,276)	21,046	133,932	3,596	136,472
Fund balances-beginning	109,351	17,939	17,647	13,050	3,418	40,217	30,435	30,242	278,679	81,485	74,703	140,302	837,468
Fund balances-ending	<u>\$ 122,919</u>	<u>13,867</u>	<u>17,647</u>	<u>8,516</u>	<u>6,638</u>	<u>42,429</u>	<u>17,167</u>	<u>30,290</u>	<u>259,403</u>	<u>102,531</u>	<u>208,635</u>	<u>143,898</u>	<u>973,940</u>

See accompanying notes to the basic financial statement.

City of Seminole, Oklahoma

Schedule of Grant Revenues and Expenditures
 Budget, Actual and Reconciliation of Audit Grant
 June 30, 2012

14044 SCDBG 09

	Program Budget	Cumulative Expenditures to Date Per Expenditure Report	Adjustments	Per Audit	Current Year Activity Per Audit
<u>REVENUE</u>					
Grant Proceeds	\$ 1,000,000	1,000,000	-	1,000,000	490,181
Matching funds	131,152	131,152	-	131,152	39,601
Total Revenue	1,131,152	1,131,152	-	1,131,152	529,782
<u>EXPENDITURES</u>					
Infrastructure improvements	929,203	929,203	-	929,203	490,181
Engineering, legal and professional	70,797	70,797	-	70,797	-
Matching funds	131,152	131,152	-	131,152	39,601
Total Expenditures	1,131,152	1,131,152	-	1,131,152	529,782
Revenues Over (Under) Expenditures	\$ -	-	-	-	-

**CITY OF SEMINOLE, OKLAHOMA
SINGLE AUDIT SUPPLEMENT AND
INDEPENDENT AUDITOR'S REPORTS
ON COMPLIANCE AND INTERNAL CONTROL**

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

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DILLON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
1401 S. DOUGLAS BLVD., SUITE A
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA
bobdilloncpa@gmail.com

Phone: (405) 732-1800
Fax : (405) 737-7446

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

Honorable Mayor and City Council Members
City of Seminole, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seminole, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Seminole's basic financial statements and have issued our report thereon dated August 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Seminole, Oklahoma's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Seminole, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Seminole, Oklahoma's internal control over financial reporting.

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

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

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Seminole, Oklahoma, ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more

than a remote likelihood that a misstatement of the City of Seminole, Oklahoma's financial statements that is more than inconsequential will not be prevented or detected by the City of Seminole, Oklahoma's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2012-01, 2012-02 and 2012-03 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Seminole, Oklahoma internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe all of the significant deficiencies described in the accompanying Schedule of Reportable Findings and Responses to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Seminole, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Seminole, Oklahoma in a separate letter dated August 23, 2012.

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

Dillon & Associates, P.C.

Midwest City, Oklahoma
August 23, 2012

DILLON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
1401 S. DOUGLAS BLVD., SUITE A
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA
bobdilloncpa@gmail.com

Phone: (405) 732-1800
Fax : (405) 737-7446

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of Seminole, Oklahoma

COMPLIANCE

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB circular A-133, *Audits of States, Local Government, 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 or state program occurred. An audit includes examining, on a test basis, evidence about the City of Seminole, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Seminole, Oklahoma's compliance with those requirements.

In our opinion, the City of Seminole, Oklahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seminole, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated August 23, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Seminole, Oklahoma's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Dillon & Associates, P.C.

Midwest City, Oklahoma
August 23, 2012

City of Seminole, Oklahoma
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2012

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>U.S. Department of Housing and Urban Development</u>				
Passed through Oklahoma Department of Commerce:				
Stimulus Community Development Block Grant (ARRA Funded)	14.255	14044 SCDBG 09	\$ 1,000,000	490,181
<u>Federal Emergency Management Agency</u>				
Passed through Oklahoma Department of Emergency Management:				
Emergency Management Performance Grant	97.042	SLA 2012	10,000	2,500
Emergency Management Performance Grant	97.042	SLA 2011	10,000	5,000
Emergency Management Performance Grant	97.042	SLA 2010	5,000	5,000
Total Federal Emergency Management Agency			25,000	12,500
<u>U.S. Department of Transportation</u>				
Passed through Oklahoma Safety Office:				
Oklahoma Highway Safety Office	20.600	K8-12-03-39-01	15,000	3,693
Total Federal Assistance			1,040,000	506,374
<u>State of Oklahoma</u>				
Passed through the Central Oklahoma				
Econ. Development District (COEDD) :				
Community Expansion of Nutritional Assistance		2011-2012 CENA 028	1,000	975
Rural Economic Action Plan		2010-2011 REAP 32	75,000	75,000
Oklahoma Department of Libraries				
State Aid Grant			8,083	8,083
Total Federal and State Assistance			\$ 1,124,083	590,432

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

CITY OF SEMINOLE, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identifies?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major problems:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	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 section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.255	ARRA - Stimulus Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	No

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

Compliance

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**CITY OF SEMINOLE, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Finding 2012-01 - Internal Control - Material Adjusting Journal Entries

Criteria - The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balance required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balance prior to audit.

Condition - The government's trial balance for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: yearend revenue accruals, depreciation expense, and transactions related to debt service.

Cause - Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditor's arrival to perform fieldwork. As a result, management had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance. However, management was able to review, understand and accept the adjusting entries proposed by the external auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect - As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over completeness and accuracy of the trial balances that are used in the preparation of financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management continues to rely on the external auditor. To detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

**CITY OF SEMINOLE, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Recommendation - The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

Management's Response - The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.

Finding 2012-02 - Internal Control - Reconciliation of Utility Accounts Receivable

Criteria - The City should have adequate controls in place to prepare a timely reconciliation of utility billings, collections, adjustments and ending account receivable balances to the general ledger.

Condition - Internal controls should be in place that provides reasonable assurance that reconciliations are being produced on a monthly basis.

Cause - The City failed to produce month end aged customer accounts receivable reports. Because of work load and other time constraints sufficient efforts, the accounting staff did not prepare the necessary reconciliations.

Effect or Potential Effect - Without controls in place to insure the proper reconciliations errors or irregularities may occur and go undetected and uncorrected.

Recommendation - We recommend that the City perform proper reconciliations of the utility accounts receivable aging reports with the general ledger control account balances on a monthly basis.

Management's Response - The City concurs with the recommendation and has adjusted their controls to insure timely and accurate reconciliations.

Finding 2012-03 - Internal Control - Bank Reconciliations - Pooled Cash

Criteria - The pooled cash bank reconciliation did not agree with the general ledger of the individual funds. The City had transactions which were improperly posted and carried as outstanding items in the monthly bank reconciliation.

Condition - Internal controls should be in place that provides reasonable assurance that accurate pooled cash bank reconciliations are being produced on a monthly basis.

Cause - The City's internal control structure did not identify misstatements to the pooled cash reconciliation which carried as outstanding from month to month.

**CITY OF SEMINOLE, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Effect or Potential Effect - Without controls in place to insure the proper pooled cash bank reconciliation is prepared on a timely basis. Management isn't able to accurately balance the cash accounts with the individual fund trial balances. Management may not know the accurate cash balance at times during the year for the pooled cash account. Additionally, this control deficiency can result in material misstatements to the annual financial statements that could be prevented or detected.

Recommendation - We recommend that the City strive to reconcile the pooled cash bank statements accurately and clear individual transactions on a timely basis.

Management's Response - The City concurs with the recommendation and has adjusted their controls to insure timely and accurate bank reconciliations.