

City of

Okemah, Oklahoma



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

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

**THE CITY OF OKEMAH,
OKLAHOMA**

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

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

CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2013

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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, 2013, and the related notes to 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, 2013, and the respective changes in modified cash basis financial position and where applicable, cash flows—modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

Emphasis of Matters

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.

Change in Accounting Principle

As discussed in Note 1(B) to the financial statements, in 2013 the City adopted new accounting guidance, Statements No. 63 and No. 65 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Items Previously Reported as Assets and Liabilities*, respectively. Beginning net position was restated due to the implementation of GASB No. 65. 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 and other information, such as the non-major governmental funds combining schedules—modified cash basis, schedule of debt service coverage requirements, schedule of state awards, and schedule of reserve requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 7 through 16, and pages 50 through 52, which are the responsibility of management, 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Report on Supplementary and Other Information, Continued

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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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, flowing style.

Shawnee, Oklahoma
October 30, 2013

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MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF OKEMAH, OKLAHOMA
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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, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial 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 \$1.2 million, and the assets of the City exceed its liabilities at June 30, 2013, by \$18.7 million (net position). Of this amount, \$1.9 million (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2013, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$1.5 million.
- At the end of fiscal year 2013, unassigned fund balance on a modified cash basis for the General Fund was \$189,497 or 12% of General Fund revenues.
- The Okemah Utilities Authority Enterprise Fund completed the wastewater flow equalization basin project which was financed with a \$2.56 million Oklahoma Water Resources Board note payable.

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.

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- **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.
- **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 from the economic resources measurement focus 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). They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and 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.

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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 plus deferred inflows and liabilities plus deferred outflows– 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. 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 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 and current financial resources measurement focus 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, 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 and an economic resources measurement focus. For example, enterprise fund capital assets are capitalized and depreciated and principal payments on long-term debt 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 28-47 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 \$18.7 million at the close of the most recent fiscal year.

NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2013	2012		2013	2012		2013	2012	
Current assets	\$ 1,507	\$ 2,113	-29%	\$ 1,950	\$ 1,808	8%	\$ 3,457	\$ 3,921	-12%
Capital assets, net	5,990	5,058	18%	14,294	13,804	4%	20,284	18,862	8%
Total assets	<u>7,497</u>	<u>7,171</u>	5%	<u>16,244</u>	<u>15,612</u>	4%	<u>23,741</u>	<u>22,783</u>	4%
Current liabilities	-	52	-100%	1,283	573	124%	1,283	625	105%
Non-current liabilities	-	150	-100%	3,724	4,450	-16%	3,724	4,600	-19%
Total liabilities	<u>-</u>	<u>202</u>	-100%	<u>5,007</u>	<u>5,023</u>	0%	<u>5,007</u>	<u>5,225</u>	-4%
Net position									
Net investment in capital assets	5,990	4,856	23%	9,376	8,960	5%	15,366	13,816	11%
Restricted	759	1,340	-43%	702	579	21%	1,461	1,919	-24%
Unrestricted	748	773	-3%	1,159	1,050	10%	1,907	1,823	5%
Total net position	<u>\$ 7,497</u>	<u>\$ 6,969</u>	8%	<u>\$11,237</u>	<u>\$ 10,589</u>	6%	<u>\$ 18,734</u>	<u>\$ 17,558</u>	7%

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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 2013, this net investment in capital assets, amounted to \$15.4 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, \$1.5 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 29% decrease in current assets (about \$606,000) and the 43% decrease in restricted net position was due mainly to a decrease in cash from payment for capital projects paid out of restricted capital improvement funds and not reimbursed with grant funds or loan proceeds.

Current and noncurrent liabilities were liquidated due to the payoff of all outstanding capital leases.

Net investment in capital assets increased 23% (or \$1.133 million) due to the payoff of the capital leases mentioned above and capital asset purchases that exceeded depreciation expense by approximately \$900,000.

Business-Type Activities:

Current liabilities increased 124% (about \$710,000) resulting from a balloon payment due in fiscal year 2014 on the 2004 Sales Tax Revenue Note.

The 21% increase in restricted net position is mainly due to a new debt service fund for the 2011 OWRB note payable.

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Changes in Net Position

For the year ended June 30, 2013, on the modified cash basis of accounting, net position of the primary government changed as follows:

CHANGES IN 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>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
Revenues									
Charges for service	\$ 42	\$ 59	-29%	\$ 2,023	\$ 1,998	1%	\$ 2,065	\$ 2,057	0%
Operating grants and contributions	46	42	10%	-	-	-	46	42	10%
Capital grants and contributions	644	48	1242%	92	375	-75%	736	423	74%
Taxes	1,289	1,315	-2%	-	-	-	1,289	1,315	-2%
Intergovernmental revenue	54	52	4%	-	-	-	54	52	4%
Investment income	7	13	-46%	6	8	-25%	13	21	-38%
Miscellaneous	80	135	-41%	15	17	-12%	95	152	-38%
Total revenues	2,162	1,664	30%	2,136	2,398	-11%	4,298	4,062	6%
Expenses									
General government	355	219	62%	-	-	-	355	219	62%
Public safety	698	673	4%	-	-	-	698	673	4%
Streets	237	234	1%	-	-	-	237	234	1%
Cemetery	55	72	-24%	-	-	-	55	72	-24%
Culture and Recreation	109	112	-3%	-	-	-	109	112	-3%
Economic development	-	-	-	123	108	14%	123	108	14%
Interest on long-term debt	7	10	-30%	-	-	-	7	10	-30%
Water	-	-	-	822	814	1%	822	814	1%
Sewer	-	-	-	493	489	1%	493	489	1%
Sanitation	-	-	-	222	213	4%	222	213	4%
Total expenses	1,461	1,320	11%	1,660	1,624	2%	3,121	2,944	6%
Excess (deficiency) before transfers	701	344	104%	476	774	-39%	1,177	1,118	5%
Transfers	(173)	(23)	652%	173	23	652%	-	-	-
Change in net position	528	321	64%	649	797	-19%	1,177	1,118	5%
Beginning net position, restated	6,969	6,648	5%	10,588	9,792	8%	17,557	16,440	7%
Ending net position	\$ 7,497	\$ 6,969	8%	\$ 11,237	\$ 10,589	6%	\$ 18,734	\$ 17,558	7%

Governmental Activities

The City's governmental activities had an increase in net position, on the modified cash basis of accounting, of approximately \$528,000. The increase is due in part to \$553,000 received in street grants. General government expenses were 62% higher due to uncapitalized capital outlay for an airport plan and demolition of a building. Transfers changed by \$150,000 due mainly to reduction in capital contributions between funds.

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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>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
	General government	\$ 355	\$ 219	62%	(\$259)	(\$210)
Public safety	698	673	4%	(679)	(650)	-4%
Streets	237	234	1%	345	(157)	320%
Cemetery	55	72	-24%	(37)	(47)	21%
Culture and Recreation	109	112	-3%	(91)	(95)	4%
Interest on long-term debt	7	11	-36%	(7)	(11)	36%
Total	<u>\$ 1,461</u>	<u>\$ 1,321</u>	11%	<u>(\$728)</u>	<u>(\$1,170)</u>	38%

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 \$649,000. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2013 were sufficient to cover expenses except for Economic Development which had a decline in grant revenues of \$48,000 and an increase in expenses of \$15,000. The Wastewater activity had a 47% decline (\$211,000) in net revenue due to forgiveness of debt revenue in the prior year.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
	Water	\$ 822	\$ 814	1%	\$ 142	\$ 183
Wastewater	493	490	1%	235	446	-47%
Sanitation	222	213	4%	88	63	40%
Economic Development	123	108	14%	(10)	56	-118%
Total	<u>\$ 1,660</u>	<u>\$ 1,625</u>	2%	<u>\$ 455</u>	<u>\$ 748</u>	-39%

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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2013 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$1.5 million or a 29% decrease. The decrease is mainly the result of spending restricted capital improvement funds for capital projects. The OUA and OEDA enterprise funds reported, on a modified cash basis of accounting, combined net position of \$11.2 million or a 6% increase from 2012.

Other fund highlights include:

- For the year ended June 30, 2013, the General Fund's total fund balance decreased by about \$142,000 or 21% due mainly to increased transfers to the capital improvement fund for capital projects.
- Proprietary-type enterprise funds net position restriction included approximately \$702,000 for debt service.

Budgetary Highlights

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues over final estimates by \$104,000 or a 5% negative variance which was due mainly to grant revenues moved to the Capital Improvement Fund where the grant expenditures were recorded. General Fund actual expenditures were under final appropriations by \$329,000 or a 14% positive variance due mainly to the reclassification of a \$150,000 matured CD as a transfer.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2013, the City had \$20.3 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 increase of approximately \$1,422,000 over last year.

	Capital Assets					
	(In Thousands)					
	(Net of accumulated depreciation)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 445	\$ 445	\$ 1,738	\$ 1,738	\$ 2,183	\$ 2,183
Buildings	591	603	5,662	5,775	6,253	6,378
Imp. other than buildings	1,254	1,188	2,871	12	4,125	1,200
Machinery, furniture and equipment	538	493	304	309	842	802
Infrastructure	2,053	2,131	-	-	2,053	2,131
Utility property	-	-	3,673	3,795	3,673	3,795
Construction in progress	1,109	199	46	2,174	1,155	2,373
Totals	\$ 5,990	\$ 5,059	\$ 14,294	\$ 13,803	\$ 20,284	\$ 18,862

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This year's more significant capital asset additions included:

Flow Equalization Basin Project	\$2,511,414
Sertco Building Expansion	383,979

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

Long- Term Debt

At year-end, the City had \$4.9 million in long-term debt outstanding which represents a \$231,000 or 4.5% 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Notes payable	\$ -	\$ -	\$ 4,923	\$ 4,940	\$ 4,923	\$ 4,940	-0.3%
Capital leases	-	202	-	12	-	214	-100.0%
Totals	\$ -	\$ 202	\$ 4,923	\$ 4,952	\$ 4,923	\$ 5,154	-4.5%

The decrease was the result of the early payoff of a governmental fire truck capital lease for \$180,000. See Note 5 to the financial statements for more detail information on the City's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2013 budget is consistent to prior years for operational expenses.
- The \$2,565,000 of OWRB debt issued at the end of fiscal year 2011 for construction of a flow equalization basin for the sewer system has been completed during fiscal year 2013. The budget includes debt service payments for this new debt.
- A \$770,000 EDA grant used for construction of roadways to further industrial development is scheduled to be completed with remaining funds of approximately \$270,000 budgeted to be spent.
- The OEDA is planning and budgeting to refinance the 2004 Taxable Revenue Note which has a balloon payment due in fiscal year 2014 of approximately \$767,000.

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, 2013**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 456,531	\$ 1,655,149	\$ 2,111,680
Investments	1,073,232	270,662	1,343,894
Notes receivable	-	2,300	2,300
Internal Balances	(22,512)	22,512	-
Capital Assets:			
Land and construction in progress	1,553,972	1,783,682	3,337,654
Other capital assets, net of depreciation	4,435,980	12,509,942	16,945,922
Total Assets	<u>7,497,203</u>	<u>16,244,247</u>	<u>23,741,450</u>
LIABILITIES			
Meter deposit liability	-	89,791	89,791
Long-term liabilities			
Due within one year	-	1,193,607	1,193,607
Due in more than one year	-	3,723,664	3,723,664
Total liabilities	<u>-</u>	<u>5,007,062</u>	<u>5,007,062</u>
NET POSITION			
Net investment in capital assets	5,989,952	9,376,353	15,366,305
Restricted for:			
Debt Service	-	702,022	702,022
Capital projects	543,234	-	543,234
Streets	32,728	-	32,728
Cemetery	149,613	-	149,613
Library	32,948	-	32,948
Fire	821	-	821
Unrestricted	747,907	1,158,810	1,906,717
Total net position	<u>\$ 7,497,203</u>	<u>\$ 11,237,185</u>	<u>\$ 18,734,388</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, 2013

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

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	\$ 355,252	\$ 6,155	\$ -	\$ 90,583	\$ (258,514)	\$ -	\$ (258,514)
Public Safety	697,716	11,535	6,984	-	(679,197)	-	(679,197)
Streets	237,289	-	29,134	553,246	345,091	-	345,091
Cemetery	54,545	17,275	-	-	(37,270)	-	(37,270)
Culture and Recreation	109,085	7,276	10,395	-	(91,414)	-	(91,414)
Interest on Long-term debt	6,813	-	-	-	(6,813)	-	(6,813)
Total governmental activities	<u>1,460,700</u>	<u>42,241</u>	<u>46,513</u>	<u>643,829</u>	<u>(728,117)</u>	<u>-</u>	<u>(728,117)</u>
Business-type activities:							
Water	822,362	964,178	-	-	-	141,816	141,816
Wastewater	493,015	727,546	-	-	-	234,531	234,531
Sanitation	221,946	310,569	-	-	-	88,623	88,623
Economic Development	123,025	21,000	-	92,000	-	(10,025)	(10,025)
Total business-type activities	<u>1,660,348</u>	<u>2,023,293</u>	<u>-</u>	<u>92,000</u>	<u>-</u>	<u>454,945</u>	<u>454,945</u>
Total primary government	<u>3,121,048</u>	<u>2,065,534</u>	<u>46,513</u>	<u>735,829</u>	<u>(728,117)</u>	<u>454,945</u>	<u>(273,172)</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,213,521	\$ -	\$ 1,213,521
Franchise taxes and public service taxes					75,435	-	75,435
Intergovernmental revenue not restricted to specific programs					53,545	-	53,545
Unrestricted investment earnings					6,596	5,877	12,473
Miscellaneous					79,667	14,999	94,666
Transfers					(172,860)	172,860	-
Total general revenues and transfers					<u>1,255,904</u>	<u>193,736</u>	<u>1,449,640</u>
Change in net position					527,787	648,681	1,176,468
Net position - beginning, restated					6,969,416	10,588,504	17,557,920
Net position - ending					<u>\$ 7,497,203</u>	<u>\$ 11,237,185</u>	<u>\$ 18,734,388</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, 2013**

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

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

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

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 242,924	\$ 121,475	\$ 92,132	\$ 456,531
Investments	427,079	500,000	146,153	1,073,232
Due from other funds	-	134,672	945	135,617
Total assets	<u>670,003</u>	<u>756,147</u>	<u>239,230</u>	<u>1,665,380</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	<u>140,922</u>	<u>17,207</u>	-	<u>158,129</u>
Total liabilities	<u>140,922</u>	<u>17,207</u>	-	<u>158,129</u>
Fund balances:				
Restricted	-	543,234	216,110	759,344
Assigned	339,584	195,706	23,941	559,231
Unassigned (deficit)	<u>189,497</u>	-	<u>(821)</u>	<u>188,676</u>
Total fund balances	<u>529,081</u>	<u>738,940</u>	<u>239,230</u>	<u>1,507,251</u>
Total liabilities and fund balances	<u>\$ 670,003</u>	<u>\$ 756,147</u>	<u>\$ 239,230</u>	<u>\$ 1,665,380</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, 2013

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

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,288,956	\$ -	\$ -	\$ 1,288,956
Intergovernmental	146,628	628,039	44,013	818,680
Charges for services	20,340	-	4,686	25,026
Fees and fines	11,080	-	330	11,410
Licenses and permits	5,805	-	-	5,805
Investment earnings	1,954	4,149	493	6,596
Miscellaneous	78,507	-	1,160	79,667
Total revenues	<u>1,553,270</u>	<u>632,188</u>	<u>50,682</u>	<u>2,236,140</u>
EXPENDITURES				
Current:				
General government	167,364	173	-	167,537
Public Safety:				
Police	311,660	-	-	311,660
Fire	26,981	-	3,663	30,644
Police Dispatcher	164,350	-	-	164,350
Civil Defense	48,408	-	-	48,408
Police - COPS Grant	20,202	-	-	20,202
Animal Control	46,891	-	-	46,891
Code Enforcement	13,950	-	-	13,950
Cemetery	49,420	-	-	49,420
Streets	97,130	-	36,335	133,465
Culture and recreation:				
Library	51,292	-	11,342	62,634
Park and recreation	4,803	-	-	4,803
Swimming pool	21,457	-	-	21,457
Capital Outlay	-	1,390,439	1,430	1,391,869
Debt Service:				
Principal	-	201,802	-	201,802
Interest and other charges	-	6,813	-	6,813
Total Expenditures	<u>1,023,908</u>	<u>1,599,227</u>	<u>52,770</u>	<u>2,675,905</u>
Excess (deficiency) of revenues over expenditures	<u>529,362</u>	<u>(967,039)</u>	<u>(2,088)</u>	<u>(439,765)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	333,745	500,767	16,510	851,022
Transfers out	<u>(1,004,877)</u>	<u>(11,897)</u>	-	<u>(1,016,774)</u>
Total other financing sources and uses	<u>(671,132)</u>	<u>488,870</u>	<u>16,510</u>	<u>(165,752)</u>
Net change in fund balances	(141,770)	(478,169)	14,422	(605,517)
Fund balances - beginning	670,851	1,217,109	224,808	2,112,768
Fund balances - ending	<u>\$ 529,081</u>	<u>\$ 738,940</u>	<u>\$ 239,230</u>	<u>\$ 1,507,251</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, 2013

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

Total fund balance, governmental funds	\$	1,507,251
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.		
		5,989,952
Net Position of Governmental Activities	<u>\$</u>	<u>7,497,203</u>
Net change in fund balances - total governmental funds:	\$	(605,517)
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		1,178,569
Depreciation expense		(247,067)
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		201,802
Change in net position of governmental activities	<u>\$</u>	<u>527,787</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, 2013**

BASIC FINANCIAL STATEMENTS – PROPRIETARY-TYPE ENTERPRISE FUNDS

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

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

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 591,633	\$ 139,486	\$ 731,119
Investments	187,152	13,495	200,647
Restricted:			
Cash and cash equivalents	750,461	6,857	757,318
Investments	70,015	-	70,015
Due from other funds	5,305	17,207	22,512
Notes receivable	-	2,300	2,300
Total current assets	<u>1,604,566</u>	<u>179,345</u>	<u>1,783,911</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	132,712	34,000	166,712
Capital Assets:			
Land and construction in progress	1,520,000	263,682	1,783,682
Other capital assets, net of accumulated depreciation	10,107,190	2,402,752	12,509,942
Total non-current assets	<u>11,759,902</u>	<u>2,700,434</u>	<u>14,460,336</u>
Total assets	<u>13,364,468</u>	<u>2,879,779</u>	<u>16,244,247</u>
LIABILITIES			
Current Liabilities:			
Meter deposit liability	89,791	-	89,791
Current portion of:			
Notes payable	449,681	743,926	1,193,607
Total current liabilities	<u>539,472</u>	<u>743,926</u>	<u>1,283,398</u>
Non-current liabilities:			
Notes payable	3,414,461	309,203	3,723,664
Total non-current liabilities	<u>3,414,461</u>	<u>309,203</u>	<u>3,723,664</u>
Total liabilities	<u>3,953,933</u>	<u>1,053,129</u>	<u>5,007,062</u>
NET POSITION			
Net investment in capital assets	7,763,048	1,613,305	9,376,353
Restricted for debt service	661,165	40,857	702,022
Unrestricted	986,322	172,488	1,158,810
Total net position	<u>\$ 9,410,535</u>	<u>\$ 1,826,650</u>	<u>\$ 11,237,185</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, 2013

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

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
REVENUES			
Charges for services:			
Water	\$ 901,128	\$ -	\$ 901,128
Sewer	727,546	-	727,546
Sanitation	310,569	-	310,569
Penalties	20,361	-	20,361
Rents and leases	12,448	21,000	33,448
Camping fees	18,406	-	18,406
Lake permits	11,835	-	11,835
Total operating revenues	<u>2,002,293</u>	<u>21,000</u>	<u>2,023,293</u>
OPERATING EXPENSES			
Administration	251,806	-	251,806
Water treatment plant	384,880	-	384,880
Distribution and maintenance	72,319	-	72,319
Sewer collection	50,863	-	50,863
Lake	57,622	-	57,622
Wastewater treatment plant	121,283	-	121,283
Sanitation	169,341	-	169,341
Economic development	-	38,777	38,777
Amortization	-	-	-
Depreciation	317,606	39,680	357,286
Total Operating Expenses	<u>1,425,720</u>	<u>78,457</u>	<u>1,504,177</u>
Operating income (loss)	<u>576,573</u>	<u>(57,457)</u>	<u>519,116</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	5,496	381	5,877
Interest expense	(111,603)	(44,568)	(156,171)
Miscellaneous	9,353	5,646	14,999
Total non-operating revenue (expenses)	<u>(96,754)</u>	<u>(38,541)</u>	<u>(135,295)</u>
Income (loss) before transfers	479,819	(95,998)	383,821
Capital contributions	-	109,207	109,207
Transfers in	340,581	171,842	512,423
Transfers out	(356,770)	-	(356,770)
Change in net position	463,630	185,051	648,681
Total net position - beginning, restated	<u>8,946,905</u>	<u>1,641,599</u>	<u>10,588,504</u>
Total net position - ending	<u>\$ 9,410,535</u>	<u>\$ 1,826,650</u>	<u>\$ 11,237,185</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, 2013

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

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,011,646	\$ 26,646	\$ 2,038,292
Payments to suppliers	(640,595)	(38,777)	(679,372)
Payments to employees	(467,519)	-	(467,519)
Receipts of customer meter deposits	24,012	-	24,012
Refunds of customer meter deposits	(16,520)	-	(16,520)
Interfund receipts/payments	(344,728)	(16,023)	(360,751)
Net cash provided by (used in) operating activities	<u>566,296</u>	<u>(28,154)</u>	<u>538,142</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	340,581	171,842	512,423
Transfers to other funds	(356,770)	-	(356,770)
Net cash provided by (used in) noncapital financing activities	<u>(16,189)</u>	<u>171,842</u>	<u>155,653</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(711,223)	(26,404)	(737,627)
Proceeds from debt	1,906,391	-	1,906,391
Principal paid on debt	(1,839,868)	(95,276)	(1,935,144)
Interest and fiscal agent fees paid on debt	(106,118)	(44,568)	(150,686)
Net cash provided by (used in) capital and related financing activities	<u>(750,818)</u>	<u>(166,248)</u>	<u>(917,066)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	248,392	(47)	248,345
Interest and dividends	5,496	381	5,877
Net cash provided by investing activities	<u>253,888</u>	<u>334</u>	<u>254,222</u>
Net increase (decrease) in cash and cash equivalents	53,177	(22,226)	30,951
Balances - beginning of year	<u>1,421,629</u>	<u>202,569</u>	<u>1,624,198</u>
Balances - end of year	<u>\$ 1,474,806</u>	<u>\$ 180,343</u>	<u>\$ 1,655,149</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	591,633	139,486	731,119
Restricted cash and cash equivalents - current	750,461	6,857	757,318
Restricted cash and cash equivalents - noncurrent	132,712	34,000	166,712
Total cash and cash equivalents, end of year	<u>1,474,806</u>	<u>180,343</u>	<u>1,655,149</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 576,573	\$ (57,457)	\$ 519,116
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	317,606	39,680	357,286
Miscellaneous revenue	9,353	5,646	14,999
Change in assets and liabilities:			
Due from other funds	(2,935)	(16,023)	(18,958)
Due to other funds	(341,793)	-	(341,793)
Deposits subject to refund	7,492	-	7,492
Net cash provided by (used in) operating activities	<u>\$ 566,296</u>	<u>\$ (28,154)</u>	<u>\$ 538,142</u>
Noncash Activities:			
Transfer of capital assets from governmental funds	\$ -	\$ 109,207	\$ 109,207

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, 2013

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, operating grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales and interments
- Culture and recreation: Swimming pool fees, library fines, and library operating grants
- Economic development: CDBG and EDA capital grants

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.

CITY OF OKEMAH, OKLAHOMA
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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 and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

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

Okemah Utilities Authority Enterprise Fund- 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.

New Accounting Standards

The City has implemented the following standards during this fiscal year:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* – GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The implementation of this standard did not have a significant impact on the City’s financial statement presentation.
- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. - Modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The implementation of this standard did not have a significant impact on the City’s financial statement presentation.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - Intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The implementation of this standard did not have a significant impact on the City’s financial statement presentation.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The implementation of this standard did not have a significant impact on the City’s financial statement presentation other than the renaming of “Net Assets” as “Net Position”.
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53* – Provides for accounting of derivative instruments when hedge accounting terminates. The implementation of this standard had no impact on the City’s financial statement presentation because they have no derivative instruments.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities* - Establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The City’s early implementation of this standard did not have a significant impact on the City’s financial statement presentation other than the restatement of beginning net position to remove unamortized loan issue costs. These costs are now reported as an expense rather than an asset.

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, 2013, the City recognized \$12,473 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

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

Type	Credit Rating	Carrying Value
Deposits:		
Petty cash		995
Demand deposits		1,765,317
Time deposits - certificates of deposit		1,343,894
Investments:		
Cavanal Hill US Treasury Fund	AAAm	345,368
Total deposits and investments		\$ 3,455,574
Reconciliation to Statement of Net Position:		
Cash and cash equivalents		\$ 2,111,680
Investments		1,343,894
		\$ 3,455,574

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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, 2013, 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, 2013, 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, 2013, the City's investments consisted of \$345,368 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, 2013, 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 construction purposes. The restricted assets as of June 30, 2013 are as follows:

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	Current		Noncurrent
	Cash and cash equivalents	Investments	Cash and cash equivalents
Utility Deposits	\$ 19,776	\$ 70,015	\$ -
Taxable revenue note debt	6,857	-	34,000
Flow Equalization Revenue	202,232	-	-
OWRB debt service	528,453	-	132,712
 Total	 <u>\$ 757,318</u>	 <u>\$ 70,015</u>	 <u>\$ 166,712</u>

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, 2013, capital assets balances changed as follows:

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	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 444,708	\$ -	\$ -	\$ 444,708
Construction in progress	198,587	1,025,134	114,457	1,109,264
Total capital assets not being depreciated	<u>643,295</u>	<u>1,025,134</u>	<u>114,457</u>	<u>1,553,972</u>
Other capital assets:				
Buildings	1,706,015	13,188	-	1,719,203
Improvements	1,564,376	114,457	-	1,678,833
Infrastructure	5,681,486	-	-	5,681,486
Machinery, furniture and equipment	1,702,424	140,247	-	1,842,671
Total other capital assets at historical cost	<u>10,654,301</u>	<u>267,892</u>	<u>-</u>	<u>10,922,193</u>
Less accumulated depreciation for:				
Buildings	1,103,028	25,166	-	1,128,194
Improvements	376,154	48,516	-	424,670
Infrastructure	3,550,647	77,883	-	3,628,530
Machinery, furniture and equipment	1,209,317	95,502	-	1,304,819
Total accumulated depreciation	<u>6,239,146</u>	<u>247,067</u>	<u>-</u>	<u>6,486,213</u>
Other capital assets, net	<u>4,415,155</u>	<u>20,825</u>	<u>-</u>	<u>4,435,980</u>
Governmental activities capital assets, net	<u>\$ 5,058,450</u>	<u>\$ 1,045,959</u>	<u>\$ 114,457</u>	<u>\$ 5,989,952</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	2,173,604	767,471	2,895,393	45,682
Total capital assets not being depreciated	<u>3,911,604</u>	<u>767,471</u>	<u>2,895,393</u>	<u>1,783,682</u>
Other capital assets:				
Buildings	8,460,062	-	-	8,460,062
Improvements	41,468	2,895,393	-	2,936,861
Machinery, furniture and equipment	731,617	79,363	-	810,980
Utility property	8,133,690	-	-	8,133,690
Total other capital assets at historical cost	<u>17,366,837</u>	<u>2,974,756</u>	<u>-</u>	<u>20,341,593</u>
Less accumulated depreciation for:				
Buildings	2,684,675	113,637	-	2,798,312
Improvements	29,174	37,160	-	66,334
Machinery, furniture and equipment	422,184	84,370	-	506,554
Utility Property Improvements	4,338,332	122,119	-	4,460,451
Total accumulated depreciation	<u>7,474,365</u>	<u>357,286</u>	<u>-</u>	<u>7,831,651</u>
Other capital assets, net	<u>9,892,472</u>	<u>2,617,470</u>	<u>-</u>	<u>12,509,942</u>
Business-type activities capital assets, net	<u>\$ 13,804,076</u>	<u>\$ 3,384,941</u>	<u>\$ 2,895,393</u>	<u>\$ 14,293,624</u>

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	69,045	Water	172,858
Public safety	56,597	Sewer	132,938
Highways and streets	103,305	Sanitation	11,810
Cemetery	3,277	Economic development	39,680
Culture and recreation	14,843		
	<u>\$ 247,067</u>		<u>\$ 357,286</u>

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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, 2013, 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, 2013, the City reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance</u> <u>July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital lease payable	\$ 201,802	\$ -	\$ 201,802	\$ -	-
Total Governmental Activities	<u>\$ 201,802</u>	<u>\$ -</u>	<u>\$ 201,802</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities:					
Notes payable	\$ 4,940,301	\$ 1,906,391	\$ 1,923,251	\$ 4,923,441	1,193,607
Capital lease payable	11,893	-	11,893	-	-
Total Business-Type Activities	<u>4,952,194</u>	<u>1,906,391</u>	<u>1,935,144</u>	<u>4,923,441</u>	<u>1,193,607</u>
Total Long-Term Debt	<u>\$ 5,153,996</u>	<u>\$ 1,906,391</u>	<u>\$ 2,136,946</u>	<u>\$ 4,923,441</u>	<u>\$ 1,193,607</u>

Reconciliation to Statement of Net Position:

Business-Type Activities:	
Due within one year	\$ 1,193,607
Due in more than one year	3,723,664
Add back net unamortized discount (premium)	6,170
Total Business-Type Activities Long-term liabilities	<u>\$ 4,923,441</u>

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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.	\$ 1,301,119
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.	41,562
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.	285,000
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 2.22%, with final payment due March 15, 2032.	2,242,631
Total Notes Payable	\$ 3,870,312
Less: Net Unamortized Premium (Discount)	(6,170)
Total Notes Payable (Net of Unamortized Discount)	\$ 3,864,142
Current portion	449,681
Noncurrent portion	3,414,461
Total Notes Payable	\$ 3,864,142

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, 2013, 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.

319,199

2004 Taxable Revenue Note payable to Bank of Oklahoma, original amount of \$1,360,000, dated April 1, 2004, by Okemah Economic Development Authority, secured by pledged sales tax, interest rate at 5.71%, due in monthly installments of \$10,820, with final balloon payment due April 1, 2014.

733,930

Total Notes Payable	\$ 1,053,129
Current portion	743,926
Noncurrent portion	309,203
Total Notes Payable	\$ 1,053,129

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

<u>Year Ending June 30,</u>	<u>Business Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,193,607	\$ 121,470
2015	470,026	76,331
2016	330,303	67,624
2017	336,047	61,580
2018	339,541	55,898
2019-2023	1,046,242	211,738
2024-2028	634,000	128,350
2029-2032	573,675	36,205
Totals	\$ 4,923,441	\$ 759,196

Refinancing of 1998 OWRB Note Payable

The 1998 OWRB Note Payable was refinanced on August 22, 2012. The refinancing lowered the interest rate from 2.86% to 1.32%. The maturity date did not change. There was no accounting gain or loss from the refinancing, but an expense of \$22,500 for issue costs was recognized. The change in long-term debt schedule reports the payoff of the outstanding balance at August 22, 2012 as a reduction in long-term debt and a re-issuance for the same amount as an addition to long-term debt.

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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.

Prior Period Adjustment

Net position was restated due to the implementation of GASB 65 as follows:

	Proprietary-Type Enterprise Funds		Business-Type
	OUA	OEDA	Activities
			Total
Net Position (formerly Net Assets) as previously stated	\$ 9,034,398	\$ 1,650,349	\$ 10,684,747
Elimination of unamortized note issue costs	(87,493)	(8,750)	(96,243)
Beginning Net Position, restated	\$ 8,946,905	\$ 1,641,599	\$ 10,588,504

Fund Balance:

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

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	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Capital Improvement		
Fund Balances:				
Restricted for:				
Capital projects	\$ -	543,234	\$ -	\$ 543,234
Library operations	-	-	32,948	32,948
Cemetery capital	-	-	149,613	149,613
Fire operations	-	-	821	821
Street and alley operations and capital	-	-	32,728	32,728
Sub-total Restricted	-	543,234	216,110	759,344
Assigned to:				
Capital projects	-	195,706	-	195,706
Library operations	-	-	9,199	9,199
Cemetery capital and operations	-	-	8,845	8,845
Street and alley operations and capital	-	-	5,897	5,897
Use of fund balance for subsequent budget	339,584	-	-	339,584
Sub-total Assigned	339,584	195,706	23,941	559,231
Unassigned:	189,497	-	(821)	188,676
TOTAL FUND BALANCES	\$ 529,081	\$ 738,940	\$ 239,230	\$ 1,507,251

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 \$6,705,000 of Amended 1998, 2004, and 2011 Series Oklahoma Water Resources Board Notes Payable and 2004 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, 2014 and 2032, respectively. The total principal and interest payable for the remainder of the life of these notes is \$5,321,876. Total pledged sales tax for the year was \$834,210. Debt service payments of \$583,257 (excluding refinancing of the 1998 OWRB note) for the current fiscal year were 70% 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 \$4,554,612. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$453,409 (excluding refinancing of the 1998 OWRB note) which was 65% of pledged net utility revenues of \$695,397.

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Rate Covenant

The 2004 Taxable Revenue Note Payable has a rate covenant provision that requires subsequent year debt service payments be covered by 125% of pledged revenues. Since there is a balloon payment due next fiscal year, the debt service coverage percentage was 60%. However, OEDA is planning to refinance the outstanding balance of the note in the next fiscal year.

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, 2013 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OEA Enterprise Fund	\$ 333,684	Sales tax transfer
General Fund	Capital Improvement Fund	333,684	Sales tax transfer
General Fund	Capital Improvement Fund	74,485	Grant funds transfer
General Fund	Capital Improvement Fund	79,672	Street capital project
General Fund	OEDA Enterprise Fund	166,842	Sales tax transfer
General Fund	Street and Alley Fund	5,000	Operational subsidy
General Fund	Library Fund	4,000	Operational subsidy
General Fund	Rural Fire Fund	7,510	Operational subsidy
OEA Enterprise Fund	General Fund	333,684	Return of sales tax
OEA Enterprise Fund	General Fund	61	Interest income
OEA Enterprise Fund	Capital Improvement Fund	11,768	Debt service
OEA Enterprise Fund	Capital Improvement Fund	1,158	Close bank account
Capital Improvement Fund	OEA Enterprise Fund	6,897	Debt service
Capital Improvement Fund	OEDA Enterprise Fund	5,000	Operational subsidy
Total		<u>\$ 1,363,445</u>	
Reconciliation to Fund Financial Statements:			
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 851,022	\$ (1,016,774)	\$ (165,752)
Proprietary Funds	109,207	512,423	621,630
	<u>\$ 960,229</u>	<u>\$ (504,351)</u>	<u>455,878</u>
Reconciliation to Statement of Activities:			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Net transfers	\$ (165,752)	\$ 621,630	
Reclass capital contribution as transfer	(92,000)	92,000	
Move capital grant to appropriate activity	74,793	(74,793)	
One-sided transfer of capital assets from OEA to Governmental Activities	10,099	-	
	<u>\$ (172,860)</u>	<u>\$ 638,837</u>	

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Balances:

Interfund receivable and payables at June 30, 2013 were comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
Capital Improvement General Fund	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	Library Fund	945	Grant posted to incorrect fund
General Fund	OUA Enterprise Fund	5,305	Sanitation revenue posted to incorrect fund
Total		<u>\$ 158,129</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 135,617	\$ (158,129)	\$ (22,512)
Proprietary Funds	22,512	-	22,512
Total	<u>\$ 158,129</u>	<u>\$ (158,129)</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.

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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>
2011	\$600	\$600
2012	\$720	\$720
2013	\$1,140	\$1,140

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.

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	6.94% 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.

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2. Actuarial Assumptions

<u>Date of Last Actuarial Valuation</u>	<u>July 1, 2012</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, 2013, the City's employer contribution to the plan was \$49,946 which was equal to the actuarial required contribution. The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2011	\$35,412	\$35,412
2012	\$42,019	\$42,019
2013	\$49,946	\$49,946

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, 2013, the City contributions were \$2,126 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, 2013, is summarized as follows:

- General Fund – accrued compensated absences \$40,899
- OUA Enterprise Fund – accrued compensated absences \$23,134

Outstanding Construction Contracts:

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The City had the following outstanding construction contract commitments at June 30, 2013:

<u>Contractor/Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
A-Tech Paving/Resurfacing Sertco Road	\$592,093	\$ 2,820
American Ramp Co./Skateboard Park	\$ 27,013	\$ 13,506

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 Okemah Utilities Authority (Authority) has had a legal action filed against it since 2006 by Okfuskee County Rural Water District No. 3 (District) asserting that the Authority has been overcharging for water being sold to the District. The case was tried in 2007 and appealed. The Appellate Court upheld that statutes passed since the Contract between the parties signed in 1983 actually modified the Contract, and remanded the case to the District Court to determine the actual damages. A hearing on damages was held on May 21, 2012, and post hearing briefs by both parties were submitted on August 24, 2012. The District Court has yet to make its ruling. The District asserts that the Authority owes them \$200,000 plus attorney fees which may be as high as \$300,000. The Authority asserts that no damages are warranted. The court ordered the case to be reopened for further evidence in February 2013. Both parties have submitted their conclusion of damages as ordered by the court and are awaiting the court to set a new hearing. The Authority believes that the final award, if any, will be significantly lower than \$500,000.

Further, 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.

Federal and State Award Programs:

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

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OTHER SUPPLEMENTARY INFORMATION

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

	<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	\$ 319,000	\$ 319,000	\$ 670,851	\$ 351,851
Resources (Inflows):				
Taxes	1,143,513	1,293,513	1,288,956	(4,557)
Intergovernmental	47,500	271,500	146,628	(124,872)
Charges for services	19,850	19,850	20,340	490
Fines and forfeitures	-	-	11,080	11,080
Licenses and permits	8,850	8,850	5,805	(3,045)
Investment income	1,600	1,600	1,954	354
Miscellaneous	38,500	74,500	78,507	4,007
Transfers in	321,131	321,131	333,745	12,614
Total resources (Inflows)	<u>1,580,944</u>	<u>1,990,944</u>	<u>1,887,015</u>	<u>(103,929)</u>
Amounts available for appropriation	<u>1,899,944</u>	<u>2,309,944</u>	<u>2,557,866</u>	<u>247,922</u>
Charges to Appropriations (Outflows):				
General government	215,764	197,724	167,364	30,360
Police	341,470	350,895	311,660	39,235
Fire	62,800	64,230	26,981	37,249
Police Dispatcher	162,447	167,252	164,350	2,902
Streets	128,477	134,702	97,130	37,572
Animal Control	41,128	50,208	46,891	3,317
Cemetery	46,342	55,122	49,420	5,702
Parks and Recreation	4,850	6,215	4,803	1,412
Library	54,340	63,505	51,292	12,213
Civil Defense	43,795	52,100	48,408	3,692
Police - Cops in School	65,442	24,491	20,202	4,289
Swimming Pool	19,092	22,017	21,457	560
Code Enforcement	44,410	17,985	13,950	4,035
Transfers Out	717,618	1,151,529	1,004,877	146,652
Total Charges to Appropriations	<u>1,947,975</u>	<u>2,357,975</u>	<u>2,028,785</u>	<u>329,190</u>
Ending Budgetary Fund Balance	<u>\$ (48,031)</u>	<u>\$ (48,031)</u>	<u>\$ 529,081</u>	<u>\$ 577,112</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>\$ 1,887,015</u>
Adjusted Total Resources	<u>1,887,015</u>
Total Resources (Inflows) Per Statement of Revenues, Expenditures and Changes in Fund Balance:	
Total Revenues	1,553,270
Transfer In	333,745
Total Resources (Inflows) Per Statement of Revenues, Expenditures	<u>1,887,015</u>
Charges to Appropriations (Outflows) Per Budgetary Comparison Schedule:	<u>2,028,785</u>
Adjusted Total Charges to Appropriations	<u>2,028,785</u>
Total Expenditures and Transfers Per Statement of Revenues, Expenditures	
Total Expenditures	1,023,908
Transfers Out	1,004,877
	<u>\$ 2,028,785</u>

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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 20, 2013

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 10,092	\$ 38,625	\$ 43,415	\$ 92,132
Investments	-	31,110	-	115,043	146,153
Due from other funds	-	945	-	-	945
Total assets	<u>-</u>	<u>42,147</u>	<u>38,625</u>	<u>158,458</u>	<u>239,230</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted	821	32,948	32,728	149,613	216,110
Assigned	-	9,199	5,897	8,845	23,941
Unassigned (deficit)	(821)	-	-	-	(821)
Total fund balances	<u>-</u>	<u>42,147</u>	<u>38,625</u>	<u>158,458</u>	<u>239,230</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 42,147</u>	<u>\$ 38,625</u>	<u>\$ 158,458</u>	<u>\$ 239,230</u>

CITY OF OKEMAH, OKLAHOMA
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Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2013

	<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	\$ 4,484	\$ 10,395	\$ 29,134	\$ -	\$ 44,013
Charges for services	-	367	-	4,319	4,686
Fines and forfeitures	-	330	-	-	330
Investment earnings	-	58	75	360	493
Miscellaneous	-	1,160	-	-	1,160
Total revenues	<u>4,484</u>	<u>12,310</u>	<u>29,209</u>	<u>4,679</u>	<u>50,682</u>
EXPENDITURES					
Current:					
Fire	3,663	-	-	-	3,663
Streets	-	-	36,335	-	36,335
Library	-	11,342	-	-	11,342
Capital Outlay	-	1,430	-	-	1,430
Total Expenditures	<u>3,663</u>	<u>12,772</u>	<u>36,335</u>	<u>-</u>	<u>52,770</u>
Excess (deficiency) of revenues over expenditures	<u>821</u>	<u>(462)</u>	<u>(7,126)</u>	<u>4,679</u>	<u>(2,088)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	7,510	4,000	5,000	-	16,510
Total other financing sources and uses	<u>7,510</u>	<u>4,000</u>	<u>5,000</u>	<u>-</u>	<u>16,510</u>
Net change in fund balances	8,331	3,538	(2,126)	4,679	14,422
Fund balances (deficits) - beginning	(8,331)	38,609	40,751	153,779	224,808
Fund balances - ending	<u>\$ -</u>	<u>\$ 42,147</u>	<u>\$ 38,625</u>	<u>\$ 158,458</u>	<u>\$ 239,230</u>

**CITY OF OKEMAH, OKLAHOMA
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Schedule of Federal Awards Expended – Year Ended June 30, 2013

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	429,698
			<u>770,000</u>	<u>429,698</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce:				
CDBG Construction of Building	14.228	14178 CDBG 09	500,000	92,000
CDBG Construction of Streets	14.228	15104 CDBG 12	150,000	150,000
			<u>650,000</u>	<u>242,000</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Federal Aviation Administration				
Airport Improvement Program	20.106	AIP-3-40-0141-003-2010	326,813	12,272
Airport Improvement Program	20.106	AIP-3-40-0141-004-2012	87,605	87,605
			<u>414,418</u>	<u>99,877</u>
TOTAL FEDERAL AWARDS			\$ 1,834,418	\$ 771,575

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, 2013

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid	N/A	N/A	\$ 10,395	\$ 10,395
<u>OKLAHOMA DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT</u>				
Emergency Management Performance Grant	N/A	N/A	2,500	2,500
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	4,484	4,484
TOTAL STATE AWARDS			\$ 17,379	\$ 17,379

CITY OF OKEMAH, OKLAHOMA
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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2013

	<u>OKEMAH UTILITIES AUTHORITY</u>	<u>OKEMAH ECONOMIC DEVELOPMENT AUTHORITY</u>
GROSS REVENUE AVAILABLE:		
Charges for services (water and sewer revenues)	1,628,674	\$ -
Investment income	5,496	381
Sales tax appropriated and transferred from the City General Fund	333,684	166,842
Sales tax pledged by City	-	333,684 (1)
	<u>1,967,854</u>	<u>500,907</u>
OPERATING EXPENSES:		
Total Operating Expenses	<u>938,773</u>	<u>38,777</u>
Net Revenue Available for Debt Service	<u>\$ 1,029,081</u>	<u>\$ 462,130</u>
Debt Service Requirements:		
Maximum annual debt service - OWRB promissory note	\$529,067	-
Subsequent year annual debt service	<u>-</u>	<u>\$767,264</u>
Total Debt Service Requirements	<u>\$529,067</u>	<u>767,264</u>
Computed Coverage	<u>195%</u>	<u>60%</u>
Coverage Requirement	<u>125%</u>	<u>125%</u>

NOTE:

(1) Sales tax pledged by the City to the OEDA includes 1 1/2 cent sales tax available for appropriation, but not necessarily transferred to the OEDA, according to the rate covenant in the Note Indenture.

Schedule of Reserve Requirement Compliance

	<u>OWRB SINKING RESERVE ACCOUNT</u>	<u>REVENUE NOTE SINKING RESERVE ACCOUNT</u>
Required Balance:		
2004 OWRB Promissory Note	\$131,000	-
2004 Series Taxable Revenue Note	<u>-</u>	<u>\$18,348</u>
Total Required Reserve	<u>131,000</u>	<u>18,348</u>
Balance in Reserve Account, June 30, 2013	<u>132,712</u>	<u>34,000</u>
Excess of Account Balance over Required Balance	<u>\$1,712</u>	<u>\$15,652</u>

**CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2013**

SINGLE AUDIT AND INTERNAL CONTROL AND COMPLIANCE

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

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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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2013. 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—modified cash basis and an explanatory paragraph to emphasize the adoption of GASB Statements No. 63 and No. 65 by the City.

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 questioned cost as Finding 13-1.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 13-2

City's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Shawnee, Oklahoma
October 30, 2013



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

Honorable Mayor and City Council
City of Okemah, Oklahoma

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

Report on Internal Control Over Compliance, Continued

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

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

Finley + Cook, PLLC

Shawnee, Oklahoma
October 30, 2013

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

SECTION I—SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Noted

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Type of auditors’ report issued on compliance for the major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

<u>Federal CFDA#</u>	<u>Name of Federal Program</u>
11.300	U.S. Department of Commerce: Economic Development Administration: Public Works and Economic Development Assistance
20.106	U.S Department of Transportation: Federal Aviation Administration: Airport Improvement Program—Recovery (ARRA)

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

Auditee qualified as low-risk auditee?

Yes No

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2013

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

13-1. 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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2013

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT, CONTINUED

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.

**SECTION III—FINDINGS AND QUESTIONED COSTS—
MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS

June 30, 2013

SIGNIFICANT DEFICIENCIES

12-1. 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.

2013 Follow-up: This situation was noted during the year ended June 30, 2013.

CITY OF OKEMAH, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS, CONTINUED

June 30, 2013

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

12-2. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2012, the fund balance for the rural fire fund of the City had a deficit balance of \$8,331. This appears to be a violation of the fund balance requirements prescribed by Title 11, Section 17-211 of the Oklahoma Statutes.

Auditors' Recommendation: Management may want to consider approving a transfer of monies to alleviate this situation.

Management's Response: Management will consider additional transfers in 2013.

2013 Follow-up: This situation appears to be addressed.