



City of Broken Bow, Oklahoma

Annual Financial Report

Year-End June 30, 2012

City of Broken Bow, Oklahoma
Table of Contents
June 30, 2012

Financial Section

Independent Auditor's Report	1
------------------------------	---

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Assets – Modified Cash Basis	2
-----------------------------------------------	---

Statement of Activities – Modified Cash Basis	3
-----------------------------------------------	---

Fund Financial Statements

Balance Sheet – Governmental Funds – Modified Cash Basis	4
----------------------------------------------------------	---

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund – Modified Cash Basis	5
----------------------------------------------------------------------------------------------------------------	---

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Modified Cash Basis	6
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---

Statement of Net Assets – Proprietary Funds – Modified Cash Basis	7
-------------------------------------------------------------------	---

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – Modified Cash Basis	9
--------------------------------------------------------------------------------------------------------	---

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis	10
-------------------------------------------------------------------	----

Notes to the Financial Statements	11
-----------------------------------	----

Supplementary Information

Unaudited Oklahoma Municipal Retirement Fund Summary Schedule of Funding Progress	42
--------------------------------------------------------------------------------------	----

Budgetary Information	43
-----------------------	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – General Fund (Unaudited) – Modified Cash Basis	44
-------------------------------------------------------------------------------------------------------------------------------------------------------------	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – Grant Fund (Unaudited) – Modified Cash Basis	45
-----------------------------------------------------------------------------------------------------------------------------------------------------------	----

City of Broken Bow, Oklahoma
Table of Contents
June 30, 2012

Combining and Individual Fund Statements and Schedules

Combining Balance Sheet – General Fund – Modified Cash Basis	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – Modified Cash Basis	47
Combining Balance Sheet – Nonmajor Governmental Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Modified Cash Basis	49

Internal Control and Compliance

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	50
Schedule of Findings and Responses	51
Summary Schedule of Prior Findings and Responses	52



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Broken Bow, 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 City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Broken Bow, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I.C., City of Broken Bow, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Broken Bow, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis and, where applicable, cash flows—modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note I.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013, on our consideration of the City of Broken Bow, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in black ink that reads "HBC CPAs & Advisors".

Yukon, Oklahoma
March 20, 2013

City of Broken Bow, Oklahoma
Statement of Net Assets – Modified Cash Basis
June 30, 2012

	Governmental Activities	Business Type Activites	Total
ASSETS			
Cash and Cash Equivalent	\$ 1,473,611	\$ 2,160,544	\$ 3,634,155
Restricted Cash and Cash Equivalent	48,298	2,617,804	2,666,102
Restricted Investments	-	192,550	192,550
Inventory	-	55,000	55,000
Interfund Balances	44,363	(44,363)	-
Capital Assets, not being depreciated	1,184,594	204,352	1,388,946
Capital Assets, net of depreciaiton	7,583,734	26,923,511	34,507,245
Debt Issuance Costs	-	1,028,600	1,028,600
Water Storage Rights	-	170,189	170,189
Hydro-power Investment	-	20,261	20,261
Total Assets	<u>\$ 10,334,600</u>	<u>\$ 33,328,448</u>	<u>\$ 43,663,048</u>
LIABILITIES			
Bonds Pending Court	\$ 13,706	\$ -	\$ 13,706
Customer Deposits	-	64,466	64,466
Customer Deposits, Due within a year	6,032	20,270	26,302
Long Term Liabilities	120,561	16,682,235	16,802,796
Long Term Liabilities, Due within a year	189,285	752,606	941,891
Accrued Landfill Closure and Post-Closure Costs	-	986,011	986,011
Total Liabilities	<u>329,584</u>	<u>18,505,588</u>	<u>18,835,172</u>
NET ASSETS			
Invested in Capital Assets	8,458,482	9,693,022	18,151,504
Restricted	543,967	-	543,967
Unrestricted	1,002,567	5,129,838	6,132,405
Total Net Assets	<u>\$ 10,005,016</u>	<u>\$ 14,822,860</u>	<u>\$ 24,827,876</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<i>Functions/Programs</i>							
Primary Government							
Governmental Activities							
General Government	\$ 653,342	319,801	\$ -	\$ -	\$ (333,541)	\$ -	\$ (333,541)
Public Safety	1,569,420	181,501	-	-	(1,387,919)	-	(1,387,919)
Streets	640,147	17,889	-	50,983	(571,275)	-	(571,275)
Culture and Recreation	148,385	2,633	-	-	(145,752)	-	(145,752)
Cemetery and Parks	205,106	570	-	-	(204,536)	-	(204,536)
Health and Welfare	948,349	1,052,557	-	-	104,208	-	104,208
Total Governmental Activities	<u>4,164,749</u>	<u>1,574,951</u>	<u>-</u>	<u>50,983</u>	<u>(2,538,815)</u>	<u>-</u>	<u>(2,538,815)</u>
Business-Type Activities							
Water	2,788,837	2,761,846	-	-	-	(26,991)	(26,991)
Sewer	743,090	609,134	-	-	-	(133,956)	(133,956)
Electric	298,795	1,286,860	-	-	-	988,065	988,065
Landfill	659,799	771,175	-	-	-	111,376	111,376
Total Business Type Activities	<u>4,490,521</u>	<u>5,429,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>938,494</u>	<u>938,494</u>
Total Primary Government	<u>\$ 8,655,270</u>	<u>\$ 7,003,966</u>	<u>\$ -</u>	<u>\$ 50,983</u>	<u>(2,538,815)</u>	<u>938,494</u>	<u>(1,600,321)</u>
General Revenues							
Taxes					2,246,835	-	2,246,835
Interest					10,041	47,217	57,258
Transfers					601,300	(601,300)	-
Total General Revenues and Transfers					<u>2,858,176</u>	<u>(554,083)</u>	<u>2,304,093</u>
Change in Net Assets					319,361	384,411	703,772
Contributed Capital					(68,338)	68,338	-
Net Assets - Beginning, restated					<u>9,753,993</u>	<u>14,370,111</u>	<u>24,124,104</u>
Net Assets - Ending					<u>\$ 10,005,016</u>	<u>\$ 14,822,860</u>	<u>\$ 24,827,876</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Balance Sheet – Modified Cash Basis
Governmental Funds
June 30, 2012

	General	Grant	Other Governmental	Total
<i>Assets</i>				
Cash	\$ 626,292	\$ -	\$ 504,118	\$ 1,130,410
Due From Other Funds	47,278	53	35,359	82,690
Total Assets	\$ 673,570	\$ 53	\$ 539,477	\$ 1,213,100
<i>Liabilities</i>				
Overdraft Liability	\$ -	\$ 69,815		\$ 69,815
Deposits	6,032	-	-	6,032
Bonds Pending Court	13,706	-	-	13,706
Due To Other Funds	38,327	-	-	38,327
Total Liabilities	58,065	69,815	-	127,880
<i>Fund Balances</i>				
Restricted	-	-	543,967	543,967
Assigned	2,151	-	-	2,151
Unassigned	613,354	(69,762)	(4,490)	539,102
Total Fund Balances	615,505	(69,762)	539,477	1,085,220
Total Liabilities and Fund Balances	\$ 673,570	\$ 53	\$ 539,477	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. 8,768,328

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The assets and liabilities of the internal service fund are included in the governmental statement of net assets. 461,314

Long-term liabilities, including bonds payable and applicable interest, are not due and payable in the current period and, therefore, are not reported in the fund. (309,846)

\$ 10,005,016

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds- Modified Cash Basis
For the Year Ended June 30, 2012

	<u>General</u>	<u>Grant</u>	<u>Other Governmental</u>	<u>Total</u>
REVENUE				
Taxes	\$ 1,646,876	\$ -	\$ 386,454	\$ 2,033,330
Intergovernmental	213,505	-	-	213,505
Grants	-	50,983	60,454	111,437
License and Permits	103,387	-	-	103,387
Charges for Service	65,638	-	-	65,638
Fines and Forfeitures	178,742	-	-	178,742
Rent	7,978	-	350	8,328
Miscellaneous	150,392	17,889	3,202	171,483
Interest	4,588	-	5,453	10,041
Total Revenue	<u>2,371,106</u>	<u>68,872</u>	<u>455,913</u>	<u>2,895,891</u>
EXPENDITURES				
<i>Current</i>				
General Government	342,988	-	113,958	456,946
Public Safety	1,478,461	-	-	1,478,461
Streets	610,408	-	-	610,408
Culture and Recreation	19,949	-	85,163	105,112
Cemetery and Parks	162,239	7,075	-	169,314
<i>Capital Outlay</i>				
General Government	10,200	12,476	3,300	25,976
Public Safety	100,046	-	-	100,046
Streets	36,262	-	-	36,262
Culture and Recreation	5,506	-	-	5,506
Cemetery and Parks	80,546	-	-	80,546
Health and Welfare	-	-	60,324	60,324
Debt Service	40,421	-	153,827	194,248
Total Expenditures	<u>2,887,026</u>	<u>19,551</u>	<u>416,572</u>	<u>3,323,149</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(515,920)	49,321	39,341	(427,258)
Other Financing Sources				
Capital Lease Financing	70,000	-	-	70,000
Transfers In	601,300	-	1,264	602,564
Transfers Out	(1,264)	-	-	(1,264)
Total Other Financing Sources	<u>670,036</u>	<u>-</u>	<u>1,264</u>	<u>671,300</u>
Net Change in Fund Balances	154,116	49,321	40,605	244,042
Fund Balances - Beginning	<u>461,389</u>	<u>(119,083)</u>	<u>498,872</u>	<u>841,178</u>
Fund Balances - Ending	<u>\$ 615,505</u>	<u>\$ (69,762)</u>	<u>\$ 539,477</u>	<u>\$ 1,085,220</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2012

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

Net change in assets - total governmental funds	\$ 244,042
-------------------------------------------------	------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(132,339)
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	108,764
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The net gain or loss of certain activities of internal service funds is reported with governmental activities.	<u>98,894</u>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------

	<u><u>\$ 319,361</u></u>
--	--------------------------

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Assets – Modified Cash Basis
Proprietary Funds
June 30, 2012

	Kulli Chito		Total	Internal Service Fund
	Public Works Authority	Environmental Authority	Proprietary Funds	
ASSETS				
<i>Current Assets</i>				
Cash	\$ 1,991,580	\$ 168,964	\$ 2,160,544	\$ 461,314
Restricted Cash	1,438,760	1,179,044	2,617,804	-
Restricted Investments	192,550	-	192,550	-
Inventory	55,000	-	55,000	-
Due from Other Funds	118,435	77,200	195,635	100
Total Current Assets	<u>3,796,325</u>	<u>1,425,208</u>	<u>5,221,533</u>	<u>461,414</u>
<i>Noncurrent Assets</i>				
Land	126,352	78,000	204,352	-
Land Improvements	8,000	937,621	945,621	-
Buildings and Improvements	587,803	33,751	621,554	-
Property and Equipment	651,631	2,038,478	2,690,109	-
Electric System	1,329,466	-	1,329,466	-
Gravity Flow Water System	23,661,492	-	23,661,492	-
Sewer System	7,945,447	-	7,945,447	-
Accumulated Depreciation	(8,654,766)	(1,615,412)	(10,270,178)	-
Total Noncurrent Assets	<u>25,655,425</u>	<u>1,472,438</u>	<u>27,127,863</u>	<u>-</u>
<i>Other Assets</i>				
Debt Issuance Costs	100,700	-	100,700	-
Unamortized Debt Issuance Costs	927,900	-	927,900	-
Note Receivable	-	199,185	199,185	-
Water Storage Rights	170,189	-	170,189	-
Hydro-power Investment	20,261	-	20,261	-
	<u>1,219,050</u>	<u>199,185</u>	<u>1,418,235</u>	<u>-</u>
Total Assets	<u><u>\$ 30,670,800</u></u>	<u><u>\$ 3,096,831</u></u>	<u><u>\$ 33,767,631</u></u>	<u><u>461,414</u></u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Assets – Modified Cash Basis
Proprietary Funds
June 30, 2012

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>LIABILITIES</i>				
<i>Current Liabilities</i>				
Customer Deposits, Current	20,270	-	20,270	-
Notes Payable, Current	362,329	90,277	452,606	-
Interfund note payable, Current	28,244	-	28,244	-
Bonds Payable, Current	300,000	-	300,000	-
Due to Other Funds	229,327	10,671	239,998	-
Accrued Landfill Closure and Post-Closure Costs	-	986,011	986,011	-
Total Current Liabilities	<u>940,170</u>	<u>1,086,959</u>	<u>2,027,129</u>	<u>-</u>
<i>Noncurrent Liabilities</i>				
Notes Payable, non-current	10,367,871	249,364	10,617,235	-
Customer Deposits, Non-current	64,466	-	64,466	-
Interfund note payable, non-current	170,941	-	170,941	-
Bonds payable, non-current	6,065,000	-	6,065,000	-
Total Noncurrent Liabilities	<u>16,668,278</u>	<u>249,364</u>	<u>16,917,642</u>	<u>-</u>
Total Liabilities	<u>17,608,448</u>	<u>1,336,323</u>	<u>18,944,771</u>	<u>-</u>
<i>NET ASSETS</i>				
Invested in Capital Assets	8,324,818	1,132,797	9,457,615	-
Restricted for Debt Service	95,793	-	-	-
Unrestricted	4,641,741	627,711	5,365,245	461,414
Total Net Assets	<u>\$ 13,062,352</u>	<u>\$ 1,760,508</u>	<u>\$ 14,822,860</u>	<u>\$ 461,414</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2012

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>Operating Revenues:</i>				
Water	\$ 2,700,349	\$ -	\$ 2,700,349	\$ -
Sewer	609,134	-	609,134	-
Electric	1,286,860	-	1,286,860	-
Landfill	-	771,174	771,174	-
Penalties/Reconnect Fees	54,019	-	54,019	-
Other Operating Revenue	7,479	-	7,479	986,920
Total Operating Revenue	4,657,841	771,174	5,429,015	986,920
<i>Operating Expenses:</i>				
Water	1,399,173	-	1,399,173	-
Sewer	521,208	-	521,208	-
Electric	241,323	-	241,323	-
Landfill	-	532,748	532,748	-
Insurance Premiums and Claims	-	-	-	888,026
Depreciation	877,935	109,678	987,613	-
Amortization	51,782	-	51,782	-
Total Operating Expenses	3,091,421	642,426	3,733,847	888,026
Operating Income (Loss)	1,566,420	128,748	1,695,168	98,894
<i>Nonoperating Revenues (Expenses):</i>				
Interest Revenue	25,070	22,147	47,217	-
Interest Expense	(739,301)	(17,373)	(756,674)	-
Total Nonoperating Revenues (Expenses)	(714,231)	4,774	(709,457)	-
Income (Loss) before Transfers	852,189	133,522	985,711	98,894
<i>Other Financing Sources (Uses):</i>				
Contributed Capital	-	68,338	68,338	-
Transfers In	-	-	-	-
Transfers Out	(601,300)	-	(601,300)	-
Total Other Financing Sources	(601,300)	68,338	(532,962)	-
Net Change in Net Assets	250,889	201,860	452,749	98,894
Total Net Assets - Beginning, restated	12,811,463	1,558,648	14,370,111	362,520
Total Net Assets - Ending	\$ 13,062,352	\$ 1,760,508	\$ 14,822,860	\$ 461,414

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Public Works Authority</u>	<u>Kulli Chito Environmental Authority</u>
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash Received from Customers	\$ 4,669,696	\$ 771,174
Cash Payments to suppliers and employees	<u>(2,192,185)</u>	<u>(667,166)</u>
Net Cash Provided by Operating Activities	<u>2,477,511</u>	<u>104,008</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>		
Transfers to Other Funds	<u>(601,300)</u>	<u>-</u>
Net Cash Used by Noncapital Financing Activities	<u>(601,300)</u>	<u>-</u>
<i>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</i>		
Payment of Debt	(724,101)	(60,005)
Purchase of Property, Plant and Equipment	<u>(127,208)</u>	<u>(198,993)</u>
Net Cash Used by Capital Financing Activities	<u>(851,309)</u>	<u>(258,998)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Change in Investments	(115,129)	-
Interest Expense	(739,301)	(17,373)
Interest Income	<u>25,070</u>	<u>22,147</u>
Net Cash Provided (Used) by Investing Activities	<u>(829,360)</u>	<u>4,774</u>
Net Increase (Decrease) in Cash and Cash Equivalents	195,542	(150,216)
Cash and Cash Equivalents, July 1, 2011	<u>3,234,798</u>	<u>1,498,224</u>
Cash and Cash Equivalents, June 30, 2012	<u>\$ 3,430,340</u>	<u>\$ 1,348,008</u>

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income	\$ <u>1,566,420</u>	\$ <u>128,748</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	929,717	109,678
Changes in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable	(30,481)	(145,740)
Increase (Decrease) in Customer Deposits	11,855	-
Increase (Decrease) in Landfill Closure and Post-closure costs	<u>-</u>	<u>11,322</u>
	<u>911,091</u>	<u>(24,740)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,477,511</u>	<u>\$ 104,008</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Broken Bow is a charter city created under Title 11, Chapter 17 of the Oklahoma Statutes, operating under the Council-Manager form of government. The governing body of the City is the City Council. The appointed City Manager is the executive officer of the City.

For financial reporting purposes the financial statements included all funds and account groups over which the City Council exercises oversight responsibility. The criteria used to determine whether or not to include other entities in the financial statements were (1) the selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, and (4) accountability for fiscal matters. Based on these criteria, the Broken Bow Public Works Authority and Kulli Chito Environmental Authority are included.

Broken Bow Public Works Authority

The Broken Bow Public Works Authority is a Title 60.O.S. public trust created April 21, 1959, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Broken Bow Public Work Authority is reported as a blended component unit.

Kulli Chito Environmental Authority

The Kulli Chito Environmental Authority is a Title 60.O.S. public trust created April 14, 1993, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Kulli Chito Environmental Authority is reported as a blended component unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Government-Wide and Fund Financial Statements – continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

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

- Capital assets and the depreciation of those assets, where applicable
- Debt issue cost and the amortization of those costs, where applicable
- Long-term debt
- Cash-based interfund receivables and payables
- Other cash-based receivable and payables

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

The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources.

Grant Fund – is a special revenue fund used to account for grant revenues received, and the expenditure of those funds.

The government reports the following major proprietary funds:

The *Broken Bow Public Works Authority*, which accounts for all the operating revenues and expenses related to providing water, sewer and electric services, and the *Kulli Chito Environmental Authority* which accounts for all the operating revenues and expenses related to sanitation services.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

Additionally, the government reports the following fund types:

Special revenue funds: Senior Citizens, Airport, Cemetery Care, Library, Police Donation and Nutrition.

Internal service funds account for self insured health costs provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds are reported with governmental activities in the government-wide statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trust bonds whose beneficiary is a county, municipality or school district, except industrial development bonds; direct obligations of the United States; and certificates of deposit. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Investments for the government, as well as for its component units, are reported at cost, which approximates fair value.

Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements including interest are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Building Improvements	10 - 20
Public Domain Infrastructure	50
System Infrastructure	10 - 30
Machinery and Equipment	5 - 10

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

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

Fund equity

Government-wide Statements

Equity is classified as net assets and displayed in three components:

1. *Invested in capital assets* – consists of capital assets net of accumulated depreciation and related debt.
2. *Restricted net assets* – consists of net assets with constraints on the use either by: (1) external groups or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets”.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Assets or Equity – continued

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation of the \$8,919,796 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

The first element of that reconciliation explains that capital assets used in governmental activities that are not financial resources and therefore, are not reported in the funds.

Land and Improvements	\$ 1,352,045
Buildings and Improvements	2,535,807
Property and Equipment	2,459,069
Infrastructure	<u>5,558,449</u>
	11,905,370
Accumulated Depreciation	<u>(3,137,042)</u>
Capital Assets, Net	<u><u>\$ 8,768,328</u></u>

Another element of that reconciliation is the assets and liabilities of the internal service funds included in governmental activities in the statement of net assets. Following are the details of the net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities*:

Assets	
Cash and equivalents	\$ <u>461,314</u>
Total Assets	<u>461,314</u>
 Net Assets	
	<u><u>\$ 461,314</u></u>

The last element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

Capital Leases	\$ 157,802
Notes Payable	<u>152,044</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ (309,846)</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$75,319 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

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

Capital Outlay	\$	248,336
Depreciation Expense		<u>(380,675)</u>
Net adjustment to decrease net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>		
	\$	<u><u>(132,339)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Capital Lease Principal Payments	\$	35,888
Notes Payable Principal Payments		142,876
Capital Lease Proceeds		<u>(70,000)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>		
	\$	<u><u>108,764</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - continued

The last element of the reconciliation states “the net gain of certain activities of internal service funds is reported with governmental activities.

Change in Net Assets - Internal Service Funds	\$ 98,894
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net assets -</i> <i>governmental activities</i>	<u>\$ 98,894</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Commission adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2012, the City’s bank balances of \$6,383,113 were not exposed to custodial credit risk.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments – *continued*

Investment Interest Rate Risk

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

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust. The City's investments at June 30, 2012 consisted of \$76,775 in Goldman Sachs Financial Square Treasury Obligation money market mutual funds with a Moody's credit rating of Aaa; and \$64,509 of funds held in escrow by the Oklahoma Municipal Assurance Group.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments

Restricted cash and investments in the enterprise funds at June 30, 2012 consist of the Debt Service Fund in the amount of \$76,775, refundable meter deposits of \$89,981, OMAG Reserve \$23,696; landfill post-closure \$1,179,044; and capital projects \$1,440,858.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

B. Receivables

Notes Receivable

The proceeds from two loans from Oklahoma Department of Commerce were transferred from the Kulli Chito Environmental Authority to the Broken Bow Public Works Authority, where the funds were used for capital improvements. A note receivable was set up on the Kulli Chito Environmental Authority to reflect the amounts due from Broken Bow Public Works Authority. The interfund note receivable / payable has been eliminated in the government-wide financial statements.

The balance of the note receivable at June 30, 2012 was:

Notes Receivable	\$ 199,185
Less: Current Portion	<u>(28,244)</u>
	<u><u>\$ 170,941</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 1,184,594	\$ -	\$ -	\$ 1,184,594
Total Capital Assets, not being depreciated	<u>1,184,594</u>	<u>-</u>	<u>-</u>	<u>1,184,594</u>
Capital Assets, being depreciated:				
Land Improvements	70,360	97,091	-	167,451
Building and Improvements	2,535,807	-	-	2,535,807
Property and Equipment	2,749,982	126,022	416,935	2,459,069
Infrastructure	5,533,226	25,223	-	5,558,449
Total Capital Assets, being depreciated	10,889,375	248,336	416,935	10,720,776
Less Accumulated Depreciation	<u>3,047,267</u>	<u>380,675</u>	<u>290,900</u>	<u>3,137,042</u>
Total Capital Assets, being depreciated, net	<u>7,842,108</u>	<u>(132,339)</u>	<u>126,035</u>	<u>7,583,734</u>
Governmental Activities Capital Assets, net	<u>\$ 9,026,702</u>	<u>\$ (132,339)</u>	<u>\$ 126,035</u>	<u>\$ 8,768,328</u>
Business Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 204,352	\$ -	\$ -	\$ 204,352
Total Capital Assets, not being depreciated	<u>204,352</u>	<u>-</u>	<u>-</u>	<u>204,352</u>
Capital Assets, being depreciated:				
Land Improvements	945,621	-	-	945,621
Building and Improvements	621,554	-	-	621,554
Property and Equipment	2,034,299	238,875	(416,935)	2,690,109
Electric System	1,329,466	-	-	1,329,466
Gravity Flow Water System	23,661,492	-	-	23,661,492
Sewer System	7,858,121	87,326	-	7,945,447
Total Capital Assets, being depreciated	36,450,553	326,201	(416,935)	37,193,689
Less Accumulated Depreciation	<u>8,991,666</u>	<u>987,612</u>	<u>(290,900)</u>	<u>10,270,178</u>
Total Capital Assets, being depreciated, net	<u>27,458,887</u>	<u>(661,411)</u>	<u>(126,035)</u>	<u>26,923,511</u>
Business Type Activities Capital Assets, net	<u>\$ 27,663,239</u>	<u>\$ (661,411)</u>	<u>\$ (126,035)</u>	<u>\$ 27,127,863</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 185,445
Public Safety	90,687
Streets	29,739
Culture and Recreation	36,198
Cemetery and Parks	<u>38,606</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 380,675</u>
Business Type Activities:	
Water	\$ 605,726
Sewer	221,881
Electric	50,327
Landfill	<u>109,678</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 987,612</u>

D. 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>	<u>Purpose</u>
General Fund	Kulli Chito	\$ 9,527	Operating Transfer
General Fund	Public Works Authority	<u>34,836</u>	Operating Transfer
		<u>\$ 44,363</u>	

Interfund Transfers

<u>Transfers Out:</u>				
<u>Transfers In:</u>	<i>General</i>	<i>Enterprise</i>	<i>Other Governmental</i>	<i>Total</i>
General Fund	\$ -	\$ 601,300	\$ -	\$ 601,300
Other Governmental	1,264	-	-	1,264
Enterprise	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,264</u>	<u>\$ 601,300</u>	<u>\$ -</u>	<u>\$ 602,564</u>

All transfers are operating transfers.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

D. Long Term Debt

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Interest rates range from 3.85% to 4.00%.

The assets acquired through capital leases are as follows:

<i>Assets:</i>	<i>Governmental Activities</i>
Buildings and Improvements	\$ 140,000
Vehicles	70,000
	<u>210,000</u>
Less Accumulated	(16,528)
	<u><u>\$ 193,472</u></u>

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

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>	
2013	\$ 37,935	\$ 14,918
2014	37,935	14,918
2015	18,967	14,918
2016	-	14,918
2017	-	12,377
Total minimum lease payments	<u>94,837</u>	<u>72,049</u>
Less amount representing	<u>(4,820)</u>	<u>(4,263)</u>
Present value of minimum lease	<u><u>\$ 90,017</u></u>	<u><u>\$ 67,786</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Governmental Activities – Long Term Debt

Other long-term debt obligations of the City of Broken Bow are as follows:

<p>McCurtain County National Bank - 5.50% interest, monthly payments of \$7,023, due June 2013. Proceeds used for the Public Library Project. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of citizens.</p>	<p>\$ 73,060</p>
<p>First Bank and Trust - 3.50% interest, monthly payments of \$5,795, due August 2013. Proceeds used for the Senior Citizens Nutrition Center. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of citizens.</p>	<p><u>78,983</u></p>
<p>Total Other Notes Payable</p>	<p><u><u>\$ 152,043</u></u></p>

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	<u>\$ 73,060</u>	<u>\$ 1,974</u>
Total	<u><u>\$ 73,060</u></u>	<u><u>\$ 1,974</u></u>
<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 67,883	\$ 1,662
2014	<u>11,100</u>	<u>490</u>
Total	<u><u>\$ 78,983</u></u>	<u><u>\$ 2,152</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Broken Bow Public Works Authority – Long Term Debt

Utility System and Sales Tax Revenue Note, Series 2006

In May 2006, the Broken Bow Public Works Authority issued \$7,890,000 Utility System and Sales Tax Revenue Note, Series 2006. Proceeds of the note were used to defease \$7,950,000 of outstanding 2002 Refunding Bonds. The note bears interest of 4.52%. Proceeds of the 2006 note were placed in an escrow account for the purpose of generating resources for all future debt service payments to pay off the 2002 Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City’s statement of net assets. This advance refunding will reduce the debt service payments by \$1,591,118 over the term of the bonds and resulted in an economic gain of \$589,214.

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 300,000	\$ 287,698
2014	300,000	274,138
2015	300,000	260,578
2016	360,000	247,018
2017	360,000	230,746
2018-2022	2,010,000	898,802
2023-2027	2,540,000	396,630
2028	<u>195,000</u>	<u>8,814</u>
Total	<u>\$ 6,365,000</u>	<u>\$ 2,604,424</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the annual principal and interest requirements on the bonds for that year.

Oklahoma Water Resources Board SRF Promissory Note

In May 2006, the Broken Bow Public Works Authority issued a \$1,640,000 OWRB SRF Promissory Note, Series 2006A. The note, when combined with amounts still on deposit in the 2003 Revenue Bonds construction account, refunded \$4,145,000 of outstanding 2003 Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The remaining balance on the short-term note will be used to construct improvements to the City's drinking water system. At June 30, 2012, the note had a balance of \$1,246,488 and carries an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 66,839	\$ 44,277
2014	69,266	41,850
2015	71,782	39,334
2016	74,290	36,826
2017	77,087	34,029
2018-2022	429,445	126,135
2023-2027	457,779	42,243
	\$ 1,246,488	\$ 364,694

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

Oklahoma Water Resources Board SRF Promissory Note

In December 2006, the Broken Bow Public Works Authority issued a \$5,585,000 Oklahoma Water Resources Board Drinking Water SRF Promissory Note, Series 2006B. Proceeds from the note will be used to construct improvements to the City's drinking water system. At June 30, 2012, the note had a balance of \$4,576,498, at an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 216,008	\$ 162,823
2014	223,853	154,979
2015	231,982	146,849
2016	240,034	138,798
2017	249,125	129,707
2018-2022	1,387,796	506,361
2023-2027	2,027,700	245,289
	\$ 4,576,498	\$ 1,484,806

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

Army Corp of Engineers – Water Rights

Water rights, for 4,241 acre feet in Broken Bow Lake, are financed at a rate of 2.742% by a note with the United States Army Corp of Engineers. The contract requires the purchase price of \$170,189 to be retired over a 27 year period with yearly payments of \$8,764. The principal balance outstanding at June 30, 2012, was \$40,628.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 7,655	\$ 1,109
2014	7,865	899
2015	8,081	683
2016	8,303	461
2017	8,724	40
	\$ 40,628	\$ 3,192

The Authority is obligated for the future use of additional water rights amounting to 4,054 acre feet in Broken Bow Lake. These rights are to be financed at an interest rate of 2.742% through a note with the United States Corp of Engineers. The contract purchase price is \$154,165 and the amounts outstanding at June 30, 2012, is \$141,174. This amount is to be retired over a 27 year period with annual interest only payments of \$4,227 until the Authority's acre feet usage exceeds the first 4,241 acre feet, which has not yet been exceeded, therefore no amortization schedule is available at this time.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Department of Commerce

The Authority has an obligation on an economic development loan from the Oklahoma Department of Commerce related to construction of a wood products manufacturing plant which requires monthly payments of \$1,439. The note has a 0% stated interest rate. The effective interest rates used to amortize the note is 6%. The balance of the note, which includes principal and imputed interest and the related unamortized discounts at June 30, 2012, are \$169,215 and \$41,418, respectively.

Principal payments and imputed interest due on the Oklahoma Department of Commerce note are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 9,827	\$ 7,444	\$ 17,271
2014	10,433	6,838	17,271
2015	11,076	6,195	17,271
2016	11,759	5,512	17,271
2017-2022	12,484	4,787	17,271
2023-2027	<u>72,218</u>	<u>10,642</u>	<u>82,860</u>
	<u>\$ 127,797</u>	<u>\$ 41,418</u>	<u>\$ 169,215</u>

United States Department of Agriculture Rural Development Promissory Note

In November 2007, Broken Bow Public Works Authority issued a \$4,938,000 United States Department of Agriculture Rural Development Promissory Note. Proceeds of the note were used to construct improvements to the City's wastewater system. At June 30, 2012, the note had a balance of \$4,597,613 and an interest rate of 4.375%. Repayment terms will be for forty years at \$21,826 per month beginning December 2007.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal payments and imputed interest due on the United States Department of Agriculture Rural Development Promissory Note are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 62,000	\$ 199,898
2014	64,767	197,130
2015	67,658	194,238
2016	70,679	191,217
2017	73,834	188,061
2018-2022	421,647	887,814
2023-2027	524,540	784,898
2028-2032	652,541	656,867
2033-2037	811,777	497,594
2038-2042	1,009,771	299,453
2046-2046	838,399	66,278
	<u>\$4,597,613</u>	<u>\$4,163,448</u>

Kulli Chito Environmental Authority – Long Term Debt

Oklahoma Department of Commerce

The Authority has obligations on two economic development loans from the Oklahoma Department of Commerce: one for Dominance Industries, Inc., which requires monthly payments of \$1,667 and one for Tyson Foods, Inc., which requires monthly payments of \$1,550. Both notes have a 0% stated interest rate. The effective interest rates used are 5% - 6%. The balance on the notes and the related unamortized discounts at June 30, 2012, are \$235,403 and \$36,218, respectively.

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 28,244	\$ 10,356	\$ 38,600
2014	29,837	8,763	38,600
2015	31,520	7,080	38,600
2016	33,298	5,302	38,600
2017	35,237	3,363	38,600
2018-2021	41,049	1,354	42,403
	<u>\$199,185</u>	<u>\$36,218</u>	<u>\$235,403</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Other long-term debt obligations of the Kulli Chito Environmental Authority are as follows:

First National Bank - 3.85% interest, monthly payments of \$2,238, due September 2013. Proceeds used for the purchase of a sanitation truck. 32,635

McCurtain County National Bank - 2.925% interest, monthly payments of \$3,221, due May 2015. Proceeds used for the purchase of a side loader. 107,821

\$ 140,456

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2012	\$ 35,975	\$ 2,677	\$ 26,058	\$ 800
2013	37,042	1,609	6,577	138
2014	<u>34,804</u>	<u>628</u>	<u>-</u>	<u>-</u>
	<u>\$ 107,821</u>	<u>\$ 4,914</u>	<u>\$ 32,635</u>	<u>\$ 938</u>

Changes in long-term liabilities

Long term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	\$ 181,387	\$ 70,000	\$ 93,585	\$ 157,802	\$ 48,341
Notes Payable	<u>294,920</u>	<u>-</u>	<u>142,876</u>	<u>152,044</u>	<u>140,944</u>
Total Long Term Liabilities	<u>\$ 476,307</u>	<u>\$ 70,000</u>	<u>\$ 236,461</u>	<u>\$ 309,846</u>	<u>\$ 189,285</u>
Business Type Activities:					
Notes Payable	\$ 11,496,248	\$ 57,696	\$ 484,103	\$ 11,069,841	\$ 452,606
Revenue Bonds Payable	<u>6,665,000</u>	<u>-</u>	<u>300,000</u>	<u>6,365,000</u>	<u>300,000</u>
Total Long Term Liabilities	<u>\$ 18,161,248</u>	<u>\$ 57,696</u>	<u>\$ 784,103</u>	<u>\$ 17,434,841</u>	<u>\$ 752,606</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Interest expense was charged to the functions/programs of the primary government as follows:

<i>Business Type Activities</i>		<i>Governmental Activities</i>	
Water	\$ 739,301	Public Safety	\$ 272
Landfill	<u>17,373</u>	Culture and Recreation	10,620
	<u>\$ 756,674</u>	Health and Welfare	<u>4,592</u>
			<u>\$ 15,484</u>

Debt Service Coverage Requirement

The Revenue Bonds and OWRB Promissory Notes require that Net Revenue Available for Debt Service must equal 125% of the maximum annual debt service. Actual coverage was as follows:

Debt Service Coverage Requirement - continued

Net Revenue Available for Debt Service

Operating Revenue	\$ 4,657,841
Operating Expenses	3,091,421
Less: Depreciation Expense	(877,935)
Less: Amortization Expense	<u>(51,782)</u>
Total Operating Expense	2,161,704
Interest Revenue	<u>25,070</u>
Net Revenue Available for Debt Service	<u>\$ 2,521,207</u>

Maximum Annual Debt Service Requirements:

Utility System Sales Tax Revenue Note	\$ 601,258
OWRB SRF Promissory Note, 2006A	121,341
OWRB SRF Promissory Note, 2006B	<u>378,832</u>
Total Debt Service Requirement	<u>\$ 1,101,431</u>

Coverage	<u>229%</u>
Coverage Requirement	<u>125%</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

F. Fund Equity

Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports \$543,967 of restricted net assets, of which \$506,145 is restricted by enabling legislation.

Enabling Legislation:

Cemetery Fund	\$	1,630
Senior Citizens Fund		38,690
Library Fund		465,825
		506,145
	\$	506,145

Deficit Fund Balances

Deficit fund balances of \$69,762 and \$4,490 were reported in the Grant Fund, a major governmental fund, and Nutrition Fund, respectively, as of June 30, 2012.

Governmental Fund Balance Classifications

As of June 30, 2012, fund balances of the Governmental Funds were classified as follows:

Restricted	General	Grant	Other Governmental	Total
Debt Service				
Grant Fund Expenditures	\$ -	\$ -	\$ 38,690	\$ 38,690
Cemetery Care Capital Expenditures	-	-	21,569	21,569
Debt Service	-	-	1,630	1,630
Police Expenditures	-	-	465,825	465,825
Assigned	-	-	16,253	16,253
Special Assessment				
Unassigned	2,151	-	-	2,151
	613,354	(69,762)	(4,490)	539,102
	\$ 615,505	\$ (69,762)	\$ 539,477	\$ 1,085,220

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Firefighters' Retirement Plan

The City contributes to pension plans on behalf of all full time employees including the police and fire departments. Following is a discussion of each plan, and the summary financial data:

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2012. Participating members are required to contribute 8%.

Three Year Trend Information:

Year Ending June 30,	Covered Payroll	Total Pension Cost	City Share	Employee Share	On Behalf Payments
2012	\$ 245,369	\$ 51,527	\$ 31,898	\$ 19,629	\$ -
2011	244,520	51,349	31,787	19,562	60,000
2010	251,858	52,290	31,841	20,449	55,000

As of July 1, 2012, the latest available actuarial valuation, the actuarial present value of credited projected benefits was \$2,886,448,000, and net assets available for benefits were \$1,759,146,000. Unfunded liabilities, which are an obligation of the state of Oklahoma, totaled \$1,127,302,000.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Firefighters' Retirement Plan – continued

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Municipal Retirement Plan

The Oklahoma Municipal Retirement Fund (OMRF) issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements of City of Broken Bow and employees are established and may be amended by the OMRF board. Employees are required to contribute 5.25 percent of their annual covered salary. City of Broken Bow is required to contribute at an actuarially determined rate; the rate at June 30, 2012 is 10.75% of covered payroll.

Annual Pension Cost: For 2011-12, City of Broken Bow's annual pension cost of \$189,158 was equal to the required and actual contributions. The required contribution was determined as part of the March 10, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

Trend Information:

Year Ending June 30,	Contribution Rate	Total Cost (APC)	Contributed	Net Pension Obligation
2012	10.75%	\$ 189,158	100%	\$ -
2011	10.75%	179,210	100%	-
2010	10.75%	158,082	100%	-

Funding Status and Funding Progress: As of March 2012, the most recent actuarial valuation date, the plan was 78.1 percent funded. The actuarial accrued liability for benefits was \$3,432,409, and the actuarial value of assets was \$2,679,628, resulting in an unfunded actuarial accrued liability (UAAL) of \$752,781. The covered payroll (total annualized rate of pay as of the valuation date based on actual pay for the preceding year) was \$1,626,437, and the ratio of the UAAL to the covered payroll was 46.3 percent.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Municipal Retirement Plan – continued

The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis.

The schedule of funding progress, presented as OSI following the notes to the financial statements, present trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

H. Landfill Closure and Post-Closure Care Costs

State laws and regulations require the Kulli Chito Environmental Authority, a blended enterprise fund, to perform certain closure activities for its Broken Bow landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, the Authority reports a portion of the closure and post-closure costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The total closure and post-closure costs are \$1,244,188, as stated by the engineering firm and approved by the Oklahoma Department of Environmental Quality. Of this amount, \$986,011 has been accrued through June 30, 2012. This amount represents the cumulative amount to date based on the use of 91% of the current estimated capacity of the landfill. There are approximately 2.55 landfill life years remaining. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$258,177, as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2012. However, the Authority expects to operate the landfill until at least year 2014. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The Authority sets aside a portion of its net proceeds for financial assurance. As of June 30, 2012, \$1,179,043 has been restricted for payment of future closure and post closure care costs.

I. Risk Management

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

J. Commitments and Contingencies

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2012, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

K. Economic Dependence

The enterprise fund (Broken Bow Public Works Authority) is economically dependent upon major water and electric utility users to produce revenue sufficient to make its debt service payments and fund its operations.

L. Prior Period Adjustment

Certain adjustments were needed to restate the beginning fund balance/net assets of various funds. This restatement is a result of the City changing its financial statement presentation from the accrual basis in the prior year to the modified cash basis in the current year. The schedule below outlines the adjustments:

	As Previously Reported	Restatement	As Restated
<i>Governmental Funds</i>			
<i>General Fund</i>			
Revenue Receivable	253,277	(253,277)	-
Accounts Payable	161,772	(48,419)	113,353
Net Assets	665,147	(204,858)	460,289
<i>Craig Industrial</i>			
Accounts Payable	780	(780)	-
Net Assets	320	780	1,100
<i>Senior Citizens</i>			
Revenue Receivable	24,606	(24,606)	-
Accounts Payable	1,666	(1,666)	-
Net Assets	52,327	(22,940)	29,387
<i>Library</i>			
Revenue Receivable	24,606	(24,606)	-
Accounts Payable	2,844	(2,844)	-
Net Assets	458,248	(21,762)	436,486
<i>Nutrition Fund</i>			
Accounts Payable	637	(637)	-
Net Assets	(6,521)	637	(5,884)

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2012

IV. DETAILED NOTES ON ALL FUNDS - continued

L. Prior Period Adjustment – continued

	As Previously Reported	Restatement	As Restated
<i>Proprietary Funds</i>			
<i>Broken Bow Public Works Authority</i>			
Revenue Receivable	584,361	(584,361)	-
Accounts Payable	94,597	(64,118)	30,479
Compensated Absences	15,245	(15,245)	-
Accrued Interest	104,068	(104,068)	-
Net Assets	13,212,393	(400,930)	12,811,463
<i>Kulli Chito</i>			
Revenue Receivable	52,914	(52,914)	-
Accounts Payable	155,081	(9,341)	145,740
Compensated Absences	1,949	(1,949)	-
Net Assets	1,600,272	(41,624)	1,558,648
<i>Internal Service</i>			
Revenue Receivable	42,311	(42,311)	-
Prepaid Expense	16,580	(16,580)	-
Accounts Payable	63,504	(63,504)	-
Net Assets	357,807	4,613	362,420
<i>Government-Wide</i>			
<i>Governmental Activities</i>			
Revenue Receivable	344,800	(344,800)	-
Prepaid Expense	16,580	(16,580)	-
Accounts Payable	261,506	(117,850)	143,656
Compensated Absences	28,467	(28,467)	-
Net Assets	9,969,055	(215,062)	9,753,993
<i>Business Type Activities</i>			
Revenue Receivable	637,275	(637,275)	-
Accounts Payable	249,678	(73,459)	176,219
Compensated Absences	17,194	(17,194)	-
Accrued Interest	104,068	(104,068)	-
Net Assets	14,812,665	(442,554)	14,370,111

City of Broken Bow, Oklahoma
Unaudited – Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
For the Year Ended June 30, 2012

Actuarial Valuation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio a/b	Covered Payroll c	UAAL as
	Value of Assets a	Liability (AAL) - Entry Age b				a
			b-a			Percentage of Covered Payroll (b-a)/c
1/1/2005	\$ 1,164,886	\$ 1,650,037	\$ 485,151	70.6%	\$ 1,479,690	32.8%
1/1/2006	1,363,571	1,686,147	322,576	80.9%	1,263,699	25.5%
1/1/2007	1,579,674	1,812,069	232,395	87.2%	1,315,886	17.7%
1/1/2008	1,853,705	2,254,630	400,925	82.2%	1,252,939	32.0%
1/1/2009	1,918,393	2,643,857	725,464	72.6%	1,358,560	53.4%
1/1/2010	2,141,125	2,858,553	717,428	74.9%	1,458,669	49.2%
1/1/2011	2,443,255	3,251,926	808,671	75.1%	1,658,433	48.8%
1/1/2012	2,679,628	3,432,409	752,781	78.1%	1,626,437	46.3%

The schedule of funding progress presented above presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Broken Bow, Oklahoma
Budgetary Information
June 30, 2012

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year end; therefore, encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

City of Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund – Modified Cash Basis
For the Year Ended June 30, 2012

	Budget Amounts		Actual Amounts	Variance
	Original	Final		With Final Budget
REVENUE				
Taxes	\$ 1,390,257	\$ 1,390,257	\$ 1,646,876	\$ 256,619
Intergovernmental	182,912	182,912	213,505	30,593
License	89,983	89,983	103,387	13,404
Charges for Service	69,186	69,186	65,638	(3,548)
Fines	179,337	179,337	178,742	(595)
Rent	-	-	560	560
Grant	43,405	43,405	-	(43,405)
Miscellaneous	58,918	98,918	150,392	51,474
Interest	7,012	7,012	4,588	(2,424)
Total Revenue	<u>2,021,010</u>	<u>2,061,010</u>	<u>2,363,688</u>	<u>302,678</u>
EXPENDITURES				
Current				
General Government	375,717	375,717	345,521	30,196
Public Safety	1,567,645	1,567,645	1,508,507	59,138
Streets	759,871	799,871	646,670	153,201
Culture and Recreation	33,195	33,195	25,455	7,740
Cemetery and Parks	326,967	326,967	242,785	84,182
Debt Service	41,690	41,690	40,421	1,269
Total Expenditures	<u>3,105,085</u>	<u>3,145,085</u>	<u>2,809,359</u>	<u>335,726</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,084,075)</u>	<u>(1,084,075)</u>	<u>(445,671)</u>	<u>638,404</u>
Other Financing Sources				
Transfers In	600,000	600,000	600,000	-
Transfers Out	(2,264)	(2,264)	(1,264)	1,000
Total Other Financing Sources	<u>597,736</u>	<u>597,736</u>	<u>598,736</u>	<u>1,000</u>
Net Change in Fund Balances	(486,339)	(486,339)	153,065	639,404
Fund Balances - Beginning	<u>442,762</u>	<u>442,762</u>	<u>460,289</u>	<u>17,527</u>
Fund Balances - Ending	<u>\$ (43,577)</u>	<u>\$ (43,577)</u>	<u>\$ 613,354</u>	<u>\$ 656,931</u>

City of Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Grant Fund – Modified Cash Basis
For the Year Ended June 30, 2012

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With <u>Final Budget</u>
REVENUE				
Grants	\$ 703,116	\$ 587,305	\$ 50,983	\$ (536,322)
Miscellaneous	<u>-</u>	<u>-</u>	<u>17,889</u>	<u>17,889</u>
Total Revenue	703,116	587,305	68,872	(518,433)
EXPENDITURES				
Current				
Public Safety	88,931	-	-	-
Streets	414,000	-	-	-
Culture and Recreation	39,870	244,000	7,075	236,925
Cemetery and Parks	-	-	-	-
Utility Service	<u>455,890</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	998,691	244,000	7,075	236,925
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(295,575)</u>	<u>343,305</u>	<u>61,797</u>	<u>(281,508)</u>
Other Financing Sources				
Transfers In	295,575	-	-	-
Transfers Out	<u>-</u>	<u>(43,405)</u>	<u>-</u>	<u>43,405</u>
Total Other Financing Sources	<u>295,575</u>	<u>(43,405)</u>	<u>-</u>	<u>43,405</u>
Net Change in Fund Balances				
	-	299,900	61,797	(238,103)
Fund Balances - Beginning				
	<u>-</u>	<u>-</u>	<u>(119,083)</u>	<u>(119,083)</u>
Fund Balances - Ending				
	<u>\$ -</u>	<u>\$ 299,900</u>	<u>\$ (57,286)</u>	<u>\$ (357,186)</u>

City of Broken Bow, Oklahoma
Combining Balance Sheet
General Fund – Modified Cash Basis
June 30, 2012

	<u>General</u>	<u>Travel</u>	<u>Craig Industrial</u>	<u>Total</u>
<i>Assets</i>				
Cash and Cash Equivalent	\$ 622,109	\$ 2,032	\$ 2,151	\$ 626,292
Due From Other Funds	<u>47,278</u>	<u>-</u>	<u>-</u>	<u>47,278</u>
Total Assets	<u><u>\$ 669,387</u></u>	<u><u>\$ 2,032</u></u>	<u><u>\$ 2,151</u></u>	<u><u>\$ 673,570</u></u>
<i>Liabilities</i>				
Deposits	\$ 4,000	\$ 2,032	\$ -	\$ 6,032
Bonds Pending Court	13,706	-	-	13,706
Due To Other Funds	<u>38,327</u>	<u>-</u>	<u>-</u>	<u>38,327</u>
Total Liabilities	<u>56,033</u>	<u>2,032</u>	<u>-</u>	<u>58,065</u>
<i>Fund Balances</i>				
Assigned	-	-	2,151	2,151
Unassigned	<u>613,354</u>	<u>-</u>	<u>-</u>	<u>613,354</u>
Total Fund Balances	<u>613,354</u>	<u>-</u>	<u>2,151</u>	<u>615,505</u>
Total Liabilities and Fund Balances	<u><u>\$ 669,387</u></u>	<u><u>\$ 2,032</u></u>	<u><u>\$ 2,151</u></u>	<u><u>\$ 673,570</u></u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund – Modified Cash Basis
For the Year End June 30, 2012

	General	Travel	Craig Industrial	Total
REVENUE				
Taxes	\$ 1,646,876	\$ -	\$ -	\$ 1,646,876
Intergovernmental	213,505	-	-	213,505
License and Permits	103,387	-	-	103,387
Charges for Service	65,638	-	-	65,638
Fines and Forfeitures	178,742	-	-	178,742
Rent	560	-	7,418	7,978
Miscellaneous	150,392	-	-	150,392
Interest	4,588	-	-	4,588
Total Revenue	<u>2,363,688</u>	-	7,418	<u>2,371,106</u>
EXPENDITURES				
<i>Current</i>				
General Government	335,321	-	7,667	342,988
Public Safety	1,478,461	-	-	1,478,461
Streets	610,408	-	-	610,408
Culture and Recreation	19,949	-	-	19,949
Cemetery and Parks	162,239	-	-	162,239
<i>Capital Outlay</i>				
General Government	10,200	-	-	10,200
Public Safety	100,046	-	-	100,046
Streets	36,262	-	-	36,262
Culture and Recreation	5,506	-	-	5,506
Cemetery and Parks	80,546	-	-	80,546
Debt Service	40,421	-	-	40,421
Total Expenditures	<u>2,879,359</u>	-	7,667	<u>2,887,026</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(515,671)	-	(249)	(515,920)
Other Financing Sources				
Capital Lease Financing	70,000	-	-	70,000
Transfers In	600,000	-	1,300	601,300
Transfers Out	(1,264)	-	-	(1,264)
Total Other Financing Sources	<u>668,736</u>	-	1,300	<u>670,036</u>
Net Change in Fund Balances	153,065	-	1,051	154,116
Fund Balances - Beginning, restated	<u>460,289</u>	-	<u>1,100</u>	<u>461,389</u>
Fund Balances - Ending	<u>\$ 613,354</u>	<u>\$ -</u>	<u>\$ 2,151</u>	<u>\$ 615,505</u>

City of Broken Bow, Oklahoma
Combining Balance Sheet – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2012

	<u>Senior Citizens</u>	<u>Airport</u>	<u>Cemetery Care</u>	<u>Library</u>	<u>Police Donation</u>	<u>Nutrition</u>	<u>Total</u>
Assets							
Cash	\$ 31,441	\$ 110	\$ 1,630	\$ 465,825	\$ 9,602	\$ (4,490)	\$ 504,118
Due From Other Funds	<u>7,249</u>	<u>21,459</u>	<u>-</u>	<u>-</u>	<u>6,651</u>	<u>-</u>	<u>35,359</u>
 Total Assets	 <u>\$ 38,690</u>	 <u>\$ 21,569</u>	 <u>\$ 1,630</u>	 <u>\$ 465,825</u>	 <u>\$ 16,253</u>	 <u>\$ (4,490)</u>	 <u>\$ 539,477</u>
Fund Balances							
Restricted	38,690	21,569	1,630	465,825	16,253	-	543,967
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,490)</u>	<u>(4,490)</u>
 Total Fund Balances	 <u>38,690</u>	 <u>21,569</u>	 <u>1,630</u>	 <u>465,825</u>	 <u>16,253</u>	 <u>(4,490)</u>	 <u>539,477</u>
 Total Liabilities and Fund Balances	 <u>\$ 38,690</u>	 <u>\$ 21,569</u>	 <u>\$ 1,630</u>	 <u>\$ 465,825</u>	 <u>\$ 16,253</u>	 <u>\$ (4,490)</u>	 <u>\$ 539,477</u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2012

	Senior Citizens	Airport	Cemetery Care	Library	Police Donation	Nutrition	Total
REVENUE							
Taxes	\$ 193,227	\$ -	\$ -	\$ 193,227	\$ -	\$ -	\$ 386,454
Rent	350	-	-	-	-	-	350
Grant	-	-	-	-	-	60,454	60,454
Miscellaneous	2,529	(1)	570	104	-	-	3,202
Interest	-	-	-	5,453	-	-	5,453
Total Revenue	196,106	(1)	570	198,784	-	60,454	455,913
EXPENDITURES							
<i>Current</i>							
Culture and Recreation	-	-	-	85,163	-	-	85,163
General Government	113,958	-	-	-	-	-	113,958
<i>Capital Outlay</i>							
General Government	3,300	-	-	-	-	-	3,300
Health and Welfare	-	-	-	-	-	60,324	60,324
Debt Service	69,545	-	-	84,282	-	-	153,827
Total Expenditures	186,803	-	-	169,445	-	60,324	416,572
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,303	(1)	570	29,339	-	130	39,341
Other Financing Sources							
Transfers In	-	-	-	-	-	1,264	1,264
Transfers Out	-	-	-	-	-	-	-
Total Other Financing Sources	-	-	-	-	-	1,264	1,264
Net Change in Fund Balances	9,303	(1)	570	29,339	-	1,394	40,605
Fund Balances - Beginning, restated	29,387	21,570	1,060	436,486	16,253	(5,884)	498,872
Fund Balances - Ending	<u>\$ 38,690</u>	<u>\$ 21,569</u>	<u>\$ 1,630</u>	<u>\$ 465,825</u>	<u>\$ 16,253</u>	<u>\$ (4,490)</u>	<u>\$ 539,477</u>



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

To the City Council
City of Broken Bow, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Broken Bow, Oklahoma's basic financial statements and have issued our report thereon dated March 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Broken Bow, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Broken Bow, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Broken Bow, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Broken Bow, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Broken Bow, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-1.

We noted certain matters that we reported to management of City of Broken Bow, Oklahoma, in a separate letter dated March 20, 2013.

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

A handwritten signature in black ink that reads "HBC CPAs & Advisors".

Yukon, Oklahoma
March 20, 2013

**CITY OF BROKEN BOW, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

Matters Communicated in Prior Years

2012-1 Deficit Fund Balance

Condition – There was a deficit fund balance of \$4,490 in Fund 306 – Nutrition Fund – at June 30, 2012.

Criteria – Title 11, Section 17-211: It shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund.

Effect – There is a deficit balance in the Nutrition Fund at June 30, 2012.

Cause – Inadequate monitoring of financial statements.

Recommendation – We recommend that management monitor budget to prevent and detect fund deficits.

View of responsible officials – Management agrees and will review monitoring procedures in this area.

City of Broken Bow, Oklahoma
Summary Schedule of Prior Year Findings and Responses
June 30, 2012

2011-1 Deficit fund balance in the Nutrition Fund.

See Current Year Finding 2012-1

2011-2 Expenditures had invoice dates prior to purchase order dates, and there were lack of receipt of goods signatures for expenditures.

Not a current year finding.