



CITY OF OKEMAH, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR
ENDED JUNE 30, 2014

**THE CITY OF OKEMAH,
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Okemah, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City") as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

Basis of Accounting

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

Other Matters

Report on Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The management's discussion and analysis, budgetary comparison information, the non-major governmental funds combining schedules—modified cash basis, schedules of expenditures of federal and state awards, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis on pages 7 through 16, and the budgetary comparison information on page 48 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 it.

The non-major governmental funds combining schedules—modified cash basis, schedules of expenditures of federal and state awards, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive style with a large, looping initial 'F'.

Shawnee, Oklahoma
October 30, 2014

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MANAGEMENT DISCUSSION AND ANALYSIS

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The management of the City of Okemah is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities for the year ended June 30, 2014. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analysis in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$0.8 million, and the assets of the City exceed its liabilities at June 30, 2014, by \$19.5 million (net position). Of this amount, \$2 million (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2014, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$1.8 million.
- At the end of fiscal year 2014, unassigned fund balance on a modified cash basis for the General Fund was \$42,895 or 3% of General Fund revenues.

About the City

The City of Okemah is an incorporated municipality with a population of approximately 3,085 located in central Oklahoma. The City is a home rule charter form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, sewer, and sanitation and economic development services.

The City's Financial Reporting Entity

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

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

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City, with such activities reported in the General Fund and various other governmental funds.

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- **The Okemah Utilities Authority (OUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Okemah is the beneficiary of the trust and the City Council serves as the governing body of the trust. The OUA is currently reported as an enterprise fund.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the City Council members serving as the trustees. The OEDA is currently reported as an enterprise fund.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Okemah (the “City”), the Okemah Utilities Authority (the “Authority”) and the Okemah Economic Development Authority (OEDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, along with fund financial statements for the City (governmental funds) and the OUA and OEDA (enterprise funds).

The government-wide financial statements present the complete financial picture of the City using the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt), arising from cash transactions. They present governmental and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

These two government-wide statements report the City’s net position and changes in them from the prior year. You can think of the City’s net position – the difference between assets and liabilities– as one way to measure the City’s financial condition, or position. Over time, increases or decreases in the City’s net position are one indicator of whether its financial health is improving, deteriorating, or remaining steady.

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However, you must consider other nonfinancial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, in the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities -- The City typically charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, and sanitation activities and economic development activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Governmental funds -- Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

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Proprietary funds – When the City, mainly through the Utilities Authority, charges customers for the services it provides, these services are generally reported in a type of proprietary fund known as an “enterprise fund”. The City’s proprietary-type enterprise funds are reported on the modified cash basis of accounting, with the exception of enterprise fund capital assets which are capitalized and depreciated, and principal payments on long-term debt which are recorded as a reduction to the liability. The City’s proprietary-type enterprise funds are the Okemah Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities as well as the Okemah Economic Development Authority that accounts for economic development activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28-46 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Management’s Discussion and Analysis, a Budgetary Comparison Schedule for the General Fund, federal and state award schedules, and debt service coverage and debt reserve schedules.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the primary government, on a modified cash basis, assets exceeded liabilities by \$19.5 million at the close of the most recent fiscal year.

NET POSITION - Modified Cash Basis (In Thousands)

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Current assets	\$ 1,809	\$ 1,507	20%	\$ 1,989	\$ 1,950	2%	\$ 3,798	\$ 3,457	10%
Capital assets, net	6,064	5,990	1%	14,072	14,294	-2%	20,136	20,284	-1%
Total assets	<u>7,873</u>	<u>7,497</u>	5%	<u>16,061</u>	<u>16,244</u>	-1%	<u>23,934</u>	<u>23,741</u>	1%
Current liabilities	11	-	100%	687	1,283	-46%	698	1,283	-46%
Non-current liabilities	16	-	100%	3,692	3,724	-1%	3,708	3,724	0%
Total liabilities	<u>27</u>	<u>-</u>	100%	<u>4,379</u>	<u>5,007</u>	-13%	<u>4,406</u>	<u>5,007</u>	-12%
Net position									
Net investment in capital assets	6,037	5,989	1%	9,786	9,376	4%	15,823	15,365	3%
Restricted	1,035	759	36%	620	702	-12%	1,655	1,461	13%
Unrestricted	773	749	3%	1,277	1,159	10%	2,050	1,908	7%
Total net position	<u>\$ 7,845</u>	<u>\$ 7,497</u>	5%	<u>\$11,683</u>	<u>\$ 11,237</u>	4%	<u>\$ 19,528</u>	<u>\$ 18,734</u>	4%

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The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2014, this net investment in capital assets, amounted to \$15.8 million. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net position, \$1.7 million, also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is available to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for both the governmental and business-type activities.

Governmental Activities:

The 36% increase in restricted net position (about \$276,000) and the 20% increase in current assets were due mainly to a decrease in capital project expenses paid out of restricted capital improvement funds.

Business-Type Activities:

Current liabilities decreased 46% (about \$596,000) resulting from a balloon payment due in fiscal year 2014 on the 2004 Sales Tax Revenue Note that was refinanced. The refinancing extended the loan until 2019.

Changes in Net Position

For the year ended June 30, 2014, on the modified cash basis of accounting, net position of the primary government changed as follows:

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CHANGES IN NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Revenues									
Charges for service	\$ 51	\$ 42	21%	\$ 2,128	\$ 2,023	5%	\$ 2,179	\$ 2,065	6%
Operating grants and contributions	58	47	23%	-	-	-	58	47	23%
Capital grants and contributions	322	644	-50%	-	92	-100%	322	736	-56%
Taxes	1,290	1,289	0%	-	-	-	1,290	1,289	0%
Intergovernmental revenue	53	53	0%	-	-	-	53	53	0%
Investment income	8	7	14%	4	6	-33%	12	13	-8%
Miscellaneous	99	80	24%	30	15	100%	129	95	36%
Total revenues	1,881	2,162	-13%	2,162	2,136	1%	4,043	4,298	-6%
Expenses									
General government	225	355	-37%	-	-	-	225	355	-37%
Public safety	776	698	11%	-	-	-	776	698	11%
Streets	301	237	27%	-	-	-	301	237	27%
Cemetery	64	55	16%	-	-	-	64	55	16%
Culture and Recreation	113	109	4%	-	-	-	113	109	4%
Economic development	-	-	-	141	123	15%	141	123	15%
Interest on long-term debt	1	7	-86%	-	-	-	1	7	-86%
Water	-	-	-	954	793	20%	954	793	20%
Sewer	-	-	-	572	522	10%	572	522	10%
Sanitation	-	-	-	214	222	-4%	214	222	-4%
Total expenses	1,480	1,461	1%	1,881	1,660	13%	3,361	3,121	8%
Excess (deficiency) before transfers and special item	401	701	-43%	281	476	-41%	682	1,177	-42%
Special item - gain on sale of land	112	-	100%	-	-	-	112	-	100%
Transfers	(165)	(173)	-5%	165	173	-5%	-	-	-
Change in net position	348	528	-34%	446	649	-31%	794	1,177	-33%
Beginning net position	7,497	6,969	8%	11,237	10,588	6%	18,734	17,557	7%
Ending net position	\$ 7,845	\$ 7,497	5%	\$ 11,683	\$11,237	4%	\$ 19,528	\$ 18,734	4%

Governmental Activities

The City's governmental activities had an increase in net position, on the modified cash basis of accounting, of approximately \$348,000. The increase is due in part to \$282,000 received in an airport grant and \$40,000 received in a street grant. The 50% decline in capital grants was mainly due to a \$553,000 street grant received in the prior year offset by the receipt of an airport grant in the current year as previously mentioned. General government expenses were 37% lower due to uncapitalized capital outlay for an airport plan and demolition of a building in the prior year. The special item of \$112,000 resulted from the sale of land for \$112,000 to be used to construct a hospital.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
General government	\$ 225	\$ 355	-37%	\$62	(\$259)	-124%
Public safety	776	698	11%	(744)	(679)	-10%
Streets	301	237	27%	(229)	345	166%
Cemetery	64	55	16%	(43)	(37)	-16%
Culture and Recreation	113	109	4%	(92)	(91)	-1%
Interest on long-term debt	1	7	-86%	(1)	(7)	86%
Total	<u>\$ 1,480</u>	<u>\$ 1,461</u>	1%	<u>(\$1,047)</u>	<u>(\$728)</u>	-44%

Explanations for significant changes in net revenue/expense for governmental activities are noted on the previous page.

Business-type Activities

The business-type activities, on the modified cash basis of accounting, had an increase in net position of approximately \$446,000. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2014 were sufficient to cover expenses except for Economic Development which had a decline in grant revenues of \$92,000 and an increase in expenses of \$18,000 which explains the \$107,000 increase in net expense. The Water activity had a 20% increase (\$161,000) in expenses mainly due to payment of a judgment of \$195,000 to Rural Water District #3. The Wastewater activity reported a 40% decrease (\$83,000) in net revenue/expense due to 1) increase of \$20,000 in interest expense since this is the first full year of debt service payments on the 2011 note issue; 2) increase in depreciation expense of \$30,000 due to first full year of depreciation on flow equalization basin; and 3) decrease of \$30,000 in sewer revenues.

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Water	\$ 954	\$ 793	20%	\$ 158	\$ 171	-8%
Wastewater	572	522	10%	123	206	-40%
Sanitation	214	222	-4%	80	88	-9%
Economic Development	141	123	15%	(117)	(10)	1070%
Total	<u>\$ 1,881</u>	<u>\$ 1,660</u>	13%	<u>\$ 244</u>	<u>\$ 455</u>	-46%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2014 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$1.8 million or a 20% increase. The increase is mainly the result of proceeds of \$112,000 from the sale of land to be used for constructing a hospital. The OUA and OEDA enterprise funds reported, on a modified cash basis of accounting, combined net position of \$11.7 million or a 4% increase from 2013.

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Other fund highlights include:

- For the year ended June 30, 2014, the General Fund’s total fund balance decreased by about \$97,000 or 18% which continues a declining trend from the prior year. The continuing decline can be attributed to lower net revenues caused by increased expenditures.
- Proprietary-type enterprise funds net position restriction included approximately \$620,000 for debt service.

Budgetary Highlights

For the year ended June 30, 2014, the General Fund reported actual budgetary basis revenues over final estimates by about \$214,000 or a 13% positive variance which was due mainly to sales tax revenues exceeding final estimates. General Fund actual expenditures were under final appropriations by \$24,000 or a 1.2% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2014, the City had \$20.1 million invested in capital assets (net of depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net decrease of approximately \$149,000 over last year.

	Capital Assets (In Thousands) (Net of accumulated depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 445	\$ 445	\$ 1,738	\$ 1,738	\$ 2,183	\$ 2,183
Buildings	566	591	5,548	5,662	6,114	6,253
Imp. other than buildings	1,235	1,254	2,811	2,871	4,046	4,125
Machinery, furniture and equipment	485	538	252	304	737	842
Infrastructure	2,382	2,053	-	-	2,382	2,053
Utility property	-	-	3,669	3,673	3,669	3,673
Construction in progress	951	1,109	53	46	1,004	1,155
Totals	<u>\$ 6,064</u>	<u>\$ 5,990</u>	<u>\$ 14,071</u>	<u>\$ 14,294</u>	<u>\$ 20,135</u>	<u>\$ 20,284</u>

This year’s more significant capital asset additions included:

Industrial Park Tower Repair	\$119,025
Street resurfacing	401,552

See Note 3 to the financial statements for more detail information on the City’s capital assets and changes therein.

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Long- Term Debt

At year-end, the City had \$4.3 million in long-term debt outstanding which represents a \$610,000 or 12.4% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

	Long-Term Debt (In Thousands)						Total Percentage Change
	Governmental Activities		Business-Type Activities		Total		
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
Notes payable	\$ -	\$ -	\$ 4,286	\$ 4,923	\$ 4,286	\$ 4,923	-12.9%
Capital leases	27	-	-	-	27	-	100.0%
Totals	\$ 27	\$ -	\$ 4,286	\$ 4,923	\$ 4,313	\$ 4,923	-12.4%

The decrease was the result of normal debt service payments.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2014 budget is consistent to prior years for operational expenses.
- A \$770,000 EDA grant used for construction of roadways to further industrial development is scheduled to be completed by September 1, 2014.
- The OEDA has refinanced the 2004 Taxable Revenue Note and note will be paid in full in 2018.
- A Wal Mart Express will soon begin construction with the opening schedule in January 2015. The budget does not include increased revenues related to the opening of the store.
- The Muscogee Creek Nation has broken ground and will begin construction of a new hospital during fiscal year 2015.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 502 W. Broadway, Okemah, Oklahoma 74859-2400 or telephone at 918-623-1050.

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Statement of Net Position (Modified Cash Basis)– June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 658,985	\$ 1,481,203	\$ 2,140,188
Investments	1,185,275	470,995	1,656,270
Notes receivable	-	2,300	2,300
Internal Balances	(35,613)	35,613	-
Capital Assets:			
Land and construction in progress	1,395,538	1,791,182	3,186,720
Other capital assets, net of depreciation	4,668,589	12,280,357	16,948,946
Total Assets	<u>7,872,774</u>	<u>16,061,650</u>	<u>23,934,424</u>
LIABILITIES			
Meter deposit liability	-	93,337	93,337
Due to other governments	204	-	204
Long-term liabilities			
Due within one year	10,575	593,663	604,238
Due in more than one year	16,462	3,691,887	3,708,349
Total liabilities	<u>27,241</u>	<u>4,378,887</u>	<u>4,406,128</u>
NET POSITION			
Net investment in capital assets	6,037,089	9,785,989	15,823,078
Restricted for:			
Debt Service	-	619,519	619,519
Capital projects	814,863	-	814,863
Streets	39,242	-	39,242
Cemetery	152,213	-	152,213
Library	28,978	-	28,978
Unrestricted	773,148	1,277,255	2,050,403
Total net position	<u>\$ 7,845,533</u>	<u>\$ 11,682,763</u>	<u>\$ 19,528,296</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Statement of Activities (Modified Cash Basis) –Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 225,498	\$ 6,107	\$ -	\$ 281,594	\$ 62,203	\$ -	\$ 62,203
Public Safety	775,628	16,832	14,474	-	(744,322)	-	(744,322)
Streets	300,769	-	31,389	40,000	(229,380)	-	(229,380)
Cemetery	64,254	20,801	-	-	(43,453)	-	(43,453)
Culture and Recreation	112,836	6,886	13,630	-	(92,320)	-	(92,320)
Interest on Long-term debt	519	-	-	-	(519)	-	(519)
Total governmental activities	<u>1,479,504</u>	<u>50,626</u>	<u>59,493</u>	<u>321,594</u>	<u>(1,047,791)</u>	<u>-</u>	<u>(1,047,791)</u>
Business-type activities:							
Water	953,880	1,112,365	-	-	-	158,485	158,485
Wastewater	572,510	695,518	-	-	-	123,008	123,008
Sanitation	213,527	294,626	-	-	-	81,099	81,099
Economic Development	141,490	24,867	-	-	-	(116,623)	(116,623)
Total business-type activities	<u>1,881,407</u>	<u>2,127,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,969</u>	<u>245,969</u>
Total primary government	<u>3,360,911</u>	<u>2,178,002</u>	<u>59,493</u>	<u>321,594</u>	<u>(1,047,791)</u>	<u>245,969</u>	<u>(801,822)</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,207,890	\$ -	\$ 1,207,890
Franchise taxes and public service taxes					81,898	-	81,898
Intergovernmental revenue not restricted to specific programs					53,266	-	53,266
Unrestricted investment earnings					7,586	4,326	11,912
Miscellaneous					98,914	29,850	128,764
Special Item - gain on sale of land					112,000	-	112,000
Transfers					(165,433)	165,433	-
Total general revenues and transfers					<u>1,396,121</u>	<u>199,609</u>	<u>1,595,730</u>
Change in net position					348,330	445,578	793,908
Net position - beginning					7,497,203	11,237,185	18,734,388
Net position - ending					<u>\$ 7,845,533</u>	<u>\$ 11,682,763</u>	<u>\$ 19,528,296</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Governmental Funds Balance Sheet (Modified Cash Basis)- June 30, 2014

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 192,969	\$ 369,027	\$ 96,989	\$ 658,985
Investments	427,106	612,000	146,169	1,185,275
Due from other funds	29,904	163,342	6,145	199,391
Total assets	<u>649,979</u>	<u>1,144,369</u>	<u>249,303</u>	<u>2,043,651</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	217,797	17,207	-	235,004
Payable to other governments	204	-	-	204
Total liabilities	<u>218,001</u>	<u>17,207</u>	<u>-</u>	<u>235,208</u>
Fund balances:				
Restricted	-	814,863	220,433	1,035,296
Assigned	389,083	312,299	28,870	730,252
Unassigned	42,895	-	-	42,895
Total fund balances	<u>431,978</u>	<u>1,127,162</u>	<u>249,303</u>	<u>1,808,443</u>
Total liabilities and fund balances	<u>\$ 649,979</u>	<u>\$ 1,144,369</u>	<u>\$ 249,303</u>	<u>\$ 2,043,651</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2014

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,289,788	\$ -	\$ -	\$ 1,289,788
Intergovernmental	67,740	321,594	45,019	434,353
Charges for services	22,407	-	5,660	28,067
Fees and fines	16,357	-	335	16,692
Licenses and permits	5,867	-	-	5,867
Investment earnings	2,369	4,593	624	7,586
Miscellaneous	96,164	112,000	2,750	210,914
Total revenues	<u>1,500,692</u>	<u>438,187</u>	<u>54,388</u>	<u>1,993,267</u>
EXPENDITURES				
Current:				
General government	150,995	-	-	150,995
Public Safety:				
Police	313,537	-	-	313,537
Fire	37,629	-	6,238	43,867
Police Dispatcher	165,100	-	-	165,100
Civil Defense	59,857	-	-	59,857
Police - COPS Grant	32,094	-	-	32,094
Animal Control	54,654	-	-	54,654
Code Enforcement	17,234	-	-	17,234
Cemetery	58,585	-	-	58,585
Streets	122,739	-	22,575	145,314
Culture and recreation:				
Library	53,720	-	14,290	68,010
Park and recreation	4,789	-	-	4,789
Swimming pool	22,255	-	-	22,255
Capital Outlay	2,070	407,349	7,450	416,869
Debt Service:				
Principal	-	5,133	-	5,133
Interest and other charges	-	519	-	519
Total Expenditures	<u>1,095,258</u>	<u>413,001</u>	<u>50,553</u>	<u>1,558,812</u>
Excess (deficiency) of revenues over expenditures	<u>405,434</u>	<u>25,186</u>	<u>3,835</u>	<u>434,455</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	32,170	-	32,170
Transfers in	330,866	330,866	6,238	667,970
Transfers out	(833,403)	-	-	(833,403)
Total other financing sources and uses	<u>(502,537)</u>	<u>363,036</u>	<u>6,238</u>	<u>(133,263)</u>
Net change in fund balances	(97,103)	388,222	10,073	301,192
Fund balances - beginning	529,081	738,940	239,230	1,507,251
Fund balances - ending	<u>\$ 431,978</u>	<u>\$ 1,127,162</u>	<u>\$ 249,303</u>	<u>\$ 1,808,443</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Reconciliation of Governmental Funds and Government-Wide Financial Statements- (Modified Cash Basis):

Total fund balance, governmental funds	\$	1,808,443
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		
		6,064,127
Some liabilities, (Capital Leases), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		
		(27,037)
 Net Position of Governmental Activities	 <u>\$</u>	 <u>7,845,533</u>
 Net change in fund balances - total governmental funds:	 \$	 301,192
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		388,430
Depreciation expense		(314,255)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Principal payments on long-term debt		5,133
Proceeds of long-term debt		(32,170)
 Change in net position of governmental activities	 <u>\$</u>	 <u>348,330</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

BASIC FINANCIAL STATEMENTS – PROPRIETARY-TYPE ENTERPRISE FUNDS

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Proprietary Funds Statement of Net Position (Modified Cash Basis) - June 30, 2014

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 786,324	\$ 52,193	\$ 838,517
Investments	387,290	13,535	400,825
Restricted:			
Cash and cash equivalents	498,253	11,718	509,971
Investments	70,170	-	70,170
Due from other funds	33,975	31,542	65,517
Notes receivable	-	2,300	2,300
Total current assets	<u>1,776,012</u>	<u>111,288</u>	<u>1,887,300</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	132,715	-	132,715
Capital Assets:			
Land and construction in progress	1,520,000	271,182	1,791,182
Other capital assets, net of accumulated depreciation	9,918,565	2,361,792	12,280,357
Total non-current assets	<u>11,571,280</u>	<u>2,632,974</u>	<u>14,204,254</u>
Total assets	<u>13,347,292</u>	<u>2,744,262</u>	<u>16,091,554</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	29,904	-	29,904
Meter deposit liability	93,337	-	93,337
Current portion of:			
Notes payable	460,030	133,633	593,663
Total current liabilities	<u>583,271</u>	<u>133,633</u>	<u>716,904</u>
Non-current liabilities:			
Notes payable	2,960,600	731,287	3,691,887
Total non-current liabilities	<u>2,960,600</u>	<u>731,287</u>	<u>3,691,887</u>
Total liabilities	<u>3,543,871</u>	<u>864,920</u>	<u>4,408,791</u>
NET POSITION			
Net investment in capital assets	8,017,935	1,768,054	9,785,989
Restricted for debt service	607,801	11,718	619,519
Unrestricted	1,177,685	99,570	1,277,255
Total net position	<u>\$ 9,803,421</u>	<u>\$ 1,879,342</u>	<u>\$ 11,682,763</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) - Year Ended June 30, 2014

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
REVENUES			
Charges for services:			
Water	\$ 1,041,601	\$ -	\$ 1,041,601
Sewer	695,518	-	695,518
Sanitation	294,626	-	294,626
Penalties	20,429	-	20,429
Rents and leases	14,160	24,867	39,027
Camping fees	21,735	-	21,735
Lake permits	14,440	-	14,440
Total operating revenues	<u>2,102,509</u>	<u>24,867</u>	<u>2,127,376</u>
OPERATING EXPENSES			
Administration	259,058	-	259,058
Water treatment plant	557,650	-	557,650
Distribution and maintenance	63,395	-	63,395
Sewer collection	51,420	-	51,420
Lake	63,030	-	63,030
Wastewater treatment plant	145,720	-	145,720
Sanitation	165,931	-	165,931
Economic development	-	39,465	39,465
Depreciation	339,405	40,960	380,365
Total Operating Expenses	<u>1,645,609</u>	<u>80,425</u>	<u>1,726,034</u>
Operating income (loss)	<u>456,900</u>	<u>(55,558)</u>	<u>401,342</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	4,122	204	4,326
Interest expense	(94,308)	(41,065)	(135,373)
Note issue costs	-	(20,000)	(20,000)
Miscellaneous revenue	26,172	3,678	29,850
Total non-operating revenue (expenses)	<u>(64,014)</u>	<u>(57,183)</u>	<u>(121,197)</u>
Income (loss) before transfers	392,886	(112,741)	280,145
Transfers in	330,866	165,433	496,299
Transfers out	(330,866)	-	(330,866)
Change in net position	392,886	52,692	445,578
Total net position - beginning	9,410,535	1,826,650	11,237,185
Total net position - ending	<u>\$ 9,803,421</u>	<u>\$ 1,879,342</u>	<u>\$ 11,682,763</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2014

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2014

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,128,681	\$ 28,545	\$ 2,157,226
Payments to suppliers	(825,556)	(39,465)	(865,021)
Payments to employees	(480,648)	-	(480,648)
Receipts of customer meter deposits	23,381	-	23,381
Refunds of customer meter deposits	(19,835)	-	(19,835)
Interfund receipts/payments	1,234	(14,335)	(13,101)
Net cash provided by (used in) operating activities	<u>827,257</u>	<u>(25,255)</u>	<u>802,002</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	(330,866)	165,433	(165,433)
Transfers to other funds	330,866	-	330,866
Net cash provided by noncapital financing activities	<u>-</u>	<u>165,433</u>	<u>165,433</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(150,780)	(7,500)	(158,280)
Proceeds from debt	-	645,000	645,000
Debt issue costs paid	-	(20,000)	(20,000)
Principal paid on debt	(449,682)	(833,209)	(1,282,891)
Interest and fiscal agent fees paid on debt	(88,138)	(41,065)	(129,203)
Net cash provided by (used in) capital and related financing activities	<u>(688,600)</u>	<u>(256,774)</u>	<u>(945,374)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(200,293)	(40)	(200,333)
Interest and dividends	4,122	204	4,326
Net cash provided by (used in) investing activities	<u>(196,171)</u>	<u>164</u>	<u>(196,007)</u>
Net increase (decrease) in cash and cash equivalents	(57,514)	(116,432)	(173,946)
Balances - beginning of year	<u>1,474,806</u>	<u>180,343</u>	<u>1,655,149</u>
Balances - end of year	<u>\$ 1,417,292</u>	<u>\$ 63,911</u>	<u>\$ 1,481,203</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	786,324	52,193	838,517
Restricted cash and cash equivalents - current	498,253	11,718	509,971
Restricted cash and cash equivalents - noncurrent	132,715	-	132,715
Total cash and cash equivalents, end of year	<u>1,417,292</u>	<u>63,911</u>	<u>1,481,203</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 456,900	\$ (55,558)	\$ 401,342
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	339,405	40,960	380,365
Miscellaneous revenue	26,172	3,678	29,850
Change in assets and liabilities:			
Due from other funds	(28,670)	(14,335)	(43,005)
Due to other funds	29,904	-	29,904
Deposits subject to refund	3,546	-	3,546
Net cash provided by (used in) operating activities	<u>\$ 827,257</u>	<u>\$ (25,255)</u>	<u>\$ 802,002</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes three separate legal entities reported as the primary government. The two public trust Authorities listed below are classified as blended component unit enterprise funds because (1) the City Council serves as trustees of the Authorities; (2) all debt obligations of the Authority must be approved by 2/3rds vote of the City Council; and (3) the Authorities are managed by City management.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities.
- **The Okemah Utilities Authority** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary that operates the water, sewer, and sanitation services of the City. The OUA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary to provide economic development opportunities, in or near the City. The OEDA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and Statement No. 61, *The Financial Reporting Entity: Omnibus* and includes all component units for which the City is financially accountable.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

CITY OF OKEMAH, OKLAHOMA
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- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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

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

- General government: License and permits, and airport capital grants
- Public safety: Fine revenue, EMPG operating grants
- Streets and highways: Gas excise and commercial vehicle taxes and OEDA capital grant
- Cemetery: Cemetery lot sales and interments
- Culture and recreation: Swimming pool fees, library fines, and library operating grants
- Economic development: rents and leases

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets

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

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.

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- Capital Improvement Fund – (Capital Project Fund) accounts for funds designated for capital outlay and debt service on capital related debt. One cent sales tax is being transferred to this fund for capital improvements as required by voter-restriction.

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

Special Revenue Funds:

- Rural Fire Fund - accounts for rural fire run fees and grants restricted for fire operations.
- Library Fund - accounts for all library revenue retained for library use only.
- Street and Alley Fund - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.

Capital Project Fund:

- Cemetery Perpetual Fund - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

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

Proprietary Funds:

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

Okemah Utilities Authority Enterprise Fund-further split into separate enterprise accounts for internal reporting purposes as follows:

- Okemah Utilities Authority Gross Revenue Account – accounts for the operation of the water, sewer, and sanitation activities.
- Okemah Capital Reserve Account – accounts for money set aside by council as a savings tool.
- Okemah Bond Account – accounts for the transfer of one cent sales tax restricted for debt service on OUA debt.

Okemah Economic Development Authority Enterprise Fund:

- Okemah Economic Development Authority Fund – accounts for activities related to promoting economic development.

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund type operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2000, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2000 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40-50 years
- Improvements other than buildings 10-25 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 10-50 years
- Infrastructure 5-50 years

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 12.

G. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

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

Net position is displayed in three components:

- a. *Net investment in capital assets*- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

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c. *Unrestricted net position* - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2014, the City recognized \$11,912 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2014, the primary government held the following deposits and investments:

<u>Type</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:		
Petty cash		942
Demand deposits		1,883,204
Time deposits - certificates of deposit		1,656,270
Investments:		
Cavanal Hill US Treasury Fund	AAAm	256,042
Total deposits and investments		<u><u>\$ 3,796,458</u></u>
Reconciliation to Statement of Net Position:		
Cash and cash equivalents		\$ 2,140,188
Investments		<u>1,656,270</u>
		<u><u>\$ 3,796,458</u></u>

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Custody Credit Risk

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

As of June 30, 2014, the City had no uninsured deposits and was not exposed to Custody Credit Risk.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. All time deposits will mature within the next 12 months.

At June 30, 2014, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

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 trusts.

As of June 30, 2014, the City's investments consisted of \$256,042 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AAAM as rated by Standard and Poor's.

Concentration of Investment Credit Risk

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

At June 30, 2014, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for debt service, debt reserve, or utility deposit purposes. The restricted assets as of June 30, 2014 are as follows:

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	Current		Noncurrent
	Cash and cash equivalents	Investments	Cash and cash equivalents
Utility Deposits	\$ 23,167	\$ 70,170	\$ -
Taxable revenue note debt	11,718	-	-
OWRB debt service	475,086	-	132,715
Total	\$ 509,971	\$ 70,170	\$ 132,715

3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. For the year ended June 30, 2014, capital assets balances changed as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 444,708	\$ -	\$ -	\$ 444,708
Construction in progress	1,109,264	270,130	428,564	950,830
Total capital assets not being depreciated	1,553,972	270,130	428,564	1,395,538
Other capital assets:				
Buildings	1,719,203	-	-	1,719,203
Improvements	1,678,833	32,162	-	1,710,995
Infrastructure	5,681,486	451,077	-	6,132,563
Machinery, furniture and equipment	1,842,671	63,625	-	1,906,296
Total other capital assets at historical cost	10,922,193	546,864	-	11,469,057
Less accumulated depreciation for:				
Buildings	1,128,194	25,385	-	1,153,579
Improvements	424,670	51,007	-	475,677
Infrastructure	3,628,530	121,752	-	3,750,282
Machinery, furniture and equipment	1,304,819	116,111	-	1,420,930
Total accumulated depreciation	6,486,213	314,255	-	6,800,468
Other capital assets, net	4,435,980	232,609	-	4,668,589
Governmental activities capital assets, net	\$ 5,989,952	\$ 502,739	\$ 428,564	\$ 6,064,127
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	45,682	7,500	-	53,182
Total capital assets not being depreciated	1,783,682	7,500	-	1,791,182
Other capital assets:				
Buildings	8,460,062	-	-	8,460,062
Improvements	2,936,861	-	-	2,936,861
Machinery, furniture and equipment	810,980	31,755	-	842,735
Utility property	8,133,690	119,025	-	8,252,715
Total other capital assets at historical cost	20,341,593	150,780	-	20,492,373
Less accumulated depreciation for:				
Buildings	2,798,312	113,637	-	2,911,949
Improvements	66,334	59,368	-	125,702
Machinery, furniture and equipment	506,554	84,249	-	590,803
Utility Property Improvements	4,460,451	123,111	-	4,583,562
Total accumulated depreciation	7,831,651	380,365	-	8,212,016
Other capital assets, net	12,509,942	(229,585)	-	12,280,357
Business-type activities capital assets, net	\$ 14,293,624	\$ (222,085)	\$ -	\$ 14,071,539

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

Governmental Activities:		Business-Type Activities:	
General government	69,192	Water	146,790
Public safety	77,346	Sewer	181,318
Highways and streets	147,292	Sanitation	11,297
Cemetery	3,277	Economic development	40,960
Culture and recreation	17,148		
	<u>\$ 314,255</u>		<u>\$ 380,365</u>

4. Capital Lease Receivable

The Okemah Economic Development Authority (OEDA) and Sertco Industries entered into a building lease on October 14, 2010 for a period of twenty years. The monthly lease payments are \$2,083 but may be waived if Sertco fills a certain number of permanent positions within a specified time period. Sertco may exercise the right to purchase the property at any time during the lease for the unamortized portion of a \$500,000 CDBG grant used to construct and purchase the property. When the CDBG grant is closed, the lease will begin. As of June 30, 2014, the CDBG grant remains open. OEDA has recorded the completed building as an asset.

5. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2014, the City reporting entity's long-term debt changed as follows:

Type of Debt	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Capital lease payable	\$ -	\$ 32,170	\$ 5,133	\$ 27,037	10,575
Total Governmental Activities	<u>\$ -</u>	<u>\$ 32,170</u>	<u>\$ 5,133</u>	<u>\$ 27,037</u>	<u>\$ 10,575</u>
Business-Type Activities:					
Notes payable	\$ 4,923,441	\$ 645,000	\$ 1,282,891	\$ 4,285,550	593,663
Total Business-Type Activities	<u>\$ 4,923,441</u>	<u>\$ 645,000</u>	<u>\$ 1,282,891</u>	<u>\$ 4,285,550</u>	<u>\$ 593,663</u>
Total Long-Term Debt	<u>\$ 4,923,441</u>	<u>\$ 677,170</u>	<u>\$ 1,288,024</u>	<u>\$ 4,312,587</u>	<u>\$ 604,238</u>

Reconciliation to Statement of Net Position:

Governmental Activities:

Due within one year	\$ 10,575
Due in more than one year	16,462
Total Governmental Activities Long-term liabilities	<u>\$ 27,037</u>

Business-Type Activities:

Due within one year	\$ 593,663
Due in more than one year	3,691,887
Total Business-Type Activities Long-term liabilities	<u>\$ 4,285,550</u>

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Governmental activities long-term debt payable from the Capital Improvement Fund includes:

Capital Lease Payable:

\$32,170 lease obligation for purchase of emergency management pickup, payable in semi-annual installments of \$5,652 with an annual interest rate of 2.99%, final payment due June 2017.	\$	27,037
Total Capital Leases Payable	\$	<u>27,037</u>
Current portion		10,575
Noncurrent portion		<u>16,462</u>
Total Capital Leases Payable	\$	<u>27,037</u>

Business-type activities long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

Okemah Utilities Authority:

Notes Payable:

1998 Amended Construction Clean Water SRF Promissory Note payable to Oklahoma Water Resources Board, original amount of \$1,470,000, dated August 22, 2012, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, interest rate at 1.32% with final payment due March 15, 2019.	\$	1,091,427
Oklahoma Department of Commerce note dated April 30, 1998, by Okemah Utilities Authority, authorized amount of \$175,000, payable in monthly installments of \$729, including principal with a 0% interest rate, with final payment due March 30, 2018.		32,812
2004 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$1,310,000, dated May 12, 2004, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, variable interest rate at 3.75%, with final payment due August 15, 2014.		145,000
2011 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$2,565,000 dated June 24, 2011, secured by and payable from utility revenues and pledged sales tax, interest rate of 2.72%, with final payment due March 15, 2032.		2,151,391
Total Notes Payable	\$	<u>3,420,630</u>
Current portion		460,030
Noncurrent portion		<u>2,960,600</u>
Total Notes Payable	\$	<u>3,420,630</u>

Okemah Economic Development Authority:

Long-term debt commitments payable from net revenues generated by rental revenues and sales tax pledged to OEDA, and their outstanding balances at June 30, 2014, includes the following:

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Notes Payable:

Oklahoma Department of Commerce note dated November 2, 1999, by Okemah Economic Development Authority, authorized amount of \$400,000, payable in monthly installments of \$833, including principal with a 0% interest rate, with final payment due July 1, 2020 secured by and payable from rental agreements between the OEDA and Quantum Industries.

309,203

2013 Taxable Revenue Note payable to Bank of Oklahoma, original amount of \$645,000, dated August 1, 2013, by Okemah Economic Development Authority, secured by pledged sales tax, interest rate at 3.4%, due in monthly installments of \$11,718, with final payment due September 1, 2018.

555,717

Total Notes Payable	\$ 864,920
Current portion	133,633
Noncurrent portion	731,287
Total Notes Payable	\$ 864,920

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

<u>Year Ending June 30,</u>	Governmental Activities		Business-Type Activities	
	Capital Lease Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 10,575	\$ 736	\$ 593,663	\$ 93,310
2016	10,893	413	458,210	80,333
2017	5,569	83	468,371	69,872
2018	-	-	476,435	59,620
2019	-	-	373,729	50,300
2020-2024	-	-	827,359	194,214
2025-2029	-	-	651,691	110,659
2030-2032	-	-	436,092	21,318
Totals	\$ 27,037	\$ 1,232	\$ 4,285,550	\$ 679,626

Refinancing of OEDA 2004 Taxable Revenue Note Payable

The 2004 Taxable Revenue Note Payable was refinanced on August 1, 2013. The refinancing lowered the interest rate from 5.71% to 3.40%. The maturity date was changed from April 1, 2014 to September 1, 2018. There was no accounting gain or loss from the refinancing, but an expense of \$20,000 for issue costs was recognized. The change in long-term debt schedule reports the payoff of the outstanding balance at August 1, 2013 as a reduction in long-term debt and a re-issuance for \$645,000 as an addition to long-term debt. The refinance resulted in an economic savings of \$17,732.

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6. Net Position and Fund Balances

Net position is displayed in three components:

- a. *Net investment in capital assets*- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* - All other net position that do not meet the definition of “restricted” or “net investment of capital assets.”

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

Fund Balance:

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Capital Improvement		
Fund Balances:				
Restricted for:				
Capital projects	\$ -	814,863	\$ -	\$ 814,863
Library operations	-	-	28,978	28,978
Cemetery capital	-	-	152,213	152,213
Street and alley operations and capital	-	-	39,242	39,242
Sub-total Restricted	-	814,863	220,433	1,035,296
Assigned to:				
Capital projects	-	312,299	-	312,299
Library operations	-	-	10,932	10,932
Cemetery capital and operations	-	-	11,948	11,948
Street and alley operations and capital	-	-	5,990	5,990
Use of fund balance for subsequent budget	389,083	-	-	389,083
Sub-total Assigned	389,083	312,299	28,870	730,252
Unassigned:	42,895	-	-	42,895
TOTAL FUND BALANCES	\$ 431,978	\$ 1,127,162	\$ 249,303	\$ 1,808,443

7. Sales Tax Revenue

Sales tax revenue represents a 3.5 cent local tax on each dollar of taxable sales within the City. 1 cent is voter-restricted for debt service on OUA debt (per ordinance 99-02-01), 1 cent is voter-restricted for capital improvements and/or job growth if needed (per ordinance 99-02-01), and ½ cent voter-restricted for economic development (per ordinance 99-03-01). Ordinance 99-03-01 is the only ordinance with a termination date of December 31, 2019. 3 ½ cents of the sales tax is received and recorded in the General Fund, with 2 ½ cents transferred to the appropriate funds as noted above.

Pledge of Future Revenues

Sales Tax Pledge- The City has pledged 2.5 cents (or 71.4%) of future sales tax revenues to repay \$5,990,000 of Amended 1998, 2004, and 2011 Series Oklahoma Water Resources Board Notes Payable and 2013 Taxable Revenue Notes Payable. Proceeds from the bonds and notes provided financing for the utility system and industrial park capital assets. The bonds are payable through 2019, 2014, 2032 and 2018, respectively. The total principal and interest payable for the remainder of the life of these notes is \$4,623,161. Total pledged sales tax for the year was \$827,165. Debt service payments of \$634,532 (excluding refinancing of the 2004 Taxable Revenue note) for the current fiscal year were 76.71% of the pledged sales taxes.

Utility Net Revenue Pledge- The City has also pledged future water and sewer net revenues to repay \$5,345,000 of Amended 1998, 2004 and 2011 Series Oklahoma Water Resources Board Notes Payable. Proceeds from the bonds and notes provided financing for the utility system capital assets. The bonds are payable through 2019, 2014 and 2032, respectively. The total principal and interest payable for the remainder of the life of these notes is \$4,025,544. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$529,069 which was 88.04% of pledged net utility revenues of \$600,968.

8. Property Tax Levy

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

9. Internal and Interfund Balances and Transfers

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

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2014 were as follows:

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<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OUA Enterprise Fund	\$ 330,866	Sales tax transfer
General Fund	Capital Improvement Fund	330,866	Sales tax transfer
General Fund	OEDA Enterprise Fund	165,433	Sales tax transfer
General Fund	Rural Fire Fund	6,238	Sales tax transfer
OUA Enterprise Fund	General Fund	330,866	Return of sales tax
Total		<u>\$ 1,164,269</u>	

Reconciliation to Fund Financial Statements and Government-Wide Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Government-Wide Net Transfers</u>
Governmental Funds	\$ 667,970	\$ (833,403)	\$ (165,433)
Proprietary Funds	496,299	(330,866)	165,433
	<u>\$ 1,164,269</u>	<u>\$ (1,164,269)</u>	<u>-</u>

Balances:

Interfund receivable and payables at June 30, 2014 were comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
Capital Improvement	OEDA Enterprise Fund	\$ 17,207	Capital outlay posted to incorrect fund
General Fund	Capital Improvement	134,672	Grant funds posted to incorrect fund
General Fund	OUA Enterprise Fund	28,670	June sales tax transfer
OUA Enterprise Fund	General Fund	28,670	Return of June sales tax transfer
General Fund	Capital Improvement	28,670	June sales tax transfer
General Fund	OEDA Enterprise Fund	14,335	June sales tax transfer
General Fund	Cemetery Perpetual Care Fun	5,200	Cemetery revenue
General Fund	Library Fund	945	Grant posted to incorrect fund
OUA Enterprise Fund	General Fund	1,234	Payroll expenses
General Fund	OUA Enterprise Fund	5,305	Sanitation revenue posted to incorrect fund
Total		<u>\$ 264,908</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 199,391	\$ (235,004)	\$ (35,613)
Proprietary Funds	65,517	(29,904)	35,613
Total	<u>\$ 264,908</u>	<u>\$ (264,908)</u>	<u>-</u>

10. Risk Management

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

11. Pension Plan Participation

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

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

Firefighter Pension System:

Plan Summary Information. The City of Okemah, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter’s Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2012	\$720	\$720
2013	\$1,140	\$1,140
2014	\$1,020	\$1,020

OMRF Defined Benefit Plan:

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

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Eligibility Factors, Contribution Methods and Benefit Provisions

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	6.25% of covered payroll
-Employee Rate	3.00% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement with 7 years of service -Marital death benefit with 7 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.5% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 7 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

2. Actuarial Assumptions

<u>Date of Last Actuarial Valuation</u>	<u>July 1, 2013</u>
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by Age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	1994 Group Annuity Morality
g. Asset Valuation Method	Actuarial method

For the year ended June 30, 2014, the City's employer contribution to the plan was \$51,546 which was 7.25% of covered payroll--more than the actuarially required contribution. The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2012	\$42,019	\$42,019
2013	\$49,946	\$49,946
2014	\$45,953	\$51,546

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

OMRF Defined Contribution Plan:

The City has also provided a defined contribution plan and trust known as the City of Okemah Plan and Trust (the “Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by Bank One of Oklahoma City. The defined contribution plan is available to the City Manager. Benefits depend solely on amounts contributed to the plan plus investment earnings. The City Manager is eligible to participate upon employment, and is required to make contributions to the plan at 3.00%. Under the thrift option, the employee may contribute to the plan at varying rates. The City’s contributions, if any are made, (and interest allocated to the employee’s account) are vested at a rate of 100% upon participation. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2014, the City contributions were \$2,360 to the plan.

12. Commitments and Contingencies

Compensated Absences:

As a result of the City’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2014, is summarized as follows:

- General Fund – accrued compensated absences \$38,298
- OUA Enterprise Fund – accrued compensated absences \$11,875

Outstanding Construction Contracts:

The City had the following outstanding construction contract commitments at June 30, 2014:

<u>Contractor/Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Ellsworth Construction/Airport Improvements	\$1,236,081	\$1,010,313
JLT Contracting/Glen Johnson Road Rehab	\$ 281,731	\$ 281,731

Litigation:

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

The litigation on the contract between the Okfuskee County Rural Water District 3 and the Okemah Utilities Authority is now complete. Judgment was awarded for the Rural Water District against the OUA

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in the amount of \$200,000. This judgment has been paid and a release of judgment has been filed in the case.

In July 2012, the District filed another suit against the Authority asking for permanent and mandatory injunctions against the Authority and its trustees prohibiting them from charging a rate not in compliance with the modified contract. Since the District Court has yet to determine the actual rate that should be charged under the modified contract, which is a main point of contention in the companion litigation described above, this action has been put on hold until the Court renders its decision in the companion litigation. The Authority is defending against this new action on the theory that, after the District Court renders its decision in the companion litigation, the injunction action will be unnecessary and moot. The District is seeking damages in this new action in the amount, if any, they are overcharged on the modified contract after January 1, 2012, and attorney's fees. This injunction case is still active, and the amount of the rate and any over or underpayment has yet to be determined. This will effect calender years 2012, 2013 and 2014. Further, it has yet to be settled what exactly, must be accounted for in an enterprise accounting system. No money damages are requested in the injunction case, but if the parties cannot agree how the rate, and future rates are to be set, further litigation could occur.

Federal and State Award Programs:

The City of Okemah participates in various federal or state grant/loan programs from year to year. In 2014, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City is in the process of resolving findings from a recent monitoring visit from the Oklahoma Department of Commerce.

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OTHER SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule – General Fund (Modified Cash Basis) – Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 345,000	\$ 345,000	\$ 529,081	\$ 184,081
Resources (Inflows):				
Taxes	1,068,055	1,068,055	1,289,788	221,733
Intergovernmental	72,353	72,353	67,740	(4,613)
Charges for services	18,275	18,275	22,407	4,132
Fines and forfeitures	21,000	21,000	16,357	(4,643)
Licenses and permits	7,798	7,798	5,867	(1,931)
Investment income	1,500	1,500	2,369	869
Miscellaneous	156,006	156,006	96,164	(59,842)
Transfers in	272,628	272,628	330,866	58,238
Total resources (Inflows)	<u>1,617,615</u>	<u>1,617,615</u>	<u>1,831,558</u>	<u>213,943</u>
Amounts available for appropriation	<u>1,962,615</u>	<u>1,962,615</u>	<u>2,360,639</u>	<u>398,024</u>
Charges to Appropriations (Outflows):				
General government	220,052	153,455	150,995	2,460
Police	338,231	316,794	313,537	3,257
Fire	86,281	40,983	39,699	1,284
Police Dispatcher	173,186	167,033	165,100	1,933
Streets	149,486	126,083	122,739	3,344
Animal Control	44,041	57,659	54,654	3,005
Cemetery	46,092	60,492	58,585	1,907
Parks and Recreation	5,050	5,050	4,789	261
Library	45,525	55,225	53,720	1,505
Code Enforcement	49,409	19,329	17,234	2,095
Civil Defense	56,647	60,897	59,857	1,040
Police - Cops in School	37,324	33,224	32,094	1,130
Swimming Pool	20,013	23,113	22,255	858
Transfers Out	681,570	833,570	833,403	167
Total Charges to Appropriations	<u>1,952,907</u>	<u>1,952,907</u>	<u>1,928,661</u>	<u>24,246</u>
Ending Budgetary Fund Balance	<u>\$ 9,708</u>	<u>\$ 9,708</u>	<u>\$ 431,978</u>	<u>\$ 422,270</u>

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedule is reported on the modified cash basis of accounting.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

Total Resources (Inflows) Per Budgetary Comparison Schedule	<u>\$ 1,831,558</u>
Adjusted Total Resources	<u>1,831,558</u>
Total Resources (Inflows) Per Statement of Revenues, Expenditures and Changes in Fund Balance:	
Total Revenues	1,500,692
Transfer In	330,866
Total Resources (Inflows) Per Statement of Revenues, Expenditures	<u>1,831,558</u>
Charges to Appropriations (Outflows) Per Budgetary Comparison Schedule:	<u>1,928,661</u>
Adjusted Total Charges to Appropriations	<u>1,928,661</u>
Total Expenditures and Transfers Per Statement of Revenues, Expenditures	
Total Expenditures	1,095,258
Transfers Out	833,403
	<u>\$ 1,928,661</u>

**CITY OF OKEMAH, OKLAHOMA
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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2014

	Special Revenue Funds			Capital Project Fund	Total Governmental Funds
	Rural Fire Fund	Library Fund	Street & Alley Fund	Cemetery Perpetual Fund	
ASSETS					
Cash and cash equivalents	\$ -	\$ 7,839	\$ 45,232	\$ 43,918	\$ 96,989
Investments	-	31,126	-	115,043	146,169
Due from other funds	-	945	-	5,200	6,145
Total assets	-	39,910	45,232	164,161	249,303
FUND BALANCES:					
Restricted	-	28,978	39,242	152,213	220,433
Assigned	-	10,932	5,990	11,948	28,870
Total fund balances	\$ -	\$ 39,910	\$ 45,232	\$ 164,161	\$ 249,303

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2014

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
REVENUES					
Intergovernmental	\$ -	\$ 13,630	\$ 31,389	\$ -	\$ 45,019
Charges for services	-	460	-	5,200	5,660
Fines and forfeitures	-	335	-	-	335
Investment earnings	-	28	93	503	624
Miscellaneous	-	2,750	-	-	2,750
Total revenues	<u>-</u>	<u>17,203</u>	<u>31,482</u>	<u>5,703</u>	<u>54,388</u>
EXPENDITURES					
Current:					
Fire	6,238	-	-	-	6,238
Streets	-	-	22,575	-	22,575
Library	-	14,290	-	-	14,290
Capital Outlay	-	5,150	2,300	-	7,450
Total Expenditures	<u>6,238</u>	<u>19,440</u>	<u>24,875</u>	<u>-</u>	<u>50,553</u>
Excess (deficiency) of revenues over expenditures	<u>(6,238)</u>	<u>(2,237)</u>	<u>6,607</u>	<u>5,703</u>	<u>3,835</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	6,238	-	-	-	6,238
Total other financing sources and uses	<u>6,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,238</u>
Net change in fund balances	-	(2,237)	6,607	5,703	10,073
Fund balances - beginning	-	42,147	38,625	158,458	239,230
Fund balances - ending	<u>\$ -</u>	<u>\$ 39,910</u>	<u>\$ 45,232</u>	<u>\$ 164,161</u>	<u>\$ 249,303</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Schedule of Federal Awards Expended – Year Ended June 30, 2014

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF COMMERCE:</u>				
Economic Development Administration Public Works and Economic Development Assistance	11.300	08-01-04608	770,000	-
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Federal Aviation Administration Airport Improvement Program	20.106	AIP-3-40-0141-005-2013	1,538,386	268,474
TOTAL FEDERAL AWARDS			\$ 2,308,386	\$ 268,474

Footnotes to Federal Awards Schedules:

- The Schedule of Expenditures of Federal Awards is prepared on a basis consistent with the measurement of awards expended as defined in OMB Circular A-133. This may differ at times from the modified cash basis by accruing certain grant expenditures.

Schedule of State Awards (Modified Cash Basis) – Year Ended June 30, 2014

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Expenditures
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid	N/A	N/A	\$ 13,630	\$ 13,630
<u>CENTRAL OKLAHOMA ECONOMIC DEVELOPMENT DISTRICT:</u>				
Rural Economic Action Plan (REAP) FY 12-13	N/A	N/A	40,000	40,000
<u>OKLAHOMA DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT</u>				
Emergency Management Performance Grant	N/A	N/A	10,000	10,000
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	4,474	4,474
TOTAL STATE AWARDS			\$ 68,104	\$ 68,104

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2014

	<u>OKEMAH UTILITIES AUTHORITY</u>
GROSS REVENUE AVAILABLE:	
Charges for services (water and sewer revenues)	1,737,119
Investment income	4,122
Sales tax appropriated and transferred from the City General Fund	<u>330,866</u>
Total Gross Revenue Available	<u>2,072,107</u>
OPERATING EXPENSES:	
Total Operating Expenses	<u>1,140,273</u>
Net Revenue Available for Debt Service	<u>\$ 931,834</u>
Debt Service Requirements:	
Maximum annual debt service - OWRB promissory note	<u>\$527,610</u>
Total Debt Service Requirements	<u>\$527,610</u>
Computed Coverage	<u>177%</u>
Coverage Requirement	<u>125%</u>

Schedule of Reserve Requirement Compliance

	<u>OWRB SINKING RESERVE ACCOUNT</u>
Required Balance:	
2004 OWRB Promissory Note	\$131,000
Balance in Reserve Account, June 30, 2014	<u>132,715</u>
Excess of Account Balance over Required Balance	<u>\$1,715</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

INTERNAL CONTROL AND COMPLIANCE

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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

Honorable Mayor and City Council
City of Okemah, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2014. Our report includes an explanatory paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis and budgetary comparison information.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' 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, CONTINUED**

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency, described in the accompanying schedule of findings and responses as Finding 14-1.

Compliance and Other Matters

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

City's Response to Findings

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

(Continued)

**INDEPENDENT AUDITORS' 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, CONTINUED**

Purpose of This Report

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

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
October 30, 2014

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2014

SECTION I—FINDINGS—FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

14-1. Segregation of Duties

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Condition: The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

Cause: The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Management's Response: City management is in the process of hiring an additional person to help with the segregation of duties.

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS

June 30, 2014

SIGNIFICANT DEFICIENCIES

13-1. Segregation of Duties

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Condition: The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

Cause: The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Management's Response: City management is in the process of hiring an additional person to help with the segregation of duties.

2014 Follow-up: This situation was noted during the year ended June 30, 2014.

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS, CONTINUED

June 30, 2014

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

13-2 Non-Compliance with Debt Coverage Ratio

Criteria: The Okemah Economic Development Authority (OEDA) has debt that requires a debt coverage ratio, as defined in the debt agreement, of net revenue available for debt service to the subsequent year's debt service of 125%.

Condition: As of June 30, 2013, OEDA was not in compliance with the debt agreement as the debt coverage ratio was 60% and not the required 125%.

Cause: The debt comes due in April 2014 and requires the balance of over \$700,000 to be repaid.

Effect: At June 30, 2013, the City and OEDA are not in compliance with the debt agreement.

Recommendation: City management should discuss the situation with the lender and request a waiver or make plans to refinance the debt.

Management's Response: The OEDA is planning and budgeting to refinance the debt which has a balloon payment of approximately \$767,000 due in fiscal year 2014.

2014 Follow-up: This situation appears to have been addressed as it was not noted during the 2014 audit.