

# **THE CITY OF CHECOTAH, OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**CITY OF CHECOTAH, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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## **INDEPENDENT AUDITORS' REPORT**

To the Users of the City of Checotah, Oklahoma, Annual Financial Report

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

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

As discussed in Note 1(B), the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

Management has not included the Checotah Industrial Development Authority (CIDA) in the City's financial statements. Financial statements for the CIDA are prepared on a different basis of accounting than the City's financial statements. Accounting principles generally accepted in the United States require the CIDA to be presented as a discretely presented component unit. The omission of the CIDA has no impact on the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information for the City as of and for the years ended June 30, 2012.

(Continued)

## INDEPENDENT AUDITORS' REPORT, CONTINUED

In our opinion, because of the omission of the CIDA, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the aggregate discretely presented component units, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City as of June 30, 2012, and the respective changes in financial position—modified cash basis and cash flows—modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The management's discussion and analysis and budgetary comparison information on pages 9 through 15 and pages 47 and 48 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has 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**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor governmental fund schedules—modified cash basis, the combining general fund account schedules—modified cash basis, the combining enterprise fund account schedules—modified cash basis, schedule of expenditures of state awards—modified cash basis, the schedule of debt service coverage requirements, and the schedule of reserve requirements compliance are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule—schedule of expenditures of federal awards—modified cash basis is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor governmental funds schedules—modified cash basis, the combining general fund account schedules—modified cash basis, the combining enterprise fund account schedules—modified cash basis, the schedule of expenditures of state awards—modified cash basis, the schedule of expenditures of federal awards—modified cash basis, the schedule of debt service coverage requirements, and the 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 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 financial statements or to the financial statements themselves, and other additional 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 financial statements as a whole.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 28, 2012

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**CITY OF CHECOTAH, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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The management of the City of Checotah 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 as of and for the year ended June 30, 2012. 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 analyses 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 assets increased by \$560,559, and the assets of the City exceed its liabilities at June 30, 2012, by \$7,133,448 (net assets). Of this amount, \$1,910,610 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$2,590,776.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$673,332 or 21.2% of General Fund revenues.

### **ABOUT THE CITY**

The City of Checotah is an incorporated municipality a population of approximately 3,400 located in McIntosh County in southeastern Oklahoma. The City is an Aldermanic form of government that provides for three branches of government:

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

The City provides typical municipal services such as public safety, cemetery, streets and public works, culture and recreation, utility services including water, sewer, and sanitation, and economic development activities.

#### ***The City's Financial Reporting Entity***

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

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

- **The City of Checotah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities

- **The Checotah Public Works Authority (CPWA)** – that operates the water, wastewater, and sanitation services of the City – blended as a proprietary fund - *considered part of the primary government presentation for reporting purposes*
- **The Checotah Recreational Authority (CRA)** – that promotes and provides financing for projects or facilities relating to the development of recreation and/or tourism within and near the jurisdictional boundaries of the City – *reported as a discretely presented component unit*
- **The Heartland Heritage Center Authority (HHCA)** – that promotes and provides financing to stimulate economic growth, development and well being in or near the City – *reported as a discretely presented component unit*
- **The Checotah Educational Facilities Authority (CEFA)** – that promotes, finances, and develops projects or facilities relating to the development of educational institutions within the City – *would be reported as a discretely presented component unit, but currently inactive*
- **The Checotah Industrial Development Authority (CIDA)** – that provides financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City - *discretely presented component unit not included in report due to a difference in basis of accounting*

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements of the primary government presented herein include all of the activities of the City of Checotah (the “City”) and the Checotah Public Works Authority (the “Authority”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to separate presentation for discretely presented component units.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus as applicable to 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), resulting from modified cash basis transactions. 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 Assets and Statement of Activities***

One of the most important questions to ask about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” The Statement of Net Assets 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, and 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 with selected modifications.

In the Statement of Net Assets and the Statement of Activities, we divide the City's primary government into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

### **Reporting the City's Most Significant Funds - Fund Financial Statements**

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain 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* - All 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 you determine (through a review of changes to fund balance) 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.

*Proprietary funds* - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary 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 fund is the Checotah Public Works Authority that accounts for the operation of the water, sewer, and sanitation 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 27-44 of this report.

**CITY OF CHECOTAH, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and the Ambulance Fund, federal and state award schedules, combining financial statements and schedules, and debt service coverage and reserve schedules.

**THE CITY AS A WHOLE**

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$560,559.

**Net Assets (Modified Cash Basis)**  
**June 30, 2012**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Beginning net assets	\$ 5,282,839	\$ 1,290,050	\$ 6,572,889
Increase/(Decrease)	(179,265)	739,824	560,559
<b>Ending net assets</b>	<b>\$ 5,103,574</b>	<b>\$ 2,029,874</b>	<b>\$ 7,133,448</b>

Following is a summary of net assets reported on a modified cash basis for the City of Checotah primary government.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	2012	2011	2012	2011	2012	2011	
Assets:							
Current and other assets	\$ 2,593,700	\$ 3,056,658	\$ 1,738,710	\$ 1,509,688	\$ 4,332,410	\$ 4,566,346	-5.12%
Capital assets, net	2,551,770	2,299,974	9,695,519	9,547,677	12,247,289	11,847,651	3.37%
<b>Total assets</b>	5,145,470	5,356,632	11,434,229	11,057,365	16,579,699	16,413,997	1.01%
Liabilities:							
Long-term liabilities	38,972	69,588	9,404,355	9,767,315	9,443,327	9,836,903	-4.00%
Other liabilities	2,924	4,205	-	-	2,924	4,205	-30.46%
<b>Total liabilities</b>	41,896	73,793	9,404,355	9,767,315	9,446,251	9,841,108	-4.01%
Net assets:							
Invested in capital assets, net	2,512,798	2,230,386	352,875	(161,862)	2,865,673	2,068,524	38.54%
Restricted	1,917,348	2,247,531	439,817	532,608	2,357,165	2,780,139	-15.21%
Unrestricted	673,428	804,922	1,237,182	919,304	1,910,610	1,724,226	10.81%
<b>Total net assets</b>	<b>\$ 5,103,574</b>	<b>\$ 5,282,839</b>	<b>\$ 2,029,874</b>	<b>\$ 1,290,050</b>	<b>\$ 7,133,448</b>	<b>\$ 6,572,889</b>	<b>8.53%</b>

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to \$2,865,673.

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 portion of the City's net assets, \$2,357,165, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,910,610, may be used to meet the government's ongoing needs.

**CITY OF CHECOTAH, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Changes in Net Assets (Modified Cash Basis)**  
**Year Ended June 30, 2012**

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
	2012	2011	2012	2011	2012	2011	
<b>Revenues:</b>							
Program revenues:							
Charges for Services	\$ 411,152	\$ 454,677	\$ 1,456,124	\$ 1,431,805	\$ 1,867,276	\$ 1,886,482	-1.02%
Grants & Contributions	8,134	6,893	-	20,659	8,134	27,552	-70.48%
Capital Grants & Contributions	63,000	342,467	9,133	-	72,133	342,467	-78.94%
General Revenues:							
Sales Tax	3,624,183	3,504,998	-	-	3,624,183	3,504,998	3.40%
Other Taxes	136,052	132,294	-	-	136,052	132,294	2.84%
Other General Revenues	197,074	226,704	19,496	37,499	216,570	264,203	-18.03%
<b>Total Revenues</b>	<b>4,439,595</b>	<b>4,668,033</b>	<b>1,484,753</b>	<b>1,489,963</b>	<b>5,924,348</b>	<b>6,157,996</b>	<b>-3.79%</b>
<b>Program Expenses:</b>							
General Government	\$ 706,898	\$ 626,230	-	-	706,898	626,230	12.88%
Public Safety	1,401,641	1,313,226	-	-	1,401,641	1,313,226	6.73%
Streets and Facilities Maintenance	779,140	738,141	-	-	779,140	738,141	5.55%
Culture and Recreation	6,318	23,960	-	-	6,318	23,960	-73.63%
Interest on Long-Term Debt	2,384	4,104	-	-	2,384	4,104	-41.91%
Water	-	-	1,676,016	1,646,759	1,676,016	1,646,759	1.78%
Sewer	-	-	762,903	676,213	762,903	676,213	12.82%
Sanitation	-	-	28,489	28,515	28,489	28,515	-0.09%
<b>Total Expenses</b>	<b>2,896,381</b>	<b>2,705,661</b>	<b>2,467,408</b>	<b>2,351,487</b>	<b>5,363,789</b>	<b>5,057,148</b>	<b>6.06%</b>
Excess (Deficiency)	1,543,214	1,962,372	(982,655)	(861,524)	560,559	1,100,848	-49.08%
Net Transfers	(1,722,479)	(1,217,691)	1,722,479	1,217,691	-	-	-
<b>Increase/(Decrease) Net Assets</b>	<b>\$ (179,265)</b>	<b>\$ 744,681</b>	<b>\$ 739,824</b>	<b>\$ 356,167</b>	<b>\$ 560,559</b>	<b>\$ 1,100,848</b>	<b>-49.08%</b>
Beginning Net Assets	5,282,839	4,538,158	1,290,050	933,883	6,572,889	5,472,041	20.12%
<b>Ending Net Assets</b>	<b>\$ 5,103,574</b>	<b>\$ 5,282,839</b>	<b>\$ 2,029,874</b>	<b>\$ 1,290,050</b>	<b>\$ 7,133,448</b>	<b>\$ 6,572,889</b>	<b>8.53%</b>

**Governmental Activities**

The City's governmental activities had a decrease in net assets of \$179,265. The decrease is due in part to an increase in net transfers to the business-type activities. Also, there was a decrease of capital grants and contributions in the amount of \$279,467.

**Business-type Activities**

The business-type activities had an increase in net assets of \$739,824. The increase is due in part to an increase in transfers from governmental activities.

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$2,590,776. For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$119,385 to \$673,428 or 21.2% of annual revenues.

**CITY OF CHECOTAH, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Budgetary Highlights**

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues under final estimates by \$129,826 or a 2.3% negative variance. General Fund actual expenditures were under final appropriations by \$82,465 or a 1.5% positive variance.

The Ambulance Fund reported actual budgetary basis revenues under final estimates by \$59,706 or a 16% negative variance for the year ended June 30, 2012. Ambulance Fund actual expenditures were under final appropriations by \$23,046 or a 6% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2012, the City had approximately \$12.2 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net increase of \$399,638 from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2012.<sup>1</sup>

**Capital Assets**

	Governmental		Business-type		Activities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Land	\$ 218,282	\$ 193,282	\$ 455,000	\$ 455,000	\$ 673,282	\$ 648,282		
Buildings and Improvements	2,013,365	2,011,330	412,479	397,828	2,425,844	2,409,158		
Machinery and Equipment	1,798,691	1,734,412	1,054,408	834,376	2,853,099	2,568,788		
Improvements other than buildings	612,432	612,432	-	-	612,432	612,432		
Infrastructure	1,329,630	939,806	-	-	1,329,630	939,806		
Utility Property and Improvements	-	-	13,970,741	12,456,224	13,970,741	12,456,224		
Construction-in-progress	-	9,000	-	1,145,846	-	1,154,846		
Totals	5,972,400	5,500,262	15,892,628	15,289,274	21,865,028	20,789,536		
Less Accumulated Depreciation	(3,420,630)	(3,200,288)	(6,197,109)	(5,741,597)	(9,617,739)	(8,941,885)		
<b>Totals, Net</b>	<b>\$ 2,551,770</b>	<b>\$ 2,299,974</b>	<b>\$ 9,695,519</b>	<b>\$ 9,547,677</b>	<b>\$ 12,247,289</b>	<b>\$ 11,847,651</b>		

This year's more significant capital asset additions include the following:

- 2012 Street Improvements - \$212,490
- Sidewalk Project - \$155,169

<sup>1</sup> For more detailed information on capital asset activity please refer to pages 36-37, Note 3. Capital Assets and Depreciation

**CITY OF CHECOTAH, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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**Debt Administration**

At year-end, the City had \$9,369,669 in long-term debt outstanding, reported on a modified cash basis, which represents a \$387,837 decrease from the prior year, resulting from normal debt retirements and the issuance of \$39,785 of new capital notes in 2012.

**Long-term Debt**

	<u>Governmental Activities</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Notes payable	\$ 38,972	\$ 69,588	\$ 5,788,986	\$ 5,970,142	\$ 5,827,958	\$ 6,039,730
Revenue bonds payable	-	-	3,480,000	3,660,000	3,480,000	3,660,000
Due to depositors	-	-	61,711	57,776	61,711	57,776
<b>Totals</b>	<b>\$ 38,972</b>	<b>\$ 69,588</b>	<b>\$ 9,330,697</b>	<b>\$ 9,687,918</b>	<b>\$ 9,369,669</b>	<b>\$ 9,757,506</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

- The tasks have not been easy due to the rising cost of goods, transportation, healthcare premiums and Workers' Compensation premiums.
- There are several Capital Outlay items that have been put in the 2012-2013 Budget due to the age and condition of the present equipment.
- The prediction for Checotah is that the revenue derived from sales tax will stay steady in this uncertain economy. However, we shall proceed with caution and be ready to make adjustments at midyear if the economy does not recover.
- There are no plans for rate increases for services.

**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 414 W. Gentry, Checotah, Oklahoma 74426-2444 or telephone at 918-473-5411.

**CITY OF CHECOTAH, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2011**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**



**CITY OF CHECOTAH, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Statement of Net Assets (Modified Cash Basis)– June 30, 2012**

	Governmental Activities	Business-type Activities	Total	Component Units	
				Checotah Recreational Authority	Heartland Heritage Center Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,560,551	\$ 1,165,109	\$ 2,725,660		
Investments	849,360	356,768	1,206,128	\$ 19,221	\$ 1,974
Internal Balances	183,789	(183,789)	-	-	-
Capital Assets:					
Land and construction in progress	218,282	455,000	673,282	-	32,322
Other capital assets, net of depreciation	2,333,488	9,240,519	11,574,007	6,844	34,116
Unamortized bond issuance costs	-	400,622	400,622	-	-
Total Assets	<u>5,145,470</u>	<u>11,434,229</u>	<u>16,579,699</u>	<u>26,065</u>	<u>68,412</u>
<b>LIABILITIES</b>					
Due to bondholders	2,153	-	2,153	-	-
Due to governmental agencies	771	-	771	-	-
Long-term liabilities:					
Due within one year	38,972	426,757	465,729	-	-
Due in more than one year	-	8,977,598	8,977,598	-	-
Total liabilities	<u>41,896</u>	<u>9,404,355</u>	<u>9,446,251</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,512,798	352,875	2,865,673	-	-
Restricted for:					
Enabling legislation	22,669	-	22,669	-	-
Statutory requirements	27,177	-	27,177	-	-
External contracts	1,867,502	439,817	2,307,319	-	-
Unrestricted	673,428	1,237,182	1,910,610	26,065	68,412
Total net assets	<u>\$ 5,103,574</u>	<u>\$ 2,029,874</u>	<u>\$ 7,133,448</u>	<u>\$ 26,065</u>	<u>\$ 68,412</u>

See accompanying notes to the basic financial statements.

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**Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2012**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Checotah Recreational Authority	Heartland Heritage Center Authority
<b>Primary government</b>									
Governmental Activities									
General Government	\$ 706,898	\$ 3,773	\$ -	\$ 48,000	\$ (655,125)	\$ -	\$ (655,125)	\$ -	\$ -
Public Safety	1,401,641	372,464	8,134	-	(1,021,043)	-	(1,021,043)	-	-
Streets and facilities maintenance	779,140	19,650	-	15,000	(744,490)	-	(744,490)	-	-
Culture and Recreation	6,318	15,265	-	-	8,947	-	8,947	-	-
Interest on Long-term debt	2,384	-	-	-	(2,384)	-	(2,384)	-	-
Total governmental activities	<u>2,896,381</u>	<u>411,152</u>	<u>8,134</u>	<u>63,000</u>	<u>(2,414,095)</u>	<u>-</u>	<u>(2,414,095)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water	1,676,016	1,096,398	-	9,133	-	(570,485)	(570,485)	-	-
Wastewater	762,903	359,726	-	-	-	(403,177)	(403,177)	-	-
Sanitation	28,489	-	-	-	-	(28,489)	(28,489)	-	-
Total business-type activities	<u>2,467,408</u>	<u>1,456,124</u>	<u>-</u>	<u>9,133</u>	<u>-</u>	<u>(1,002,151)</u>	<u>(1,002,151)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>5,363,789</u>	<u>1,867,276</u>	<u>8,134</u>	<u>72,133</u>	<u>(2,414,095)</u>	<u>(1,002,151)</u>	<u>(3,416,246)</u>	<u>-</u>	<u>-</u>
<b>Component Units</b>									
Checotah Recreational Authority	29,397	21,593	1,418	-	-	-	-	(6,386)	-
Heartland Heritage Center Authority	2,382	-	22,768	-	-	-	-	-	20,386
Total component units	<u>31,779</u>	<u>21,593</u>	<u>24,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,386)</u>	<u>20,386</u>
<b>General revenues:</b>									
Taxes:									
Sales and use taxes					\$ 3,624,183	\$ -	\$ 3,624,183	-	-
Franchise taxes and public service taxes					136,052	-	136,052	-	-
Intergovernmental revenue not restricted to specific programs					131,995	-	131,995	-	-
Unrestricted investment earnings					18,492	12,095	30,587	2	-
Miscellaneous					46,587	7,401	53,988	-	-
Transfers					(1,722,479)	1,722,479	-	-	-
Total general revenues and transfers					<u>2,234,830</u>	<u>1,741,975</u>	<u>3,976,805</u>	<u>2</u>	<u>-</u>
Change in net assets					(179,265)	739,824	560,559	(6,384)	20,386
Net assets - beginning					5,282,839	1,290,050	6,572,889	32,449	48,026
Net assets - ending					<u>\$ 5,103,574</u>	<u>\$ 2,029,874</u>	<u>\$ 7,133,448</u>	<u>\$ 26,065</u>	<u>\$ 68,412</u>

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>General Fund</u>	<u>Restricted Sales Tax</u>	<u>Capital Improvement Fund</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 349,625	\$ 249,772	\$ 920,916	\$ 9,000	\$ 31,238	\$ 1,560,551
Investments	204,232	594,094	36,034	-	15,000	849,360
Due from other funds	122,526	-	61,263	-	31	183,820
Total assets	<u>676,383</u>	<u>843,866</u>	<u>1,018,213</u>	<u>9,000</u>	<u>46,269</u>	<u>2,593,731</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Due to other funds	31	-	-	-	-	31
Due to bondholders	2,153	-	-	-	-	2,153
Payable to other governments	771	-	-	-	-	771
Total liabilities	<u>2,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,955</u>
Fund balances:						
Restricted for:						
Economic development	-	-	-	-	5,423	5,423
Public Safety	-	-	-	9,000	14,318	23,318
Capital Improvements	-	843,866	1,018,213	-	-	1,862,079
Cemetery	-	-	-	-	26,267	26,267
Assigned to:						
Economic development	96	-	-	-	-	96
Cemetery	-	-	-	-	261	261
Unassigned	673,332	-	-	-	-	673,332
Total fund balances	<u>673,428</u>	<u>843,866</u>	<u>1,018,213</u>	<u>9,000</u>	<u>46,269</u>	<u>2,590,776</u>
Total liabilities and fund balances	<u>\$ 676,383</u>	<u>\$ 843,866</u>	<u>\$ 1,018,213</u>	<u>\$ 9,000</u>	<u>\$ 46,269</u>	<u>\$ 2,593,731</u>

See accompanying notes to the basic financial statements.

**CITY OF CHECOTAH, OKLAHOMA**  
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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**  
**(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Restricted Sales Tax</u>	<u>Capital Improvement Fund</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes	\$ 2,884,150	\$ 876,085	\$ -	\$ -	\$ -	\$ 3,760,235
Intergovernmental	151,424	20,000	-	-	33,058	204,482
Licenses and permits	3,773	-	-	-	-	3,773
Charges for services	32,459	-	-	311,262	2,456	346,177
Fees and fines	54,213	-	-	-	4,350	58,563
Investment earnings	9,692	7,982	341	-	477	18,492
Miscellaneous	45,289	-	1	2,532	51	47,873
Total revenues	<u>3,181,000</u>	<u>904,067</u>	<u>342</u>	<u>313,794</u>	<u>40,392</u>	<u>4,439,595</u>
<b>EXPENDITURES</b>						
Current:						
General Government:						
Managerial	87,189	-	-	-	-	87,189
City Clerk	12,169	-	-	-	-	12,169
Attorney	19,607	-	-	-	-	19,607
General Government	254,507	1,510	185,430	-	37,340	478,787
City Treasurer	10,297	-	-	-	-	10,297
Planning & Zoning	285	-	-	-	-	285
Property	-	5,040	-	-	-	5,040
Code Enforcement	74,313	-	-	-	-	74,313
Public Safety:						
Police	854,634	-	-	354,189	10,659	1,219,482
Municipal Court	19,657	-	-	-	-	19,657
Emergency Services	16,860	-	-	-	-	16,860
Fire	37,494	-	-	-	-	37,494
Public Works:						
Water	-	33,800	-	-	-	33,800
Maintenance	633,731	-	-	-	-	633,731
Culture and recreation	5,854	-	-	-	-	5,854
Capital Outlay	128,491	478,360	25,052	9,575	227,130	868,608
Debt Service:						
Principal	-	-	30,616	-	-	30,616
Interest and other charges	-	-	2,384	-	-	2,384
Total Expenditures	<u>2,155,088</u>	<u>518,710</u>	<u>243,482</u>	<u>363,764</u>	<u>275,129</u>	<u>3,556,173</u>
Excess (deficiency) of revenues over expenditures	<u>1,025,912</u>	<u>385,357</u>	<u>(243,140)</u>	<u>(49,970)</u>	<u>(234,737)</u>	<u>883,422</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	2,519,689	-	876,085	-	-	3,395,774
Transfers out	<u>(3,664,986)</u>	<u>(580,899)</u>	<u>(400,000)</u>	<u>-</u>	<u>(94,988)</u>	<u>(4,740,873)</u>
Total other financing sources and uses	<u>(1,145,297)</u>	<u>(580,899)</u>	<u>476,085</u>	<u>-</u>	<u>(94,988)</u>	<u>(1,345,099)</u>
Net change in fund balances	(119,385)	(195,542)	232,945	(49,970)	(329,725)	(461,677)
Fund balances - beginning	792,813	1,039,408	785,268	58,970	375,994	3,052,453
Fund balances - ending	<u>\$ 673,428</u>	<u>\$ 843,866</u>	<u>\$ 1,018,213</u>	<u>\$ 9,000</u>	<u>\$ 46,269</u>	<u>\$ 2,590,776</u>

See accompanying notes to the basic financial statements.

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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Total fund balance, governmental funds	\$	2,590,776
Amounts reported for governmental activities in the Statement of Net Assets 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 Assets.		2,551,770
Some liabilities, (such as Notes Payable and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		<u>(38,972)</u>
Net Assets of Governmental Activities in the Statement of Net Assets		<u><u>5,103,574</u></u>

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net change in fund balances - total governmental funds:	\$	(461,677)
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		515,489
Depreciation expense		(263,693)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of netassets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		30,616
Change in net assets of governmental activities	<u>\$</u>	<u><u>(179,265)</u></u>

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**

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**Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012**

	<b><u>Checotah Public Works Authority</u></b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 860,843
Investments	6,000
Restricted:	
Cash and cash equivalents	304,266
Total current assets	1,171,109
Non-current assets:	
Restricted:	
Investments	350,768
Capital Assets:	
Land and construction in progress	455,000
Other capital assets, net of accumulated depreciation	9,240,519
Unamortized note issue costs	400,622
Total non-current assets	10,446,909
Total assets	11,618,018
<b>LIABILITIES</b>	
Current Liabilities:	
Due to other funds	183,789
Deposits subject to refund	12,342
Notes payable	229,415
Bonds payable	185,000
Total current liabilities	610,546
Non-current liabilities:	
Deposits subject to refund	49,369
Notes payable	5,559,571
Bonds payable	3,368,658
Total non-current liabilities	8,977,598
Total liabilities	9,588,144
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	352,875
Restricted for debt service	439,817
Unrestricted	1,237,182
Total net assets	\$ 2,029,874

See accompanying notes to the basic financial statements.



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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012**

	<b><u>Checotah Public Works Authority</u></b>
<b>REVENUES</b>	
Water	\$ 1,084,863
Sewer	356,159
Fees, taps and penalties	14,543
Miscellaneous	1,467
<b>Total operating revenues</b>	<b><u>1,457,032</u></b>
<b>OPERATING EXPENSES</b>	
Administration	322,205
Water	932,121
Wastewater	295,609
Sanitation	28,296
Amortization expense	27,806
Depreciation	455,512
Total Operating Expenses	<u>2,061,549</u>
Operating income (loss)	<u>(604,517)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	12,095
Miscellaneous revenue	15,626
Interest expense	(372,059)
Total non-operating revenue (expenses)	<u>(344,338)</u>
Income (loss) before contributions and transfers	(948,855)
Capital contributions	343,580
Transfers in	3,304,141
Transfers out	(1,959,042)
Change in net assets	<u>739,824</u>
Total net assets - beginning	1,290,050
Total net assets - ending	<b><u>\$ 2,029,874</u></b>

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Checotah Public</u> <u>Works Authority</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,472,658
Payments to suppliers	(717,270)
Payments to employees	(860,961)
Receipts of customer meter deposits	29,835
Refunds of customer meter deposits	(25,900)
Interfund receipts/payments	(36,000)
<b>Net cash provided by (used in) operating activities</b>	<u>(137,638)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	3,304,141
Transfers to other funds	(1,959,042)
<b>Net cash provided by noncapital financing activities</b>	<u>1,345,099</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(259,774)
Proceeds from debt	39,785
Principal paid on debt	(400,941)
Interest and fiscal agent fees paid on debt	(377,798)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(998,728)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	1
Interest and dividends	12,095
<b>Net cash provided by investing activities</b>	<u>12,096</u>
<b>Net increase in cash and cash equivalents</b>	220,829
<b>Balances - beginning of year</b>	<u>944,280</u>
<b>Balances - end of year</b>	<u>\$ 1,165,109</u>
<b>Reconciliation to Statement of Net Assets:</b>	
Cash and cash equivalents	860,843
Restricted cash and cash equivalents - current	304,266
<b>Total cash and cash equivalents, end of year</b>	<u>1,165,109</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ (604,517)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	455,512
Amortization expense	27,806
Miscellaneous revenue	15,626
Change in assets and liabilities:	
Due to other funds	(36,000)
Deposits subject to refund	3,935
<b>Net cash provided by (used in) operating activities</b>	<u>\$ (137,638)</u>
<b>Noncash activities:</b>	
Contributed capital assets arising from cash transactions in governmental funds	\$ 343,580
	<u>\$ 343,580</u>

See accompanying notes to the basic financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

## **1. Summary of Significant Accounting Policies**

### **A. Financial Reporting Entity**

The City's financial reporting entity includes the primary government and two discretely-presented component units as follows.

- **The City of Checotah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities, governed by the City Council
- **The Checotah Public Works Authority (CPWA)** – that operates the water, wastewater, sanitation services of the City governed by the City Council members as trustees– blended as a proprietary fund - *considered part of the primary government presentation for reporting purposes*
- **The Checotah Recreational Authority (CRA)** – that promotes and provides financing for projects or facilities relating to the development of recreation and/or tourism within and near the jurisdictional boundaries of the City governed by separate trustees appointed by the City Council – *reported as a discretely presented component unit*
- **The Heartland Heritage Center Authority (HHCA)** – that promotes and provides financing to stimulate economic growth, development and well being in or near the City governed by separate trustees appointed by the City Council – *reported as a discretely presented component unit*
- **The Checotah Educational Facilities Authority (CEFA)** – that promotes, finances, and develops projects or facilities relating to the development of educational institutions within the City – *would be reported as a discretely presented component unit, but currently inactive*
- **The Checotah Industrial Development Authority (CIDA)** – that provides financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City - *discretely presented component unit not included in report due to a difference in basis of accounting*

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*, except for the exclusion of the Checotah Industrial Development Authority as discussed above.

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.

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**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

The statement of net assets 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:

- 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, rents and royalties
- Public safety: Fine revenue, operating and capital grants
- Streets and facilities maintenance: Gas excise taxes, commercial vehicle taxes and cemetery lot sales
- Culture and recreation: Operating and capital grants

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

*Governmental Funds:*

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.
- Restricted Sales Tax Fund – a capital project fund that accounts for a one-cent sales tax legally restricted for street improvements, sewer improvements and utility equipment.

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- Capital Improvement – a capital project fund that accounts for funds designated for capital outlay and debt service on capital related debt and other city services deemed necessary by City Council.
- Ambulance Fund – a special revenue fund that accounts for revenue collected from ambulance service provided by the City of Checotah.

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

*Special Revenue Funds:*

- UDAG Grant - accounts for program income related to a UDAG grant program.
- Police Training Fund - accounts for \$10 per police fine collected for police training.
- Drug Investigation Fund - accounts for drug forfeiture money used for drug programs.
- CDBG 09 Fund - accounts for program income related to a CDBG grant program.

*Capital Project Fund:*

- Cemetery Care Fund - accounts for 12.5 percent of cemetery revenue restricted by State law 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 resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

*Proprietary Funds:*

The City's proprietary fund is comprised of the following:

*Enterprise Fund:*

- Checotah Public Works Authority – accounts for the operation of the water, sewer and sanitation activities.

The proprietary fund is reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

**C. Cash, Cash Equivalents, and Investments**

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

**D. Capital Assets and Depreciation**

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund 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, 2003. Prior to July 1, 2003, 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, 2003 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 10-25 years
- Improvements other than buildings 3-20 years
- Machinery, furniture and equipment 3-25 years
- Utility property and improvements 5-75 years
- Infrastructure 10-40 years

**E. Long-Term Debt**

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. 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 11.

**G. Fund Balances and Net Assets**

*Fund Statements:*

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54 in the current fiscal year, 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 placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included 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 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 the 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 Assets:*

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - 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 assets* - Consists of net assets 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 assets* - All other net assets that do not meet the definition of “restricted” or



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“invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets 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 assets 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, 2012, the City recognized \$30,587 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, 2012, the primary government held the following deposits and investments:

<u>Primary Government</u>	<u>Carrying Value</u>	
Deposits:		
Petty cash	\$ 800	
Demand deposits	2,657,903	
Time deposits - certificates of deposit	1,206,128	
Investments:		<u>Credit Rating</u>
Open-ended Money Market Mutual Funds - Goldman Sachs Financial Square	66,957	Aaa
<b>Total Deposits and Investments</b>	<u>\$ 3,931,788</u>	
 <b>Reconciliation to Statement of Net Assets:</b>		
Cash and cash equivalents	\$ 2,725,660	
Investments	1,206,128	
	<u>\$ 3,931,788</u>	
 <u>Component Units</u>		
Checotah Recreational Authority:		
Demand deposits	\$ 19,221	
Heartland Heritage Center Authority:		
Demand deposits	\$ 1,974	

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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 either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was not exposed to custodial credit risk as defined above.

*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.

At June 30, 2012, 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, 2012, the City's investments consisted of \$66,957 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of Aaa as rated by Moody'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, 2012, 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 assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2012 are as follows:

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<u>Type of Restricted Assets</u>	Current	
	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Non-Current</u> <u>Investments</u>
Utility Deposits	\$ 61,711	\$ -
2005 Refunding Bond Trust Accounts	80,895	350,768
Asset Replacement Account	153,506	-
Loan Reserve Account	8,154	-
Total Restricted Assets	<u>\$ 304,266</u>	<u>\$ 350,768</u>

### 3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital assets balances changed as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b><i>Governmental activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 193,282	\$ 25,000	\$ -	\$ 218,282
Construction in progress	9,000	146,170	155,170	-
Total capital assets not being depreciated	<u>202,282</u>	<u>171,170</u>	<u>155,170</u>	<u>218,282</u>
Other capital assets:				
Buildings	2,011,330	2,035	-	2,013,365
Improvements	612,432	-	-	612,432
Infrastructure	939,806	389,824	-	1,329,630
Machinery, furniture and equipment	1,734,412	107,630	43,351	1,798,691
Total other capital assets at historical cost	<u>5,297,980</u>	<u>499,489</u>	<u>43,351</u>	<u>5,754,118</u>
Less accumulated depreciation for:				
Buildings	1,550,956	68,395	-	1,619,351
Improvements	389,218	29,307	-	418,525
Infrastructure	81,669	29,736	-	111,405
Machinery, furniture and equipment	1,178,445	136,255	43,351	1,271,349
Total accumulated depreciation	<u>3,200,288</u>	<u>263,693</u>	<u>43,351</u>	<u>3,420,630</u>
Other capital assets, net	<u>2,097,692</u>	<u>235,796</u>	<u>-</u>	<u>2,333,488</u>
Governmental activities capital assets, net	<u>\$ 2,299,974</u>	<u>\$ 406,966</u>	<u>\$ 155,170</u>	<u>\$ 2,551,770</u>
<b><i>Business-type activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 455,000	\$ -	\$ -	\$ 455,000
Construction in progress	1,145,846	366,521	1,512,367	-
Total capital assets not being depreciated	<u>1,600,846</u>	<u>366,521</u>	<u>1,512,367</u>	<u>455,000</u>
Other capital assets:				
Buildings	397,828	14,651	-	412,479
Improvements	-	-	-	-
Machinery, furniture and equipment	834,376	220,032	-	1,054,408
Utility property	12,456,224	1,514,517	-	13,970,741
Total other capital assets at historical cost	<u>13,688,428</u>	<u>1,749,200</u>	<u>-</u>	<u>15,437,628</u>
Less accumulated depreciation for:				
Buildings	328,695	7,343	-	336,038
Improvements	-	-	-	-
Machinery, furniture and equipment	639,827	47,763	-	687,590
Utility Property Improvements	4,773,075	400,406	-	5,173,481
Total accumulated depreciation	<u>5,741,597</u>	<u>455,512</u>	<u>-</u>	<u>6,197,109</u>
Other capital assets, net	<u>7,946,831</u>	<u>1,293,688</u>	<u>-</u>	<u>9,240,519</u>
Business-type activities capital assets, net	<u>\$ 9,547,677</u>	<u>\$ 1,660,209</u>	<u>\$ 1,512,367</u>	<u>\$ 9,695,519</u>

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*Component Units:*

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b><i>Discretely Presented Component Unit - CRA:</i></b>				
<b><i>Checotah Recreational Authority:</i></b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other capital assets:				
Buildings	1,615	-	-	1,615
Improvements	1,685	-	-	1,685
Machinery, furniture and equipment	17,945	1,591	-	19,536
Total other capital assets at historical cost	<u>21,245</u>	<u>1,591</u>	<u>-</u>	<u>22,836</u>
Less accumulated depreciation for:				
Buildings	807	162	-	969
Improvements	28	169	-	197
Machinery, furniture and equipment	11,520	3,306	-	14,826
Total accumulated depreciation	<u>12,355</u>	<u>3,637</u>	<u>-</u>	<u>15,992</u>
Other capital assets, net	<u>8,890</u>	<u>(2,046)</u>	<u>-</u>	<u>6,844</u>
Business-type activities capital assets, net	<u>\$ 8,890</u>	<u>\$ (2,046)</u>	<u>\$ -</u>	<u>\$ 6,844</u>
<b><i>Heartland Heritage Center Authority:</i></b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	11,089	21,233	-	32,322
Total capital assets not being depreciated	<u>11,089</u>	<u>21,233</u>	<u>-</u>	<u>32,322</u>
Other capital assets:				
Buildings	38,897	-	-	38,897
Total other capital assets at historical cost	<u>38,897</u>	<u>-</u>	<u>-</u>	<u>38,897</u>
Less accumulated depreciation for:				
Buildings	3,808	973	-	4,781
Total accumulated depreciation	<u>3,808</u>	<u>973</u>	<u>-</u>	<u>4,781</u>
Other capital assets, net	<u>35,089</u>	<u>(973)</u>	<u>-</u>	<u>34,116</u>
Business-type activities capital assets, net	<u>\$ 46,178</u>	<u>\$ 20,260</u>	<u>\$ -</u>	<u>\$ 66,438</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:***

General government	\$ 5,265
Public safety	113,252
Streets and facilities maintenance	144,712
Culture and recreation	464
	<u>\$ 263,693</u>

***Business-Type Activities:***

Water	\$ 186,070
Sewer	269,442
	<u>\$ 455,512</u>

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**4. Long-Term Debt and Debt Service Requirements**

For the year ended June 30, 2012, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance Due July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due June 30, 2012</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
Notes Payable	\$ 69,588	\$ -	\$ 30,616	\$ 38,972	\$ 38,972
<i>Business-Type Activities:</i>					
Notes Payable	\$ 5,970,142	\$ 39,785	\$ 220,941	\$ 5,788,986	\$ 229,415
Revenue Bonds Payable	3,660,000	-	180,000	3,480,000	185,000
Due to depositors	57,776	29,835	25,900	61,711	12,342
Total Business-Type Activities	<u>\$ 9,687,918</u>	<u>\$ 69,620</u>	<u>\$ 426,841</u>	<u>\$ 9,330,697</u>	<u>\$ 426,757</u>

*Governmental activities* long-term debt payable from taxes and other general revenues at June 30, 2012 include the following:

*Capital Notes Payable:*

Capital note payable to People's National Bank for an ambulance, original amount of \$133,000, payable in monthly installments of \$3,000, interest rate at 4.25%, final balloon payment due August 21, 2012. \$ 38,972

Current portion	\$ 38,972
Non-current portion	<u>-</u>
Total Capital Notes Payable	<u>\$ 38,972</u>

*Business-type activities* long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

*Checotah Public Works Authority:*

*Notes Payable:*

2007 Series Interim Construction Drinking Water SRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$5,360,000, secured by utility revenues, payable in semi-annual installments, interest rate at 3.69%, final maturity September 15, 2028. \$4,645,566

USDA Loan payable, original issue amount of \$1,231,800, secured by utility revenues, payable in monthly installments of \$3,905, interest rate at 2.25%, final maturity December 28, 2045. 1,143,420

Total Notes Payable \$5,788,986

Current portion	\$ 229,415
Non-current portion	<u>5,559,571</u>
Total Notes Payable	<u>\$5,788,986</u>

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*Revenue Bonds Payable:*

2005 Utility System Refunding Revenue Bonds, original issue amount of \$4,465,000, dated May 1, 2005, issued by the Checotah Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing annually ranging from \$150,000 to \$665,000, interest payable semiannually with rates varying from 3.0% to 5.0%, final maturity May 1, 2025.

	\$3,480,000
Add: Unamortized Bond Discount	<u>73,658</u>
	<u>\$3,553,658</u>
Current portion	\$ 185,000
Non-current portion	<u>3,368,658</u>
Total Revenue Bonds Payable	<u>\$3,553,658</u>

*Customer Deposits:*

Refundable customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable. \$ 61,711

	\$ 12,342
Current portion	\$ 12,342
Non-current portion	<u>49,369</u>
Total Customer Deposits	<u>\$ 61,711</u>

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

Year Ended June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	<u>Notes Payable</u>		<u>Notes Payable</u>		<u>Revenue Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 38,972	\$ 2,957	\$ 229,415	\$ 197,411	\$ 185,000	\$ 162,525
2014	-	-	237,758	189,068	190,000	155,772
2015	-	-	246,407	180,419	200,000	148,648
2016	-	-	254,979	171,847	205,000	140,948
2017	-	-	264,662	162,164	215,000	132,850
2018-2022	-	-	1,474,965	660,164	1,235,000	503,500
2023-2027	-	-	1,764,835	369,292	1,250,000	144,000
2028-2032	-	-	705,711	99,537	-	-
2033-2037	-	-	175,149	59,151	-	-
2038-2042	-	-	195,985	38,315	-	-
2043-2047	-	-	219,298	15,002	-	-
2048	-	-	19,822	113	-	-
Total	<u>\$ 38,972</u>	<u>\$ 2,957</u>	<u>\$ 5,788,986</u>	<u>\$ 2,142,483</u>	<u>\$ 3,480,000</u>	<u>\$ 1,388,243</u>

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**Pledge of Future Revenues**

*Sales Tax and Utility Net Revenues Pledge* - The City has pledged three cents (or 75%) of future sales tax revenues and net utility revenues to repay the \$4,465,000 of the 2005 Utility System Refunding Revenue Bonds and \$5,360,000 of the OWRB 2007 Series Interim Construction Drinking Water SRF Promissory Note. Proceeds from the bonds and note provided financing for capital assets. The bonds and note are payable from pledged sales tax revenues, net utility revenues and investment income of the CPWA and are payable through 2025 and 2028, respectively. The total principal and interest payable for the remainder of the life of these bonds is \$11,138,676. Pledged sales taxes and net utility revenues received in the current year were \$2,519,150. Debt service payments of \$731,878 for the current fiscal year were 29% of pledged sales taxes and net utility revenues.

**5. Sales Tax Revenue**

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the City, of which 3 cents is voter-restricted for debt service on CPWA debt and capital improvements in accordance with a City ordinance. Three cents of the sales tax is received and recorded in the General Fund and then transferred to the CPWA for debt service. The unused sales tax is then transferred back to the General Fund. One cent is received and recorded in the Restricted Sales Tax Fund per Ordinance 497 passed by voters effective on and after May 1, 1996.

**6. 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.

**7. Internal and Interfund Balances and Transfers**

*Balances:*

Internal balances between funds and activities for the year ended June 30, 2012, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
Checotah Public Works Authority	General Fund	\$ 61,263	To record loan payments
Checotah Public Works Authority	Use Tax Fund	61,263	To record loan payments
Checotah Public Works Authority	Capital Improvement Fund	61,263	To record loan payments
Total		<u>\$ 183,789</u>	
<b>Reconciliation to Fund Financial Statements:</b>			
	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 183,789	\$ -	\$ 183,789
Proprietary Funds	-	(183,789)	(183,789)
Total	<u>\$ 183,789</u>	<u>\$ (183,789)</u>	<u>\$ -</u>

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*Transfers:*

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	Capital Improvement Fund	\$ 876,085	Sales tax transfer
General Fund	Dare Fund	647	Operational subsidy
General Fund	Checotah Public Works Authority	2,628,254	Sales tax pledge
CDBG 09 Fund	North Avenue Project Fund	94,988	Operational subsidy
Use Tax Fund	General Fund	160,000	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	199,993	Subsidy for debt service
Restricted Sales Tax Fund	North Avenue Project Fund	443	Subsidy for debt service
Capital Improvement Fund	General Fund	400,000	Operational subsidy
Checotah Public Works Authority	General Fund	1,759,049	Sales tax transfer
Checotah Public Works Authority	General Fund	199,993	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	380,463	Subsidy for debt service
		<u>\$ 6,699,915</u>	

**Reconciliation:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 3,395,774	\$ 4,740,873	\$ (1,345,099)
Proprietary Funds	3,304,141	1,959,042	1,345,099
Total	<u>\$ 6,699,915</u>	<u>\$ 6,699,915</u>	<u>\$ -</u>

**Reconciliation to Statement of Activities:**

	<u>Net Transfers</u>
Net Transfers	\$ 1,345,099
Reclassification and transfer of business-type activities out of governmental funds	33,800
Contributed assets from governmental funds	343,580
Total Transfers - Internal Activity	<u>\$ 1,722,479</u>

**8. Fund Equity**

**Restricted Net Assets – Governmental Activities:**

The following table shows the net assets restricted for other purposes as shown in the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Ambulance Fund	Enabling legislation	\$ 9,000
Police Training	Enabling legislation	13,669
		<u>\$ 22,669</u>
Cemetery	Statutory requirements	\$ 26,528
Drug Investigation Fund	Statutory requirements	649
		<u>\$ 27,177</u>
Restricted Sales Tax Fund	External contracts	\$ 843,866
Capital Improvement Fund	External contracts	1,018,213
UDAG Grant Fund	External contracts	5,423
		<u>\$ 1,867,502</u>



**9. 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.

**10. Pension Plan Participation**

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

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

*OFPRS:*

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

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

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

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$960	\$960
2011	\$840	\$840
2012	\$900	\$900

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*OPPRS:*

*Plan Summary Information.* The City of Checotah, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS 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 a certain number of fulltime police officers.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS  
1001 N.W. 63<sup>rd</sup> St., Suite 305  
Oklahoma City, OK 73116-7335

*Funding Policy.* The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$35,811	\$35,811
2011	\$37,267	\$37,267
2012	\$39,934	\$39,934

*OMRF Defined Benefit Plan:*

The City contributes to the City of Checotah 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 Police and Firefighter Pension Systems. 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 Chase of Oklahoma City acts as administrator and securities custodian.

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Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
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	6.45% of covered payroll (City elected to stay at 7.18%)
-Employee Rate	3.00% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 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 10 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.

Actuarial Assumptions

**For Plan Year July 1, 2010 (Date of Last Actuarial Valuation)**

a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.50%
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	UP 94 mortality
g. Asset Valuation Method	Actuarial method

Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2010	\$91,949	\$91,949
2011	\$94,262	\$94,262
2012	\$97,474	\$97,474

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Funded Status and Funding Progress

As of January 1, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$1,748,539
Actuarial value of plan assets	<u>1,232,822</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 515,717</u>
Funded ratio (actuarial value of plan assets/AAL)	70.5%
Annual covered payroll (active plan members)	1,299,980
UAAL as a percentage of covered payroll	39.7%

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.

## **11. 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, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012, is summarized as follows:

- General Fund – accrued compensated absences \$19,674
- CPWA – accrued compensated absences \$12,673

*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.

*Federal and State Award Programs:*

The City of Checotah participates in various federal or state grant/loan programs from year to year. In 2012, 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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**SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 724,026	\$ 724,026	\$ 632,398	\$ (91,628)
<b>Resources (Inflows):</b>				
Taxes	2,750,700	2,778,300	2,764,306	(13,994)
Intergovernmental	141,100	210,012	151,424	(58,588)
Charges for services	38,250	32,450	32,459	9
Fines and Forfeitures	120,000	126,680	54,213	(72,467)
Licenses and Permits	4,000	4,000	3,773	(227)
Investment Income	9,000	9,000	9,692	692
Miscellaneous	450	25,382	45,289	19,907
Other Financing Sources - Transfers In	2,505,800	2,524,200	2,519,042	(5,158)
<b>Total Resources</b>	<b>5,569,300</b>	<b>5,710,024</b>	<b>5,580,198</b>	<b>(129,826)</b>
<b>Amounts available for appropriation</b>	<b>6,293,326</b>	<b>6,434,050</b>	<b>6,212,596</b>	<b>(221,454)</b>
<b>Charges to Appropriations (Outflows):</b>				
Managerial	79,900	87,298	87,189	109
City Clerk	22,000	13,521	12,169	1,352
City Attorney	24,300	24,026	19,607	4,419
Municipal Court	21,300	21,300	19,657	1,643
Police	843,000	890,844	857,299	33,545
Fire	36,500	120,112	109,052	11,060
Recreation	4,800	7,400	5,854	1,546
City Treasurer	10,900	10,335	10,297	38
General Government	272,000	293,836	286,387	7,449
Emergency Services	22,000	22,000	17,539	4,461
Maintenance	645,000	661,000	655,440	5,560
Planning and Zoning	1,300	350	285	65
Code Enforcement	82,600	75,470	74,313	1,157
Other Financing Uses - Transfers Out	3,477,600	3,515,047	3,504,986	10,061
<b>Total Charges to Appropriations</b>	<b>5,543,200</b>	<b>5,742,539</b>	<b>5,660,074</b>	<b>82,465</b>
<b>Ending Budgetary Fund Balance</b>	<b>\$750,126</b>	<b>\$691,511</b>	<b>\$552,522</b>	<b>(\$138,989)</b>
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
Use Tax Fund			120,163	
Economic Development Authority Fund			96	
Dare Fund			647	
<b>Total General Fund Fund Balance</b>			<b>\$ 673,428</b>	

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012 (Continued)**

	<b>AMBULANCE IMPROVEMENT FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Beginning Budgetary Fund Balance</b>	\$ 74,356	\$ 74,356	\$ 58,970	\$ (15,386)
<b>Resources (Inflows):</b>				
Charges for services	290,000	290,000	311,262	21,262
Miscellaneous	6,000	8,500	2,532	(5,968)
Transfers in	75,000	75,000	-	(75,000)
<b>Total Resources</b>	<u>371,000</u>	<u>373,500</u>	<u>313,794</u>	<u>(59,706)</u>
<b>Amounts available for appropriation</b>	<u>445,356</u>	<u>447,856</u>	<u>372,764</u>	<u>(75,092)</u>
<b>Charges to appropriations (outflows):</b>				
Public safety	371,000	386,810	363,764	23,046
<b>Total Charges to Appropriations</b>	<u>371,000</u>	<u>386,810</u>	<u>363,764</u>	<u>23,046</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 74,356</u>	<u>\$ 61,046</u>	<u>9,000</u>	<u>\$ (52,046)</u>

**Footnotes to Budgetary Comparison Schedules:**

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.

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**NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Other Governmental Funds</u>
	<u>UDAG Grant Fund</u>	<u>Police Training Fund</u>	<u>Drug Investigation Fund</u>	<u>CDBG 09 Fund</u>	<u>Cemetery Care Fund</u>	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 5,423	\$ 13,669	649	\$ -	\$ 11,497	\$ 31,238
Investments	-	-	-	-	15,000	15,000
Due from other funds	-	-	-	-	31	31
Total assets	<u>5,423</u>	<u>13,669</u>	<u>649</u>	<u>-</u>	<u>26,528</u>	<u>46,269</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Miscellaneous payroll liabilities	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	5,423	13,669	649	-	26,267	46,008
Assigned	-	-	-	-	261	261
Total fund balances	<u>5,423</u>	<u>13,669</u>	<u>649</u>	<u>-</u>	<u>26,528</u>	<u>46,269</u>
Total liabilities and fund balances	<u>\$ 5,423</u>	<u>\$ 13,669</u>	<u>\$ 649</u>	<u>\$ -</u>	<u>\$ 26,528</u>	<u>\$ 46,269</u>



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**NonMajor Governmental Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>UDAG Grant Fund</u>	<u>Police Training Fund</u>	<u>Drug Investigation Fund</u>	<u>CDBG 09 Fund</u>	<u>Cemetery Care Fund</u>	
<b>REVENUES</b>						
Intergovernmental	\$ 5,058	\$ -	\$ -	\$ 28,000	\$ -	\$ 33,058
Charges for services	-	-	-	-	2,456	2,456
Fees and fines	-	4,350	-	-	-	4,350
Investment earnings	41	175	-	-	261	477
Miscellaneous	-	-	-	51	-	51
Total revenues	<u>5,099</u>	<u>4,525</u>	<u>-</u>	<u>28,051</u>	<u>2,717</u>	<u>40,392</u>
<b>EXPENDITURES</b>						
Current:						
General government	9,340	-	-	28,000	-	37,340
Public Safety	-	10,659	-	-	-	10,659
Capital Outlay	-	-	-	227,130	-	227,130
Total Expenditures	<u>9,340</u>	<u>10,659</u>	<u>-</u>	<u>255,130</u>	<u>-</u>	<u>275,129</u>
Excess (deficiency) of revenues over expenditures	<u>(4,241)</u>	<u>(6,134)</u>	<u>-</u>	<u>(227,079)</u>	<u>2,717</u>	<u>(234,737)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out	-	-	-	(94,988)	-	(94,988)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(94,988)</u>	<u>-</u>	<u>(94,988)</u>
Net change in fund balances	(4,241)	(6,134)	-	(322,067)	2,717	(329,725)
Fund balances - beginning	9,664	19,803	649	322,067	23,811	375,994
Fund balances - ending	<u>\$ 5,423</u>	<u>\$ 13,669</u>	<u>\$ 649</u>	<u>\$ -</u>	<u>\$ 26,528</u>	<u>\$ 46,269</u>

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**General Fund Accounts Combining Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>General</u> <u>Fund</u>	<u>Use Tax</u> <u>Fund</u>	<u>Economic</u> <u>Development</u> <u>Fund</u>	<u>Dare Fund</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 289,982	\$ 58,900	\$ 96	\$ 647	\$ 349,625
Investments	204,232	-	-	-	204,232
Due from other funds	61,263	61,263	-	-	122,526
Total assets	<u>555,477</u>	<u>120,163</u>	<u>96</u>	<u>647</u>	<u>676,383</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Due to other funds	31	-	-	-	31
Due to bondholders	2,153	-	-	-	2,153
Payable to other governments	771	-	-	-	771
Total liabilities	<u>2,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,955</u>
Fund balances:					
Assigned to:					
Economic development	-	-	96	-	96
Unassigned	552,522	120,163	-	647	673,332
Total fund balances	<u>552,522</u>	<u>120,163</u>	<u>96</u>	<u>647</u>	<u>673,428</u>
Total liabilities and fund balances	<u>\$ 555,477</u>	<u>\$ 120,163</u>	<u>\$ 96</u>	<u>\$ 647</u>	<u>\$ 676,383</u>

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**General Fund Accounts Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General</u> <u>Fund</u>	<u>Use Tax</u> <u>Fund</u>	<u>Economic</u> <u>Development</u> <u>Fund</u>	<u>Dare Fund</u>	<u>Total</u>
<b>REVENUES</b>					
Taxes	\$ 2,764,306	\$ 119,844	\$ -	\$ -	\$ 2,884,150
Intergovernmental	151,424	-	-	-	151,424
Licenses and permits	3,773	-	-	-	3,773
Charges for services	32,459	-	-	-	32,459
Fees and fines	54,213	-	-	-	54,213
Investment earnings	9,692	-	-	-	9,692
Miscellaneous	45,289	-	-	-	45,289
Total revenues	<u>3,061,156</u>	<u>119,844</u>	<u>-</u>	<u>-</u>	<u>3,181,000</u>
<b>EXPENDITURES</b>					
Current:					
General Government:					
Managerial	87,189	-	-	-	87,189
City Clerk	12,169	-	-	-	12,169
Attorney	19,607	-	-	-	19,607
General Government	254,507	-	-	-	254,507
City Treasurer	10,297	-	-	-	10,297
Planning & Zoning	285	-	-	-	285
Code Enforcement	74,313	-	-	-	74,313
Public Safety:					
Police	854,634	-	-	-	854,634
Municipal Court	19,657	-	-	-	19,657
Emergency Services	16,860	-	-	-	16,860
Fire	37,494	-	-	-	37,494
Maintenance	633,731	-	-	-	633,731
Culture and recreation	5,854	-	-	-	5,854
Capital Outlay	128,491	-	-	-	128,491
Total Expenditures	<u>2,155,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,155,088</u>
Excess (deficiency) of revenues over expenditures	<u>906,068</u>	<u>119,844</u>	<u>-</u>	<u>-</u>	<u>1,025,912</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	2,519,042	-	-	647	2,519,689
Transfers out	<u>(3,504,986)</u>	<u>(160,000)</u>	<u>-</u>	<u>-</u>	<u>(3,664,986)</u>
Total other financing sources and uses	<u>(985,944)</u>	<u>(160,000)</u>	<u>-</u>	<u>647</u>	<u>(1,145,297)</u>
Net change in fund balances	(79,876)	(40,156)	-	647	(119,385)
Fund balances - beginning	632,398	160,319	96	-	792,813
Fund balances - ending	<u>\$ 552,522</u>	<u>\$ 120,163</u>	<u>\$ 96</u>	<u>\$ 647</u>	<u>\$ 673,428</u>

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**Combining Schedule of Net Assets – Checotah Public Works Authority (Modified Cash Basis) – June 30, 2012**

	<u>CPWA</u>	<u>North Avenue Project Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 860,843	\$ -	\$ 860,843
Investments	6,000	-	6,000
Restricted:			
Cash and cash equivalents	304,266	-	304,266
Total current assets	<u>1,171,109</u>	<u>-</u>	<u>1,171,109</u>
Non-current assets:			
Restricted:			
Investments	350,768	-	350,768
Capital Assets:			
Land and construction in progress	455,000	-	455,000
Other capital assets, net of accumulated depreciation	9,240,519	-	9,240,519
Unamortized note issue costs	400,622	-	400,622
Total non-current assets	<u>10,446,909</u>	<u>-</u>	<u>10,446,909</u>
Total assets	<u>11,618,018</u>	<u>-</u>	<u>11,618,018</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other funds	183,789	-	183,789
Deposits subject to refund	12,342	-	12,342
Notes payable	229,415	-	229,415
Bonds payable	185,000	-	185,000
Total current liabilities	<u>610,546</u>	<u>-</u>	<u>610,546</u>
Non-current liabilities:			
Deposits subject to refund	49,369	-	49,369
Notes payable	5,559,571	-	5,559,571
Bonds payable	3,368,658	-	3,368,658
Total non-current liabilities	<u>8,977,598</u>	<u>-</u>	<u>8,977,598</u>
Total liabilities	<u>9,588,144</u>	<u>-</u>	<u>9,588,144</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	352,875	-	352,875
Restricted for debt service	439,817	-	439,817
Unrestricted	1,237,182	-	1,237,182
Total net assets	<u>\$ 2,029,874</u>	<u>\$ -</u>	<u>\$ 2,029,874</u>

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**Combining Schedule of Revenues, Expenses and Changes in Net Assets – Checotah Public Works Authority (Modified Cash Basis) – June 30, 2012**

	<u>CPWA</u>	<u>North Avenue Project Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Charges for services:			
Water	\$ 1,084,863	\$ -	\$ 1,084,863
Sewer	356,159	-	356,159
Sanitation	-	-	-
Penalties	14,543	-	14,543
Miscellaneous	1,467	-	1,467
Total operating revenues	<u>1,457,032</u>	<u>-</u>	<u>1,457,032</u>
<b>OPERATING EXPENSES</b>			
Administration	322,205	-	322,205
Water	932,121	-	932,121
Wastewater	295,043	566	295,609
Sanitation	28,296	-	28,296
Amortization expense	27,806	-	27,806
Depreciation	455,512	-	455,512
Total Operating Expenses	<u>2,060,983</u>	<u>566</u>	<u>2,061,549</u>
Operating income (loss)	<u>(603,951)</u>	<u>(566)</u>	<u>(604,517)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	12,095	-	12,095
Miscellaneous revenue	15,626	-	15,626
Operating grants and contributions	-	-	-
Interest expense	(372,059)	-	(372,059)
Total non-operating revenue (expenses)	<u>(344,338)</u>	<u>-</u>	<u>(344,338)</u>
Income (loss) before transfers	<u>(948,289)</u>	<u>(566)</u>	<u>(948,855)</u>
Capital contributions	343,580	-	343,580
Transfers in	3,208,710	95,431	3,304,141
Transfers out	(1,959,042)	-	(1,959,042)
Interaccount Transfers in	134,650	39,785	174,435
Interaccount Transfers out	(39,785)	(134,650)	(174,435)
Change in net assets	739,824	-	739,824
Total net assets - beginning	1,290,050	-	1,290,050
Total net assets - ending	<u>\$ 2,029,874</u>	<u>\$ -</u>	<u>\$ 2,029,874</u>

**CITY OF CHECOTAH, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

**Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2012**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Federal/State Grantor/Pass through agency Grantor/Program Title</b>	<b>Agency or Pass Thru Number</b>	<b>Program or Award Amount</b>	<b>Contract Expenditures</b>
<b>STATE AWARDS:</b>			
OKLAHOMA DEPARTMENT OF AGRICULTURE:			
Operational Fire Grant	N/A	\$4,413	\$4,413
EASTERN OKLAHOMA DEVELOPMENT DISTRICT:			
2011 REAP FUND 4904	N/A	15,000	15,000
2012 REAP FUND 4904	N/A	20,000	20,000
OKLAHOMA DEPARTMENT OF EMERGENCY MANAGEMENT:			
Storm Damage Reimbursement	DR-1823-OK	1,423	1,423
Storm Damage Reimbursement	DR-1823-OK	1,651	1,651
 <b>TOTAL STATE AWARDS</b>		 <b>\$42,487</b>	 <b>\$42,487</b>

**CITY OF CHECOTAH, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2012**

**Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2012**

	<b><u>2005 Refunding Revenue Bonds and 2007 OWRB DWSRF</u></b>
GROSS REVENUE AVAILABLE:	
Pledged operating revenues (water, sewer and sanitation)	\$1,457,032
Investment income	12,095
Sales tax appropriated and transferred from the City General Fund	<u>2,628,254</u>
Total Gross Revenue Available	<u>4,097,381</u>
OPERATING EXPENDITURES:	
Total Operating Expenditures (water, sewer and sanitation systems, excluding depreciation and amortization)	<u>1,578,231</u>
Net Revenue Available for Debt Service	<u>\$2,519,150</u>
Annual Debt Service on all Obligations Payable From Revenues of the System	<u>\$832,847 (1)</u>
Computed Coverage	<u>302%</u>
Coverage Requirement	<u>125%</u>

(1) 2005 Refunding Revenue Bonds includes average annual debt service for current fiscal year, 2007 OWRB DWSRF Loan Payable is maximum annual debt service

**Schedule of Reserve Requirements Compliance**

	<b><u>2005 Refunding Revenue Bonds</u></b>
Required Balance:	
Revenue Bond Reserve Requirement	<u>\$349,865</u>
Balance in Reserve Account, June 30, 2012	<u>350,768</u>
Excess of Account Balance over Required Balance	<u>\$903</u>

**CITY OF CHECOTAH, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2012**

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**SINGLE AUDIT INFORMATION**





**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 Users of the City of Checotah, Oklahoma, Annual Financial Report

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Checotah, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2012. Our report includes a 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 a paragraph which disclaims an opinion on management's discussion and analysis and budgetary comparison information—modified cash basis. In addition, our report includes a paragraph which renders an adverse opinion on the aggregate discretely presented component units due to the exclusion of the Checotah Industrial Development Authority. 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.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

(Continued)

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City in a separate letter dated December 28, 2012.

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

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 28, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Checotah, Oklahoma

**Compliance**

We have audited the City of Checotah, 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, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied in all material respects, with the 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, 2012.

(Continued)

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

**Internal Control Over Compliance**

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

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

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

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

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 28, 2012

**CITY OF CHECOTAH, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

**Schedule of Expenditures of Federal Awards (Modified Cash Basis) – Year Ended June 30, 2012**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Contract Expenditures
<b>FEDERAL AWARDS:</b>				
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through Oklahoma Department of Commerce:				
Community Development Block Grant - Non-entitlement	14.228	13761 CDBG 09	\$350,000	\$350,000 *
USDA:				
Rural Development Loan (ARRA monies)	10.781	Loan 02-92	1,231,800	39,785
US DEPARTMENT OF TRANSPORTATION:				
Passed through Oklahoma Department of Transportation:				
Safe Routes to School Project	20.205	SRS-155F(710)ST	179,000	149,420
<b>TOTAL FEDERAL AWARDS</b>			<b>\$1,760,800</b>	<b>\$539,205</b>

\* The City had matching funds in the amount of \$478,000

**CITY OF CHECOTAH, OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*Year Ended June 30, 2012*

**SECTION I—SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

**Unqualified**

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:

**Unqualified**

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>
10.781	U.S. Department of Agriculture Rural Development Loan (ARRA)
14.228	U.S. Department of Housing and Urban Development Community Development Block Grant
20.205	U.S. Department of Transportation Safe Routes to School Project (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 CHECOTAH, OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED**

*Year Ended June 30, 2012*

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**SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT**

**None noted.**

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

**None noted.**

**CITY OF CHECOTAH, OKLAHOMA**

**FOLLOW-UP ON PRIOR YEAR FINDINGS**

*Year Ended June 30, 2012*

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There were no findings or questioned costs noted in the audit report for the year ended June 30, 2011.