

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

September 6, 2006

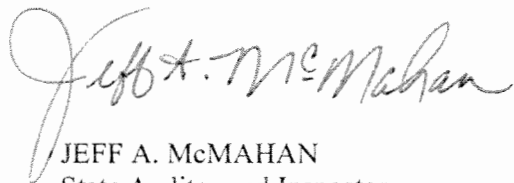
TO THE CITIZENS OF
MUSKOGEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Muskogee County, Oklahoma, for the fiscal year ended June 30, 2005. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

**MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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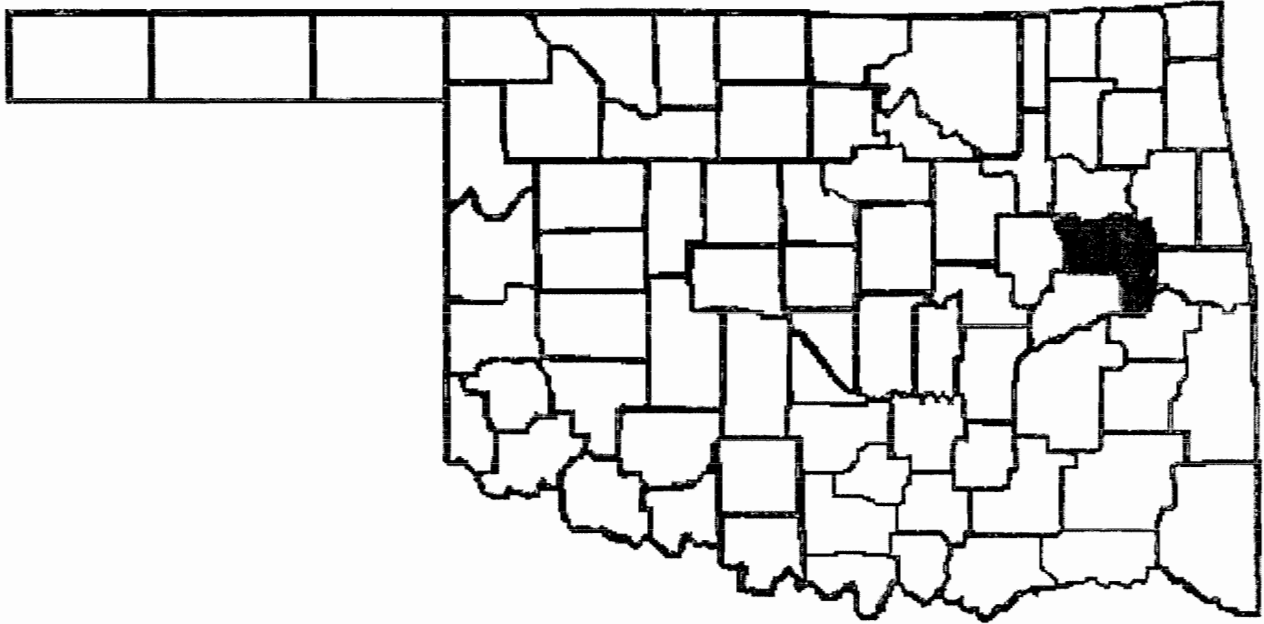
MUSKOGEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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REPORT TO THE CITIZENS
OF
MUSKOGEE COUNTY, OKLAHOMA



Named for the Muskogee Creek Indians, Muskogee County was created at statehood. The city of Muskogee, the county seat, became the focal point for the Five Civilized Tribes when the Union Agency established its headquarters in what is now Honor Heights Park. The old Union Agency Building is now the Five Civilized Tribes Museum and the famous Azalea Festival is held in the park each April. The park is also home to the Garden of Lights in December.

Muskogee County's economy is based primarily on agriculture, but oil, industry, and recreation have also been part of the building of this county's economies. The city of Muskogee itself is within 30 minutes of five major lakes.

County Seat – Muskogee

Area- 838.99 Square Miles

County Population – 70,626 (2004 est.)

Farms – 1,740

Land in Farms – 351,895 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY ASSESSOR

Dan Ashwood
(D) Webbers Falls

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK

Karen Anderson
(D) Porum

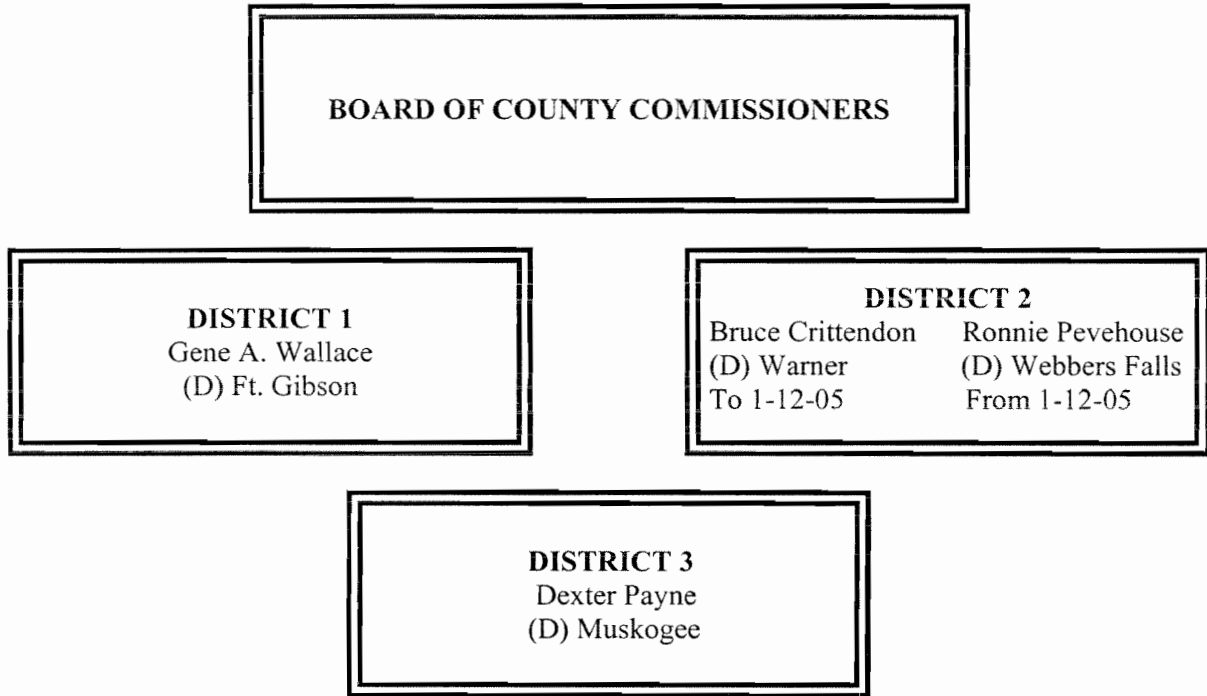
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY SHERIFF
Charles Pearson
(D) Muskogee

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER	
Glen Scott	Dorothy Lawson
(D) Muskogee	(D) Muskogee
From 9-1-04	To 8-31-04

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COURT CLERK
Paula Sexton
(D) Muskogee

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
John David Lutton
(D) Muskogee

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

**MUSKOGEE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

ELECTION BOARD SECRETARY

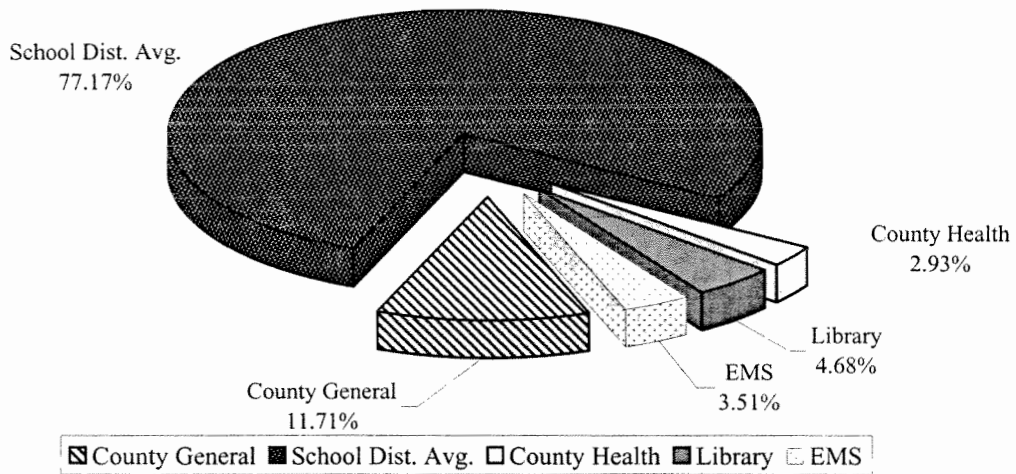
Bill Settle
(D) Muskogee

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**MUSKOGEE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages							
						Career			
			Gen.	Bldg.	Skg.	Tech	Common	Total	
Co. General	10.00								
County Health	2.50	Haskell	2	35.00	5.00	24.28	10.00	4.00	78.28
EMS	3.00	Fort Gibson	3	35.00	5.00	12.85	10.00	4.00	66.85
Library	4.00	Boynton	4	35.00	5.00	13.69	10.00	4.00	67.69
		Webbers Falls	6	35.00	5.00	24.69	10.00	4.00	78.69
		Oktaha	8	35.00	5.00	18.04	10.00	4.00	72.04
Cities and Towns		Wainwright	9	35.00	5.00		10.00	4.00	54.00
Fort Gibson	10.5	Muskogee	20	35.00	5.00	16.76	10.00	4.00	70.76
Muskogee	1.81	Hilldale	29	35.00	5.00	10.81	10.00	4.00	64.81
Hilldale	1.81	Braggs	46	35.00	5.00		10.00	4.00	54.00
		Warner	74	35.00	5.00	12.54	10.00	4.00	66.54
Other		Porum	88	35.00	5.00	20.40	10.00	4.00	74.40
Gooseneck Bend		Sequoyah	J-6B	35.00	5.00		10.00	4.00	54.00
Fire District	5.37	McIntosh	J-19B	35.00	5.00		10.00	4.00	54.00
		McIntosh	J-27	35.00	5.00	12.62	10.00	4.00	66.62

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Total net assessed value as of January 1, 2004		<u>\$ 379,211,857</u>
Debt limit - 5% of total assessed value		18,960,593
Total bonds outstanding	15,525,461	
Total judgments outstanding	2,000	
Less cash in sinking fund	<u>49,561</u>	<u>15,477,900</u>
Legal debt margin		<u>\$ 3,482,693</u>

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
 RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
 VALUE AND NET BONDED DEBT PER CAPITA
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (UNAUDITED)**

	2005
Estimated population	70,626
Net assessed value as of January 1, 2004	\$ 379,211,857
Gross bonded debt	15,525,461
Less available sinking fund cash balance	49,561
Net bonded debt	\$ 15,475,900
Ratio of net bonded debt to assessed value	4.08%
Net bonded debt per capita	\$ 219.12

See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2004	\$80,661,110	\$118,696,677	\$193,965,725	\$14,111,655	\$379,211,857	\$3,160,098,808

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30 2005, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Muskogee County's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Muskogee County as of June 30, 2005, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Muskogee County, for the year ended June 30, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006, on our consideration of Muskogee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.



JEFF A. McMAHAN
State Auditor and Inspector

May 30, 2006

Basic Financial Statement

**MUSKOGEE COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Beginning Cash Balances July 1, 2004	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2005
Combining Information:				
General Fund	\$ 2,113,969	\$ 4,827,836	\$ 5,009,341	\$ 1,932,464
Highway Cash	3,625,124	3,485,989	3,927,316	3,183,797
County Health	678,859	966,719	772,144	873,434
Resale Property	360,665	277,724	201,368	437,021
Sheriff Service Fee	44,228	478,369	450,756	71,841
County Clerk Lien Fee	43,701	23,418	20,614	46,505
Treasurer's Mortgage Certification Fee	94,171	18,390	54,860	57,701
Sheriff Patrol Cash	2,762	23,911	20,229	6,444
Sheriff Revolving Reward	10,116	22,415	4,394	28,137
Assessor Revolving Fund	40,766	13,979	2,731	52,014
Sheriff Drug Forfeiture	5,318	8,546	11,305	2,559
City-County Detention Facility	224,949	1,620,204	1,691,823	153,330
MCCD Grant	71			71
County Sinking Fund	38,006	12,646	1,091	49,561
Sheriff Commissary	3,130	32,475	31,612	3,993
Records Management Preservation	96,655	158,029	145,134	109,550
Safe Neighbors	31,357	15,000	46,352	5
Homeland Security Grant	24,999		24,884	115
Court Clerk Revolving		130,122	6,227	123,895
LLEBG		5,000		5,000
Cops Grant		80,000	57,776	22,224
Combined Total—All County Funds	\$ 7,438,846	\$ 12,200,772	\$ 12,479,957	\$ 7,159,661

The notes to the financial statement are an integral part of this statement.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Muskogee County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the funds included as supplementary information within the financial statement:

General Fund – revenues are from ad valorem taxes, officers' fees, interest earnings and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash – revenues are from state imposed fuel taxes and disbursements are for the maintenance and construction of county roads and bridges.

County Health – revenues are from ad valorem taxes, miscellaneous fees charged by the health department and state and federal funds. Disbursements are for the operation of the county health department.

Resale Property – revenues are from interest and penalties on ad valorem tax collections. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

Sheriff Service Fee – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff's office.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

County Clerk Lien Fee – revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk’s office.

Treasurer’s Mortgage Certification Fee – revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer’s office.

Sheriff Patrol Cash – revenues are from donations for reserve officers. Disbursements are for reserve officer needs.

Sheriff Revolving Reward – revenues are from trash fines and restitution. Disbursements are for the maintenance of the trash truck and land fill fees.

Assessor Revolving Fund – revenues are from any and all fees collected by the County Assessor. Disbursements are to maintain electronic databases and geographic information systems in the Assessor’s office.

Sheriff Drug Forfeiture – revenues are from monies seized and forfeited to the Sheriff’s office. Disbursements are for the maintenance and operation of the Sheriff’s Drug Task Force.

City-County Detention Facility – revenues are from charges for boarding prisoners. Disbursements are for the maintenance and operation of the jail.

MCCD Grant – revenues are from a federal grant. Disbursements are for a school resource officer.

County Sinking Fund – revenues are from interest earnings and Federal Flood Control funds. Disbursements are for the payment of principal and interest on judgments against the County.

Sheriff Commissary – accounts for monies collected (from prisoners) and used as a checking account for the prisoners to make purchases during their incarceration.

Records Management Preservation – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Safe Neighbors – revenues are from a federal grant. Disbursements are to support existing programs in law enforcement targeted at gun violence and drug abuse.

Homeland Security Grant – revenues are from a federal grant. Disbursements are for additional patrols by the Sheriff’s office.

Court Clerk Revolving – revenue is from Court Clerk fees. Disbursements are to operate the Court Clerk’s office.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

LLEBG – revenue is from a U.S. Department of Justice Grant. Disbursements are to hire more law enforcement deputies.

Cops Grant – revenue is from a federal grant. Disbursements are for additional deputies.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, a library, school districts and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement. Those funds play no part in the County's operations.

C. Basis of Accounting

The basic financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

D. Budget

Under current Oklahoma Statutes, the general fund and the county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

G. Compensated Absences

Vacation benefits are earned by the employee during the year and may not be accumulated. Employees with service years up to 10 years earn 10 days per year. Employees with service years exceeding 10 years earn 15 days per year. Vacation leave is accrued monthly.

Sick leave benefits are accrued at the rate of 10 hours per month and employees may accumulate up to 30 days. Sick leave is not paid upon termination.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2004, was approximately \$379,211,857

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The County levied 10.00 mills (the legal maximum) for general fund operations, 2.5 mills for county health department, 3 mills for emergency medical service, and 4 mills for the multi county library. In addition, the County collects the ad valorem taxes assessed by cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2005, were approximately 91.55 percent of the tax levy.

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

The County is exposed to the various risks of loss shown in the following table:

Types of Loss	Method of Management	Risk of Loss Retained
General Liability <ul style="list-style-type: none"> • Torts • Errors and Omissions • Law Enforcement Officers Liability • Vehicle 	The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group. (See ACCO-SIG.)	If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits.
Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters 		

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Types of Loss	Method of Management	Risk of Loss Retained
Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.
Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County participates in the Oklahoma Public Employees Health and Welfare Plan. (See OPEH&WP.)	If claims exceed pool assets, the members would have surcharges assessed to pay the excess claims.

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$50,000 deductible for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate workers' compensation claims. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

OPEH&WP - The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance coverage. The pool provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently acquired.

Judgments

The County has judgments which are being retired by excess funds in the sinking fund. The County is obligated to pay these judgments over a three year period.

Case Number	Original Judgment
CJ-94-541	\$ 6,000
CJ-98-596	3,000
Total	\$ 9,000

During the year ended June 30, 2005, the County paid \$1,000 principal and \$91 interest on these judgments. The County has \$2,000 in outstanding balances due on judgments at June 30, 2005.

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are required to be fully paid within 25 years from the date of issue.

General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
County Limited Tax Bonds of 1991	5.50-5.75	100,000
County Limited Tax Bonds of 1995, Series A	5.50-5.75	175,000
County Limited Tax Bonds of 1996	5.50-5.75	440,000
County Limited Tax Bonds of 1997, Series A	5.50-5.75	160,000
County Limited Tax Bonds of 1997, Series B	5.50-5.75	2,060,000
County Limited Tax Bonds of 1998, Series A	5.50-5.75	200,000
County Limited Tax Bonds of 1998, Series B	5.50-5.75	440,000
County Limited Tax Bonds of 1999, Series A	5.50-5.75	1,100,000
County Limited Tax Bonds of 1999, Series B	5.50-5.75	200,000
County Limited Tax Bonds of 1999, Series C	5.50-5.75	275,000
County Limited Tax Bonds of 1999, Series D	5.50-5.75	430,000
County Limited Tax Bonds of 1999, Series E	5.50-5.75	810,000
County Limited Tax Bonds of 2000, Series A	5.50-5.75	395,000
County Limited Tax Bonds of 2000, Series B	5.50-5.75	1,790,000
County Limited Tax Bonds of 2000, Series C	5.50-5.75	450,461
County Limited Tax Bonds of 2001, Series A	5.50-5.75	700,000
County Limited Tax Bonds of 2004, Series A	5.50-5.75	3,500,000
County Limited Tax Bonds of 2004, Series B	5.50-5.75	1,900,000
County Limited Tax Bonds of 2004, Series C	5.50-5.75	400,000
Total		\$15,525,461

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Payment of the principal and interest is made by the recipient of the proceeds (private manufacturing companies). To date, the County has not had to levy for any bond or interest payments. Bond proceeds and payments are administered by the Muskogee County Industrial Authority.

6. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2005, 2004, and 2003 were \$519,962, \$419,186, and \$435,479, respectively, equal to the required contributions for each year.

7. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

8. Contingent Liabilities

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

OTHER SUPPLEMENTARY INFORMATION

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 2,113,969	\$ 2,113,969	\$ 2,113,969	\$ -
Less: Prior Year Outstanding Warrants	(292,124)	(292,124)	(291,602)	522
Less: Prior Year Encumbrances	(94,956)	(94,956)	(83,977)	10,979
Beginning Cash Balances, Budgetary Basis	<u>1,726,889</u>	<u>1,726,889</u>	<u>1,738,390</u>	<u>11,501</u>
Receipts:				
Ad Valorem Taxes	3,447,381	3,447,381	3,560,169	112,788
Charges for Services	353,564	353,564	334,433	(19,131)
Intergovernmental Revenues	535,673	535,673	706,625	170,952
Miscellaneous Revenues	44,006	148,471	226,609	78,138
Total Receipts, Budgetary Basis	<u>4,380,624</u>	<u>4,485,089</u>	<u>4,827,836</u>	<u>342,747</u>
Expenditures:				
District Attorney	41,730	47,120	44,295	2,825
Total District Attorney	<u>41,730</u>	<u>47,120</u>	<u>44,295</u>	<u>2,825</u>
County Sheriff	425,967	415,967	415,265	702
Capital Outlay		27,663	27,663	
Total County Sheriff	<u>425,967</u>	<u>443,630</u>	<u>442,928</u>	<u>702</u>
County Treasurer	209,221	209,221	207,624	1,597
Total County Treasurer	<u>209,221</u>	<u>209,221</u>	<u>207,624</u>	<u>1,597</u>
County Commissioners	153,000	153,000	134,523	18,477
Total County Commissioners	<u>153,000</u>	<u>153,000</u>	<u>134,523</u>	<u>18,477</u>
OSU Extension	76,000	72,750	72,727	23
Capital Outlay		3,250	3,250	
Total OSU Extension	<u>76,000</u>	<u>76,000</u>	<u>75,977</u>	<u>23</u>
County Clerk	262,619	263,619	263,535	84
Total County Clerk	<u>262,619</u>	<u>263,619</u>	<u>263,535</u>	<u>84</u>
Court Clerk	184,792	184,743	182,857	1,886
Total Court Clerk	<u>184,792</u>	<u>184,743</u>	<u>182,857</u>	<u>1,886</u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

continued from previous page

	Original Budget	Final Budget	Actual	Variance
County Assessor	200,776	200,776	197,914	2,862
Capital Outlay	500	500		500
Total County Assessor	<u>201,276</u>	<u>201,276</u>	<u>197,914</u>	<u>3,362</u>
Revaluation of Real Property	277,870	213,401	197,395	16,006
Capital Outlay	1,000	1,000	929	71
Total Revaluation of Real Property	<u>278,870</u>	<u>214,401</u>	<u>198,324</u>	<u>16,077</u>
General Government	2,174,707	2,297,135	2,252,550	44,585
Total General Government	<u>2,174,707</u>	<u>2,297,135</u>	<u>2,252,550</u>	<u>44,585</u>
District Court	18,551	18,600	18,600	
Total District Court	<u>18,551</u>	<u>18,600</u>	<u>18,600</u>	<u>-</u>
Excise-Equalization Board	10,000	10,000	8,681	1,319
Total Excise-Equalization Board	<u>10,000</u>	<u>10,000</u>	<u>8,681</u>	<u>1,319</u>
County Election Board	158,440	161,384	161,382	2
Capital Outlay	1,560	500	500	
Total County Election Board	<u>160,000</u>	<u>161,884</u>	<u>161,882</u>	<u>2</u>
Purchasing Agent	85,558	85,558	85,391	167
Total Purchasing Agent	<u>85,558</u>	<u>85,558</u>	<u>85,391</u>	<u>167</u>
Charity	10,200	10,200	10,000	200
Total Charity	<u>10,200</u>	<u>10,200</u>	<u>10,000</u>	<u>200</u>
Fire Fighting	50,000	59,834	59,834	
Total Fire Fighting	<u>50,000</u>	<u>59,834</u>	<u>59,834</u>	<u>-</u>
Civil Defense	60,816	63,907	63,661	246
Capital Outlay	7,289	4,198	4,162	36
Total Civil Defense	<u>68,105</u>	<u>68,105</u>	<u>67,823</u>	<u>282</u>
Soil Conservation	1,485	1,485	1,456	29
Total Soil Conservation	<u>1,485</u>	<u>1,485</u>	<u>1,456</u>	<u>29</u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

continued from previous page

	Original Budget	Final Budget	Actual	Variance
County City Jail	174,865	185,185	185,179	6
Total County City Jail	174,865	185,185	185,179	6
School Records Clerk	17,985	17,985	17,985	
Total School Records Clerk	17,985	17,985	17,985	-
Sales Tax Revolving	918,260	918,675	25,257	893,418
Total Sales Tax Revolving	918,260	918,675	25,257	893,418
Sales Tax MCCDF	85,735	85,735	10,593	75,142
Total Sales Tax MCCDF	85,735	85,735	10,593	75,142
Sales Tax Renovation	216,966	216,966		216,966
Total Sales Tax Renovation	216,966	216,966	-	216,966
Highway Budget Account	242,500	242,500	234,157	8,343
Total Highway Budget Account	242,500	242,500	234,157	8,343
County Audit Budget	37,921	37,921	37,921	
Total County Audit Budget	37,921	37,921	37,921	-
Free Fair	1,200	1,200	1,200	
Total Free Fair	1,200	1,200	1,200	-
Total Expenditures, Budgetary Basis	6,107,513	6,211,978	4,926,486	1,285,492
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	\$ -	1,639,740	\$ 1,639,740
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add Current Year Encumbrances			13,680	
Add: Current Year Outstanding Warrants			279,044	
Ending Cash Balance			\$ 1,932,464	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

MUSKOGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	County Health Department Fund			
	Original	Final	Actual	Variance
	Budget	Budget		
Beginning Cash Balances	\$ 678,859	\$ 678,859	\$ 678,859	\$ -
Less: Prior Year Outstanding Warrants	(18,263)	(18,263)	(18,263)	
Less: Prior Year Encumbrances	(277)	(277)	(277)	
Beginning Cash Balances, Budgetary Basis	<u>660,319</u>	<u>660,319</u>	<u>660,319</u>	<u>-</u>
Receipts:				
Ad Valorem Taxes	861,844	861,843	890,941	29,098
Charges for Services		50,147	73,381	23,234
Miscellaneous Revenues			2,397	2,397
Total Receipts, Budgetary Basis	<u>861,844</u>	<u>911,990</u>	<u>966,719</u>	<u>54,729</u>
Expenditures:				
Health and Welfare	1,302,000	1,352,146	913,553	438,593
Capital Outlay	220,163	220,163	33,463	186,700
Total Expenditures, Budgetary Basis	<u>1,522,163</u>	<u>1,572,309</u>	<u>947,016</u>	<u>625,293</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	680,022	<u>\$ 680,022</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			43,862	
Add: Current Year Outstanding Warrants			149,550	
Ending Cash Balance			<u>\$ 873,434</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule. See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Beginning Cash Balance	<u>\$ 38,006</u>
Receipts:	
Ad Valorem Tax	53
Intergovernmental	<u>12,593</u>
Total Receipts	<u>12,646</u>
Disbursements:	
County Judgments	1,000
Interest Paid	<u>91</u>
Total Disbursements	<u>1,091</u>
Ending Cash Balance	<u><u>\$ 49,561</u></u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**MUSKOGEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis, for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year, unencumbered appropriations lapse.

2. Sinking Fund Schedule

Sinking Fund- revenues are from federal flood control funds and interest earnings on sinking fund investments. Disbursements are for the payment of judgments and interest.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

TO THE OFFICERS OF
MUSKOGEE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Muskogee County, Oklahoma, as of and for the year ended June 30, 2005, which comprises Muskogee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated May 30, 2006. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

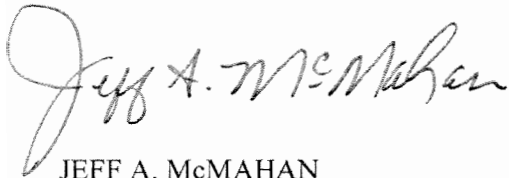
In planning and performing our audit, we considered Muskogee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Muskogee County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of findings and responses as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the County and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in cursive script that reads "Jeff A. McMahen".

JEFF A. McMAHAN
State Auditor and Inspector

May 30, 2006

**MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Findings related to the 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*

Finding 2004-1—Segregation of Duties (Repeat Finding)

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: The limited number of office personnel within several County offices prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure.

Recommendation: We recommend management be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's knowledge of office operations and a periodic review of operations.

Views of responsible officials and planned corrective actions: We concur with the auditor's findings. Management does have knowledge of office operations and will perform a periodic review of these operations.