

BASIC FINANCIAL STATEMENTS

for the

CITY OF TAHLEQUAH

FOR THE YEAR ENDED JUNE 30, 2012

CITY OF TAHLEQUAH

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AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Tahlequah, Oklahoma

I 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 Tahlequah, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Tahlequah's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the aggregate discretely presented component units consisting of the Tahlequah Public Works Authority, Tahlequah Hospital Authority, and the City Light and Water Department and the amounts which are represented. Those financial statements were audited by other auditors whose reports have been furnished to me, and my opinion on the basic financial statements, insofar as it relates to the amounts included for the above component units, is based solely on the reports of the other auditors.

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

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position 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 Tahlequah, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 17, 2013, on my consideration of the City of Tahlequah's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of

that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Tahlequah's financial statements as a whole. The accompanying schedule of expenditures of federal and state assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Tahlequah, Oklahoma. The schedule of expenditures of federal and state assistance is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green, CPA
January 17, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Tahlequah's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements. All discreetly presented component units which issued separate financial reports are disclosed in Note I to the financial statements.

FINANCIAL HIGHLIGHTS

- As reported on the statement of Net Assets, Net Assets decreased by \$7,669,102.
The following highlights relate to the General Fund:
- Overall General Fund revenues of \$8,566,274 exceeded budget projections by \$299,334.
- Collections of the 2% sales tax in the General Fund exceeded budget projections by \$29,439. Total 2% sales tax revenue was \$5,449,839, which was an increase over last fiscal year in the amount of \$102,477 or approximately 1.9%. Sales Tax accounted for 63.6% of this year's total revenues for the general fund.
- Transfers from City Light & Water are the General Fund's second largest source of revenue. This year's transfer of \$1,186,281 accounted for 13.8% of total revenues, and was an increase over last year of \$136,202.
- Use tax collections of 2% were above budget projections by \$3,157 and were up \$2,324 from the previous year.
- Northeast Public Facilities Authority made a transfer in the amount of \$80,000 which was below the budgeted amount by \$10,000.
- Revenue from building permits fell below this year's budget projection by \$12,588, and the revenue decreased \$10,424 from last year's collections. Revenues from inspection fees fell short of budget by \$6,192.
- Other licenses and fees were below budget projections in the amount of \$13,158.
- Sales of Aviation Gasoline and Jet Fuel were above budget by a total of \$60,030.
- Revenues from the City Golf Course continued to increase this year by topping last year by \$34,137.
- Municipal Court Fines, Fees, Costs and Forfeitures fell below projections in the amount of \$4,178. A total of \$458,822 was collected. The City has continued the contract with American Municipal Services to collect warrants and old fines. Through the services of this company several thousand dollars have been received that would not have been collected otherwise.
- Interest income again met and exceeded budget projections by \$4,964. The revenues from interest again fell from the previous year in the amount of \$7,557. As older investments have matured the current interest rate available has continued to drop, causing a decrease in interest income. Current funds invested as of June 30, 2012 are \$2,503,423. \$2,794,581 was being held in the general operating account for daily operations.
- Reimbursement from FEMA in the amount of \$41,626 was received for relief on the ice storm expenditures. This amount was not included in budget projections due to the uncertainty of the payment timeline from the State of Oklahoma.
- The cost of gasoline and diesel stayed below estimated budget costs. A total of \$365,018 was budgeted, and \$279,133 was spent. The amount spent for fuel is an increase over the previous year of \$11,905.

- Employee health insurance costs continue to increase. This year's increase was due to additional fixed costs for the insurance carrier. These costs are for administration of our health plan, along with the costs of re-insurance for claims exceeding \$30,000 per employee and a stop-loss carrier. Annual amount expensed per employee was \$6,024 up \$300 from the previous year. The City continues to be on a partially self-funded insurance plan. Funds available for the payment of claims (under the specific limit of \$30,000) grew from \$296,842 on June 30, 2011 to \$401,720 on June 30, 2012. This amount is reflected in the Health Insurance Contra-Account. Employees were still required to pay \$25.00 per month for their health insurance.
- Transfers of \$318,774 were made to the Capital Improvement Fund from the General Fund for reserves to purchase equipment and for capital projects.
- Transfer of \$20,000 from general funds was made to Tahlequah Industrial Authority to meet debt requirements.
- Transfers of match funds for grants were \$106,423.
- A transfer was made to the Cops-In-Schools fund in the amount of \$45,283 for salary and fringe benefits for one school resource officer.
- A transfer of \$200,000 was made from the General Fund to the Solid Waste Services fund to be used for construction costs related to the building of the new Solid Waste Transfer station.
- All departments within the General Fund were under projected budget expenditures. Revenues exceeded expenditures by a total of \$208,161 for an increase in fund balance June 30, for a total of \$3,673,593.
- Street and Alley Revenues of \$137,339 exceeded expenditures of \$120,494 by \$72,616 for an increased fund balance of \$293,191.
- Hotel Motel Tax revenues exceeded projections by \$7,894. Revenues exceeded expenditures in the amount of \$15,570, resulting in a fund balance carryover of \$34,693.
- Cemetery Care Fund received \$6,712 from 12.5% of all cemetery lot sales and grave openings and closings. A building for top soil storage was erected at a cost of \$17,541, leaving a fund balance of \$59,407.
- The City's enterprise fund-Solid Waste Services Department-expended \$285,312 more than received in revenues and transfers from the General Fund. Sanitation receipts from Tahlequah Public Works exceeded budget expectations in the amount of \$13,380. Transfer station fees were also above budget by \$61,910. Expenditures were at 88.2% of the year's budget. Several large capital purchases were made during this Fiscal Year totaling \$269,838. Construction on the new transfer station continued this fiscal year with expenditures totaling \$682,342. A Lease Purchase agreement with BancFirst in the amount of \$299,373 was made in order to complete the buildings. A transfer was made from the General Fund in the amount of \$200,000 for use on the construction project. Construction of the new plant, adjacent buildings and streets and parking areas is projected to be completed during the 2012-2013 fiscal year.
- Stormwater Management Fund received \$196,870 from stormwater management fees collected by Tahlequah Public Works Authority on customer utility billings. Permit fees of \$700 were collected. Expenditures totaled \$268,866, which exceeded revenues in the amount of \$71,296. Drainage projects in the amount of \$37,522 were completed. Land purchases were made in the amount of \$177,247.
- Brookside Restoration Fund received \$575 in rental fees. Expenditures for the year were \$4,940 for a new wood floor.
- The School Resource Officer Expense Fund received \$2,000 from Tahlequah Public Schools to be used for expenses related to the officers hired from the Cops in Schools Retention Fund. Expenditures were made from the fund in the amount of \$1,414 leaving a fund balance of \$2,969.

- The Capital Improvement Fund received transfers from the General Fund in the amount of \$318,774 for various reserves for equipment and capital projects. A donation was received this fiscal year from the United Keetoowah Band of Cherokee Indians to be used for the construction of a signal light at the intersection of SH 62 and Southridge. This was not spent this fiscal year and will be budgeted in the 2012-2013 budget. \$6,900.00 was received from the Tahlequah Fire Department County Sales Tax Fund to make Lease-Purchase Payments on the new fire station built in Southridge addition. Funds received from the lease purchase this fiscal year were \$85,255, with \$40,020 to be drawn in July 2012. Total Lease-Purchase Payments, including interest, of \$6,879 were made. \$363,735 was spent from this fund for the purchase of equipment and capital projects.
- The Tahlequah Police Canine Fund received \$2,500 for service fees of the drug dogs. A new drug dog was purchased for \$5,000. The fund has a balance of \$15,286.
- The Tahlequah Police Dare Fund received additional donations in the amount of \$849 to be used for the purpose of training & supplies for the Dare Officer in the Police Department. Expenditures totaled \$2,436 leaving a fund balance of \$825.
- The Restricted Sales & Use Tax Fund was established to account for an earmarked one-half of one percent (.5%) sales and use tax that was approved by the voters at a special election held on August 7, 2009. The new tax was effective on October 1, 2009 and will end on September 30, 2019 or at such a time as the indebtedness issued pursuant to the tax is paid, whichever occurs earlier. Funds are to be transferred to Tahlequah Public Works for payment on the indebtedness. Funds are to be used for Tahlequah Public Schools construction fund in an amount of \$3,200,000 and the City of Tahlequah for public improvements in the amount of \$4,800,000. Funds were received in December 2009. Total receipts from earmarked sales and use tax were \$1,403,249 and total transferred to Tahlequah Public Works was \$1,403,249.
- The Bond Improvement Fund was established to account for the funds which were received from the bond issue in the amount of \$4,782,419. These funds are to be spent on public improvements which include street projects on West Allen Road, East Ross Street and West Fourth Street. Other projects are the Sports Complex, Community Beautification and Fire Station Annex. A total of \$2,962,459 was expended this fiscal year. The street projects are completed, as is the community beautification. The fire station will be completed in early July, and all funds for the sports complex will be expended in early September 2012.
- The Winter Wonderland Fund was established to account for the funds received from donations, skate fee revenues and a transfer from the City of Tahlequah General Fund in the amount of \$20,000. After expenses were paid from this fund the balance remaining in the amount of \$41,211 was transferred back to the general fund.
- The Cops in School Retention Fund is for the purpose of accounting for the expenses of providing three School Resource Officers for the Tahlequah Public School System. The expense, including salaries and fringe benefits, of two officers was paid by Tahlequah Public Schools in the amount of \$89,600. One officer was funded by a transfer from the general fund of the City.
- Funds were received from the Bullet Proof Vest Grant Program in the amount of \$287. This is an ongoing 50% reimbursement grant with \$3,488 remaining for purchase of vests.
- The Fire Department AFG Grant received an extension from the Department of Homeland Security, Assistance to Firefighters Grant through FEMA in order to expend the balance of the grant amount of \$6,766.83. City Match Fund required on the grant was \$752 for a total project expense of \$7,518.70.

- The Encourage to Arrest Grant Fund & Community Solutions to Violence Against Women Grant Funds are to account for the ongoing grant from the Department of Justice, Office on Violence Against Women. Total funds in the amount of \$166,472.52 were expended and reimbursements from the Department of Justice in the amount of \$164,598.47 were received.
- Of the award received from the Department of Justice, Swat/Reserve Equipment Grant in the amount of \$26,416 expenditures of \$2,500 have been made this fiscal year. Reimbursements this fiscal year totaled \$2,500.
- A grant in the amount of \$70,875 was received from the Eastern Oklahoma Department of Libraries. The general fund provided \$25,000 in match funds. Funds in the amount of \$105,554.32 were expended for construction, re-model and equipment for a new computer center at the City Library.
- Tahlequah Police Department received a grant award from the Oklahoma Highway Safety Office, Tahlequah Impaired Driving Enforcement Grant II in the amount of \$18,000. Expenditures were \$5,896.18 and reimbursements received were \$10,100.79. This grant was completed in September 2011.
- Tahlequah Police Department received a grant award from the Oklahoma Highway Safety Office, Tahlequah Impaired Driving Enforcement Grant III in the amount of \$21,000. Expenditures were \$14,705.32 and reimbursements received were \$11,775.13.
- A Land Acquisition Grant was approved by the Federal Aviation Administration in the amount of \$95,712.00. City match funds of \$5,038.00 were transferred to the fund. No expenditures were made during this fiscal year.
- A contract was awarded from the Oklahoma Department of Commerce, Community Development Block Grants, in the amount of \$98,199. Match funds required from the City in the amount of \$98,633 were transferred to the fund. No expenditures were made this fiscal year.
- The City of Tahlequah received a total of \$287,563.60 in grant funds this fiscal year, including the reimbursement of \$41,626.21 from FEMA.

• USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirement of the Governmental Accounting Standards Board (GASB) Statement No.34. The report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the city as a whole and present a longer-view of the City's finances. Fund financial statements, for governmental activities, 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.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Taxpayer assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the City Council for the City of Tahlequah is fiscally responsible. These activities, defined as the City's reporting entity, are operated separate legal entities that make up the primary government and another separate legal entity that is included as a component entity.

The primary government includes the following legal entity:

- The City of Tahlequah

The component unit presentation includes the following legal entities:

- Tahlequah Public Works Authority
- Tahlequah Hospital Authority
- Tahlequah Industrial Authority
- Tahlequah Educational Facilities Authority
- Tahlequah Redevelopment Authority
- City Light and Water Department (Tahlequah)

The Government-Wide Statement of Net Assets and Statement of Activities

Our financial analysis of the City as a whole begins on page 12. The government-wide financial statements are presented on pages 14 and 15. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off 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 that question. These statements include all of the City's assets and liabilities resulting from the use of the modified accrual basis of accounting.

These two statements report the City's net assets and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health of financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the City's sales tax base and the condition of the City's streets, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, general administration (managerial), streets, parks, cemetery, airport, maintenance and civil emergency management. Sales taxes, franchise fees, fines and forfeitures, licenses and permits, charges for services and transfers from City Light and Water finance most of these activities. State and federal grants also help to finance these activities.

Business-type activities. The City charges a fee to customers to help in covering all or most of the cost of certain services it provides. The City's solid waste system is reported here.

Component unit activities.

- Tahlequah Public Works Authority is a public trust created to provide utility services to the citizens of Tahlequah, Oklahoma and the surrounding community. The City is the beneficiary of the trust and the excess funds it generates.
- Tahlequah Hospital Authority is a public trust created to provide medical facilities to the Tahlequah metro area. The City of Tahlequah is the beneficiary of the trust and will receive all residual trust funds and assets upon termination of the trust.
- Tahlequah Industrial Authority is a public trust created to stimulate industry in the Tahlequah metro area through the creation of an industrial park. Land and infrastructure improvements are owned in trust by the City.
- Tahlequah Redevelopment Authority is a public trust created to provide zero profit financing to local business interests. The City receives no direct benefit or monies from the trust's activities. The Redevelopment Authority had no activity during the fiscal year.
- Tahlequah Educational Facilities Authority is a public trust created to promote, finance and develop projects, facilities and services pertaining to educational institutions and the furtherance of educational opportunities; to expend all funds coming into the hands of the Trustees as revenue or otherwise for the payment of any indebtedness incurred by the Trustees for the purposes specified. The City receives no direct benefit or monies from the trust's activities.
- City Light and Water Development was originally the Municipal Utility Board of Tahlequah. When Tahlequah Public Works was established, this board continued as a legal entity to pay director's fees, legal fees, and municipal lighting expenses. Funds are transferred to this entity from TPWA to pay the above expenses with the balance reverting to the City of Tahlequah General Fund.

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 14. The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds, like the Tahlequah Public School Tax Fund, 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 such as the grant from the Federal Aviation Administration. The City's three kinds of funds—*governmental, proprietary and fiduciary*—use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year end that are available for spending. 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. We describe the relationship (or differences) between governmental activities

(reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements. The City considers the General Fund, the Capital Improvement Fund and the Restricted Sales & Use Tax Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds-When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. 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. In fact, the City's proprietary (enterprise) fund financial statement is essentially the same as the business-type activities we report in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows. The City has one enterprise fund-the Solid Waste Services Fund.

Fiduciary funds- are used to account for assets that are held in a trustee or fiduciary capacity such as assets held per trust agreements and similar arrangements. The City is the trustee, or fiduciary, for the Municipal Court Bond Fund and Municipal Court CLEET Fund. It is also the trustee for the Cemetery Care Fund, in which 12.5% of all cemetery lot sales, opening and closings are placed in accordance with the laws of the State of Oklahoma. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from the particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identified how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even it restricted for a specific purpose.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund Budget at various times. For the year ended June 30, 2012, General Fund expenditures were \$1,186,560 below final budgeted amounts, and General Fund revenues were \$299,334 above final budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the City had 26,845,596 million invested in capital assets, net of depreciation, including land, buildings, improvements, machinery, equipment, autos, infrastructure, computers and software, office equipment and furniture and work in progress.

This year's more significant capital assets additions included:

Signalization SH 51 & 4 th Street	\$ 33,556
Fiber Optic Systems	\$ 15,500
Surveillance Systems	\$ 28,473
Drainage Ditch-Boone to Cedar	\$ 15,000
Emergency Operations Storage Building	\$ 30,314
Fire Vehicle Ford F-150	\$ 25,175
Fire Dept-SCBA Equipment	\$ 12,000
Police Vehicles	\$ 147,474
Equipment for Police Units	\$ 26,579
Cab Chassis & Dump Bed-Street Dept	\$ 193,266
Smooth Drum Roller – Street Dept	\$ 26,522
Pickup – Street Dept	\$ 14,999
Vibratory Tandem Roller-Street Dept Lease/Purchase	\$ 37,141
Loader Backhoe – Street Department	\$ 69,850
Sandspreader – Street Department	\$ 9,495
Sidewalks & Drainage Projects	\$ 49,937
Capital Street Projects	\$ 100,378
Parks & Golf Course Improvements	\$ 34,300
Park Department Vehicle	\$ 14,634
Park Department Mowers	\$ 10,990
W Allen Road	\$ 804,761
E Ross Street	\$ 320,465
West Fourth Street	\$ 522,262
Storage Building for Top Soil-Cemetery Care Fund	\$ 17,541
Purchase of Property-Stormwater Management	\$ 177,247
City Library Computer Center & Equipment	\$ 105,554
Construction in Progress-Fire Station #2 (Bond)	\$ 836,510
Construction in Progress-Sports Complex (Bond)	\$1,787,947

SOLID WASTE SERVICES FUND-ENTERPRISE FUND

Natural Gas Packer Truck	\$ 126,350
Construction Dumpsters	\$ 113,500
Construction in Progress-Transfer Station	\$1,461,677

Long-Term Debt

At June 30, 2012 the City had \$3,017.66 in a lease purchase agreement with BancFirst, Tahlequah, Oklahoma for the purchase of a sheep's foot roller.

At June 30, 2012 the City had \$78,748.01 in a lease purchase agreement with BancFirst, Tahlequah, Oklahoma for the purchase of a portion of the new Fire Station #2 located in the Southridge Subdivision.

At June 30, 2012 the Solid Waste Services Fund (Enterprise Fund) had \$191,866.26 in a lease purchase agreement with BancFirst for the purchase of the following buildings at the new solid waste plant; Transfer Station, Warehouse and Shop Building.

At June 30, 2012 the Solid Waste Services Fund (Enterprise Fund) had \$107,146.06 in a lease purchase agreement with Welch State Bank, Welch Oklahoma for the purchase of a 2012 Freightliner Semi-Tractor.

At June 30, 2012 the Stormwater Management Fund had \$50,000.00 in a lease purchase with Sandy J Crosslin for the purchase of property located at 819 Guinn Street, Tahlequah, Oklahoma.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGT AND RATES

For the upcoming fiscal year ending June 30, 2013, the City's budget is fairly consistent with this year.

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's Finance Director at 111 S. Cherokee, Tahlequah, Oklahoma or telephone at (918)456-0651.

FINANCIAL STATEMENTS

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 2,313,418	\$ 794,218	\$ 3,107,637	\$ 23,818,915
Restricted Cash	-	-	-	8,913,162
Investments	2,503,423	-	2,503,423	-
Federal Treasury Obligations	5,809,357	-	5,809,357	-
Meter Deposits	-	-	-	-
Due From Other Funds	101,179	-	101,179	-
Bond Issuance Fees	518,625	-	518,625	-
Accumulated Amortization	(122,453)	-	(122,453)	-
Accounts Receivable	25,282,945	50	25,282,995	16,262,790
Prepays	-	-	-	1,281,945
Other	-	-	-	1,947,109
Unamortized Loan Organization Costs	-	-	-	281,718
Inventory and Supplies	-	-	-	3,210,825
Investment in Joint Ventures	-	-	-	2,956,919
Capital Assets (page 30)	38,199,934	4,171,770	42,371,704	72,780,122
Accumulated Depreciation	(14,623,275)	(1,063,833)	(15,687,108)	-
Total Assets	<u>59,983,155</u>	<u>3,902,206</u>	<u>63,885,361</u>	<u>131,453,505</u>
LIABILITIES				
Due to Other Funds	101,179	-	101,179	-
Bonds Outstanding	19,850,000	-	19,850,000	-
Long-Term Liabilities (Note5):				
Due Within One Year	78,007	158,343	236,350	4,721,816
Due in More Than One Year	53,758	140,669	194,427	44,063,789
Due to TPWA	-	-	-	1,153,864
Federal Withholding	121,344	-	121,344	-
Accounts Payable	256,041	-	256,041	4,300,752
Accrued Expenses	58,192	22,543	80,736	3,120,412
Accrued Compensated Absences	126,802	-	126,802	719,962
Bond / Cleet Deposits Payable	35,613	-	35,613	1,159,860
Deferred Revenue/Minority Interest in Joint Ventures	24,629,050	-	24,629,050	-
Total Liabilities	<u>45,309,987</u>	<u>321,555</u>	<u>45,631,542</u>	<u>59,240,455</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,594,894	2,808,925	6,403,820	31,832,379
Restricted for Statutory Requirements	-	-	-	4,844,088
Restricted for Externel Contracts	-	-	-	2,339,099
Unrestricted	11,078,275	771,725	11,849,999	33,197,484
Total Net Assets	<u>\$ 14,673,169</u>	<u>\$ 3,580,650</u>	<u>18,253,819</u>	<u>\$ 72,213,050</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense)Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Subsidies	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
General Government	\$ 11,842,149	\$ -	\$ -	\$ -	\$ (11,842,149)	\$ -	\$ (11,842,149)	\$ -
Public Safety	3,344,886	458,822	634,503	-	(2,251,562)	-	(2,251,562)	-
Public Services	2,176,401	1,100,173	-	-	(1,076,228)	-	(1,076,228)	-
Culture and Recreation	911,294	95,612	-	-	(815,682)	-	(815,682)	-
Total Governmental Activities	<u>18,274,730</u>	<u>1,654,607</u>	<u>634,503</u>	<u>-</u>	<u>(15,985,620)</u>	<u>-</u>	<u>(15,985,620)</u>	<u>-</u>
Business Type Activities:								
Sanitation	1,510,599	2,003,572	-	-	-	492,973	492,973	-
Total Business-Type Activities	<u>1,510,599</u>	<u>2,003,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>492,973</u>	<u>492,973</u>	<u>-</u>
Total Primary Government	<u>19,785,328</u>	<u>3,658,179</u>	<u>634,503</u>	<u>-</u>	<u>(15,985,620)</u>	<u>492,973</u>	<u>(15,492,647)</u>	<u>-</u>
Component Units	<u>91,200,370</u>	<u>99,830,633</u>	<u>-</u>	<u>-</u>				<u>8,630,263</u>
General Revenues:								
Tax Revenue					6,301,307	-	6,301,307	-
Investment Income					57,697	-	57,697	877,299
Bond Proceeds					-	-	-	-
Other					358,978	-	358,978	(5,795,156)
Transfers - Internal Activity					900,083	200,000	1,100,083	-
Total General Revenues and Transfers					<u>7,618,065</u>	<u>200,000</u>	<u>7,818,065</u>	<u>(4,917,857)</u>
Change in Net Assets					(8,367,556)	692,973	(7,674,582)	3,712,406
Net Assets - Beginning					23,040,724	2,887,677	25,928,402	68,500,644
Net Assets - Ending					<u>\$ 14,673,169</u>	<u>\$ 3,580,650</u>	<u>\$ 18,253,819</u>	<u>\$ 72,213,050</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF TAHLEQUAH, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Capital Improvement Fund	Bond Improvement Fund	Tahlequah Educational Facility Authority	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	1,036,334	\$ 532,393	\$ -	\$ 25,781	\$ 718,911	\$ 2,313,418
Federal Treasury Obligations	-	-	311,712	5,497,645	-	5,809,357
Investments	2,503,423	-	-	-	-	2,503,423
Due from Other Funds	101,179	-	-	-	-	101,179
Accounts Receivable	650,195	-	-	24,629,050	3,700	25,282,945
Bond Issuance Fees	-	-	-	518,625	-	518,625
Accumulated Amortization	-	-	-	(122,453)	-	(122,453)
Total Assets	4,291,132	532,393	311,712	30,548,648	722,611	36,406,496
LIABILITIES AND FUND BALANCES						
Liabilities:						
Bonds Outstanding	-	-	-	19,850,000	-	19,850,000
Deferred Revenue	-	-	-	24,629,050	-	24,629,050
Federal Withholding and Retirement Payable	255,961	-	-	80	-	256,041
Accounts Payable	121,344	-	-	-	-	121,344
Accrued Payroll	56,352	-	-	-	1,840	58,192
Bond / Cleet Deposits Payable	35,613	-	-	-	-	35,613
Due to Other Funds	-	-	-	-	101,179	101,179
Total Liabilities	469,270	-	-	44,479,130	103,019	45,051,420
Fund Balances:						
Unassigned	3,821,862	532,393	311,712	(13,930,482)	619,591	(8,644,923)
Assigned	-	-	-	-	-	-
Total Fund Balances	3,821,862	532,393	311,712	(13,930,482)	619,591	(8,644,923)
Total Liabilities and Fund Balances	\$ 4,291,132	\$ 532,393	\$ 311,712	\$ 30,548,648	\$ 722,611	

Reconciliation to Statement of Net Assets:

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Accrued Compensated Absences not payable out of current funds	(126,802)
Capital Assets Used in Governmental Activities of \$38,121,686 net of accumulated depreciation of \$14,079,812 are not Financial Resources and, therefore, are not Reported in the Funds.	23,576,659
Capital Lease not payable out of current funds	(131,765)
Net Assets of Governmental Activities	\$ 14,673,169

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Improvement Fund	Bond Improvement Fund	Tahlequah Educational Facility Authority	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 6,064,049	\$ 6,900	\$ -	\$ -	\$ 230,358	\$ 6,301,307
Charges for Services	506,190	-	-	386,325	207,658	1,100,173
Fines and Forfeitures	458,822	-	-	-	-	458,822
Licenses and Permits	95,612	-	-	-	-	95,612
Investment Income	54,964	-	1,718	1,013	2	57,697
Miscellaneous	96,472	-	-	-	262,505	358,978
Bond Proceeds	-	-	-	-	-	-
Grants and Subsidies	41,626	10,150	-	355,591	227,135	634,503
Total Revenues	7,317,735	17,050	1,718	742,929	927,659	9,007,091
Expenditures:						
General Government:						
Managerial	1,250,063	-	-	-	-	1,250,063
City Clerk	49,990	-	-	-	-	49,990
City Treasurer	13,360	-	-	-	-	13,360
City Attorney	50,585	-	-	-	-	50,585
Municipal Judge	99,697	-	-	-	-	99,697
Maintenance	237,496	-	-	-	54,350	291,846
Hotel/Motel	-	-	-	-	78,323	78,323
Tahlequah Educational Facility Authority	-	-	-	9,183,533	-	9,183,533
Public Safety:						
Law Enforcement	1,983,668	-	-	-	333,635	2,317,303
Fire	743,604	-	-	-	7,519	751,122
Building Inspector	2,585	-	-	-	-	2,585
Emergency Management	74,893	-	-	-	-	74,893
Public Services:						
Cemetery	207,442	-	-	-	-	207,442
Animal Shelter	91,439	-	-	-	-	91,439
Streets	965,108	-	-	-	120,494	1,085,602
Airport	334,717	-	-	-	-	334,717
Culture and Recreation:						
Parks and Recreation	629,569	-	-	-	99,997	729,567
Library	26,222	-	-	-	38,000	64,222
Capital Outlay	792,535	370,614	2,962,459	-	243,023	4,368,632
Total Expenditures	7,552,973	370,614	2,962,459	9,183,533	975,342	21,044,922
Excess (deficiency) of Revenues Over Expenditures	(235,238)	(353,564)	(2,960,741)	(8,440,604)	(47,683)	(12,037,830)
Other Financing Sources (Uses)						
Transfers In	1,267,718	318,774	-	-	65,283	1,651,775
Transfers Out	(710,480)	-	-	-	(41,212)	(751,692)
Total Other Financing Sources (Uses)	557,238	318,774	-	-	24,071	900,083
Net Change in Fund Balance	322,000	(34,790)	(2,960,741)	(8,440,604)	(23,612)	(11,137,747)
Fund Balances - Beginning	3,499,862	567,183	3,272,453	(5,489,878)	643,203	2,492,824
Fund Balances - Ending	\$ 3,821,862	\$ 532,393	\$ 311,712	\$ (13,930,482)	\$ 619,591	\$ (8,644,923)

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF TAHLEQUAH, OKLAHOMA
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2012

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

Net change in fund balances - total governmental funds	\$ (11,137,747)
Accrued Compensated Absences not payable out of current funds	8,600
Governmental funds report outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciated expenses. This is the amount by which capital outlays exceeded depreciation net of gain/loss on desposial of assets in the current period.	\$ 2,761,592
Change in Net Assets - Statement of Activities	<u>\$ (8,367,556)</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 794,218
Accounts receivable	50
Total Current Assets	<u>794,268</u>
Noncurrent Assets	
Land and construction in progress	1,537,777
Other capital assets, net of accumulated depreciation	1,570,161
Total Noncurrent Assets	<u>3,107,937</u>
Total Assets	<u>3,902,206</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Payroll	22,543
Capital Lease Payable Current	158,343
Total Current Liabilities	<u>180,886</u>
NONCURRENT LIABILITIES	
Total Noncurrent Liabilities	140,669
Total Liabilities	<u>321,555</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,808,925
Reserved	-
Unrestricted	771,725
Total Net Assets	<u>\$ 3,580,650</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
JUNE 30, 2012

	Enterprise Fund
OPERATING REVENUES	
Charges for services:	
Transfer station fees	\$ 235,910
Sanitation/TPWA	1,716,380
Miscellaneous operating revenue	51,282
Total Operating Revenues	2,003,572
 OPERATING EXPENSES	
Salaries and Employee Benefits	522,740
Materials and Supplies	892,177
Other Expenses	-
Depreciation	95,681
Total Operating Expenses	1,510,599
 OPERATING INCOME	492,973
 NON OPERATING REVENUES (EXPENSES)	
Interest Expenses	-
Total Non-Operating Revenues (Expenses)	-
 Net Income (Loss) Before Transfers	492,973
 TRANSFERS	
Transfers in	200,000
Transfers out	
 CHANGES IN NET ASSETS	692,973
 TOTAL NET ASSETS - BEGINNING	2,887,677
 TOTAL NET ASSETS - ENDING	\$ 3,580,650

The accompanying notes and auditor's report are an integral part of these financial statements.

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,953,254
Other	51,282
Personnel Services	(522,740)
Maintenance and Operations	(907,484)
Net Cash Provided by Operations	<u>574,311</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	-
Transfers from Other Funds	200,000
Net Cash Provided by Noncapital Financing Activities	<u>200,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets Net of Retirements	(1,302,176)
Cash Provided by Capital Leasing Activity's	243,515
Net Cash Used by Capital and Related Financing Activities	<u>(1,058,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Cash Provided by Investing Activities	<u>-</u>
Net Increase in cash and cash equivalents	(284,350)
Beginning cash and cash equivalents	1,078,568
Ending cash and cash equivalents	<u>\$ 794,218</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	492,973
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	95,681
Decrease in Accounts Receivable	963
Increase in Accrued Expenses	(15,306)
Net cash provided by operating activities	<u>\$ 574,311</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**NOTES TO
FINANCIAL STATEMENTS**

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Tahlequah, Oklahoma (oversight unit) conform to the accounting principles generally accepted in the United States of America for state and local governments.

A. REPORTING ENTITY

The City of Tahlequah was incorporated on June 9, 1908, under the laws and constitution of the State of Oklahoma. On June 18, 1940, a voter approved charter was established.

The City Council, an elected five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to the City of Tahlequah within the jurisdiction of the City. The City receives funding from local, state, and federal government sources; and must comply with the requirements of these funding source entities. However, the City of Tahlequah is not included in any governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the Council members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The City provides various services, and consists of many different activities and smaller accounting entities. These include a community hospital, economic loan program, industrial park, police force, fire fighting and prevention force, sewage treatment plant, water treatment plant, storm water drainage system, traffic control system, street lighting, street maintenance force (including construction, repair, and snow and ice removal), a parks and recreation system, rubbish collection and recycling service, and a staff to provide the necessary support to these service providers. All are responsible to the citizens of Tahlequah, and are therefore included within the reporting entity.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following potential component units are included in the City's reporting entity as aggregate discretely presented component units.

Tahlequah Public Works Authority

The Tahlequah Public Works Authority is a public trust created to provide utility services to the citizens of Tahlequah, Oklahoma, and the surrounding community. The City of Tahlequah is the beneficiary of the trust and the excess funds the trust generates. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College. During the 2011-2012 fiscal year, the TPWA transferred \$1,716,380 (cash basis) to the City of Tahlequah through the City Light and Water Department.

Tahlequah Hospital Authority

The Tahlequah Hospital Authority is a public trust created on June 3, 1974, to provide medical facilities to the Tahlequah metro area. The City of Tahlequah, Oklahoma, is the beneficiary of the trust and will receive all residual trust funds and assets upon termination of the trust. Audited financial statements for this component unit can be obtained at its general offices located at 1400 East Downing.

Tahlequah Industrial Authority

The Tahlequah Industrial Authority is a public trust created to stimulate industry in the Tahlequah metro area through the creation of an industrial park. Land and infrastructure improvements are owned in trust by the City of Tahlequah, Oklahoma. Audited financial statements for this component unit can be obtained at the City of Tahlequah's City Hall.

Tahlequah Redevelopment Authority

The Tahlequah Redevelopment Authority is a public trust created to provide zero profit financing to local business interests. The City of Tahlequah, Oklahoma, receives no direct benefit or monies from the trust's activities. The Authority had no activity during the fiscal year.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

City Light and Water Department (Tahlequah)

This department originally began as the Municipal Utility Board of Tahlequah. The Tahlequah City charter, adopted in 1940, set up this board to operate all utilities. When the Tahlequah Public Works Authority (TPWA) was established, this board continued, as a legal entity, to pay director fees, legal fees, and municipal lighting expenses. Funds are transferred to this entity from TPWA to pay the above expenses with the balance reverting to the City of Tahlequah General Fund. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College. The audit of this component unit was completed by another auditor and reflected the following information.

<u>RECEIPTS</u>	<u>2011-2012</u>
Transfers from TPWA	\$ 1,228,111
Interest Income	173
Total Receipts	<u>1,228,284</u>
 <u>DISBURSEMENTS</u>	
Director's Fees	\$ 44,954
Apportioned to the City of Tahlequah	<u>1,183,157</u>
Total Disbursements	<u>\$ 1,228,111</u>
Excess Receipts over Disbursements	<u>\$ 173</u>

Northeastern Oklahoma Public Facilities Authority

The Northeastern Oklahoma Public Facilities Authority is not a component unit of the City of Tahlequah. According to GASB Statement No. 14, the Primary Government (City of Tahlequah) must have financial accountability for a component unit, appoint a voting majority of the component unit's board, impose its will, be a financial benefit or burden, be fiscally dependent and/or be able to designate management. This entity does not fall under this criteria. The City of Tahlequah is merely a beneficiary of this public trust.

B. FUND ACCOUNTING

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The City utilizes two fund categories and five fund types.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state sales taxes and charges for services (i.e. refuse revenues). Expenditures include all costs associated with the daily operations of the City except for programs specially funded for building repairs and maintenance and construction.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources or grants (other than special assessments or expendable trusts) that are legally restricted to expenditures for special purposes.

Capital Project Fund - Capital Project Funds are used to account for the acquisition of capital facilities being financed from intergovernmental revenues or transfers from funds other than those recorded in proprietary funds.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds).

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the City is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the City holds on behalf of others as their agent and do not involve measurement of results of operations.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Expendable Trust Funds - These funds account for assets received and expended by the City as trustee in and are reported as governmental funds in the financial statements. These funds include:

Cemetery Care - A trust established to account for the portion of cemetery lot sales designated for perpetual care and capital improvements of the cemetery.

Brookside Restoration Fund - A trust fund established to account for public donations and city contributions towards the restoration of the historic Brookside House.

Agency Funds - These funds are used to account for assets held by the City as a custodial trustee, and do not involve measurement of results of operations. These funds include the Municipal Court Bonds, and are reported as a liability in the general fund.

Cash in Escrow	2012
Court Bonds	\$ 31,263
Cleet Account	4,350

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical costs, 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 were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities under general government, with the accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report capital assets. The range of estimated useful lives by type of assets is as follows:

Buildings	10-50 years
Improvements	5-10 years
Machinery, furniture, and equipment	5-20 years
Automobiles	5-20 years
Infrastructure	5-50 years

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in the governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Taxpayer assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current period or soon enough thereafter to be used to pay obligations of the current period): taxes, services, investment earnings, and fines and forfeitures. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred.

Reservations of Fund Equity

Fund balances are reserved for encumbrances as further explained in Note D.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources has not been reported as an expenditure or fund liability of the governmental fund that will pay it. Rights to receive sick pay benefits have not been reported in the general long-term debt account group. This practice differs from accounting principles generally accepted in the United States of America. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The amount of vacation and compensatory time susceptible to accrual in accordance with SFAS No. 43, has been reflected as a liability in the Statement of Net Assets.

D. ENCUMBRANCES

Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed purchase orders in process are completed. Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in the governmental funds. Unencumbered appropriations lapse at the end of the fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the budgets of governmental funds on the same basis of accounting that the financial statements are presented. The unencumbered balance of each appropriation lapses at year end, reverts to the respective fund from which it was appropriated, and becomes available for future appropriation. For the 2011-2012 fiscal year there were no outstanding encumbrances.

Requirement for All Budgeted Funds

For day to day management control expenditures plus encumbrances may not exceed budget at the expenditure type level of each cost center. The Council may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. Council may, by ordinance, transfer amounts among programs within and between funds.

Unreserved Fund Balance

Fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

E. REVENUES, EXPENDITURES, AND INTERFUND TRANSACTIONS

Tax Revenues

Tax revenues include sales, alcohol, use, gross receipts , cable TV fees, and franchise fees.

Licenses and Permits

Revenues include building and sign permits, inspection fees, animal shelter fees, zoning fees, and occupational licenses.

Charges for Services

Primary revenues consist of transfer station fees; cemetery lot sales; cemetery openings and closings; airport, golf course, and pool income from operations; and sanitation trash service revenue that will be more appropriately identified as an enterprise fund in the next fiscal year.

Fines and Forfeitures

The revenues are generated from the administration of the police department as cases are adjudicated through the City's court system. They primarily consist of bond forfeitures.

Intergovernmental Programs

This revenue, in the General Fund, is a transfer from component units that is shown as such on the component unit's financial statement. The Special Revenue Fund accounts for grants and entitlements in this category.

Miscellaneous Revenue

This revenue account is all other revenue collected by the city.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

Expenditures

Expenditures have been classified by the following five service areas provided to the citizens of the City. The specific departments which are contained within each service area are also identified. All departmental capital expenditures are included in the capital outlay classification.

General Government

Managerial
City Clerk
City Treasurer
City Attorney
Municipal Judge
Maintenance Department
Fringe Benefits
Purchasing

Public Safety

Building Inspector
Civil Defense
Fire Department
Law Enforcement

Culture and Recreation

Library
Park Department

Public Services

Street Department
Animal Shelter
City Airport
Cemetery

Capital Outlay

Consists of all capital expenditures of all departments.

Interfund Transactions

Loans to funds are properly classified as due to and due from amounts, and transactions which constitute reimbursements to a fund appropriately cancel the original transactions. Expenditures initially made with loaned funds are properly classified within the fund (see Note 4). All other interfund transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. Operating transfers are identified as other financing sources (uses) in the financial statements. No residual equity transfers occurred during the fiscal year 2012.

**CITY OF TAHLEQUAH, OKLAHOMA,
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

F. ASSETS, LIABILITIES AND FUND EQUITY

Capital Assets and Property, Plant, and Equipment

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

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital Assets not being Depreciated				
Land	\$ 2,240,958	\$ 465,093	\$ -	\$ 2,706,051
Construction in Progress	1,399,871	1,629,149	-	3,029,020
Capital Assets being Depreciated				
Automobiles and Trucks	3,307,530	565,203	249,373	3,623,360
Buildings and Building Improvements	5,244,242	176,568	-	5,420,810
Infrastructure	17,078,372	2,054,990	-	19,133,362
Computers and Office Equipment	472,558	24,482	9,918	487,122
Machinery and Equipment	3,676,072	486,636	362,499	3,800,209
Total Capital Assets being Depreciated	29,778,774	3,307,879	621,790	32,464,863
Total Capital Assets	33,419,603	5,402,121	621,790	38,199,934
Less Accumulated Depreciation	13,239,527	1,607,040	223,292	14,623,275
Governmental Activities, Capital Assets, Net	<u>\$ 20,180,076</u>	<u>\$ 3,795,081</u>	<u>\$ 398,498</u>	<u>\$ 23,576,659</u>

Depreciation expense for governmental activities is charged to functions as follows:

General Government	\$ 833,352
Public Safety	198,982
Public Services	457,201
Culture and Recreation	117,505
Total Depreciation from Governmental Activities	<u>\$ 1,607,040</u>

**CITY OF TAHLEQUAH, OKLAHOMA,
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Capital Assets and Property, Plant, and Equipment

Capital asset activity for business-type activities for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Capital Assets, not being Depreciated				
Land	\$ 76,100	\$ -	\$ -	\$ 76,100
Construction in Progress	529,761	931,916	-	1,461,677
Total Capital Assets not being Depreciated	605,861	931,916	-	1,537,777
Capital Assets being Depreciated				
Other Capital Assets	2,509,490	124,503	-	2,633,993
Total Capital Assets	3,115,351	1,056,419	-	4,171,770
Less Accumulated Depreciation				
Other Capital Assets	1,213,909	95,681	245,757	1,063,833
Total Accumulated Depreciation	1,213,909	95,681	245,757	1,063,833
Business-Type Activities, Capital Assets, Net	\$ 1,901,442	\$ 960,738	\$ (245,757)	\$ 3,107,937

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Investments

Investments on hand at June 30, 2012, consist of the following.

<u>Number - Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>	<u>Market Value</u>
FHL Mortgage Corp	09-06-19	1.500%	550,000.00	550,000.00
FHL Mortgage Assoc	07-29-21	2.000%	90,000.00	90,000.00
FHL Banks	03-12-21	3.625%	198,423.00	198,423.00
#Various CD's Various Bank's	Various	5.16%-1.25%	1,665,000.00	1,665,000.00
		Total	<u>\$2,503,423.00</u>	<u>\$2,503,423.00</u>

The City's bank balance in all depository accounts at year end was \$3,107,637 at June 30, 2012.

At June 30, 2012 all cash deposits and certificates of deposits were either FDIC insured or covered by collateral pledged by the banks trust department.

The difference between the carrying amount and market value has not been reflected as unrealized gains, and is considered immaterial to the overall financial statement presentation. A detail of Certificate of Deposits can be obtained at the city offices.

Inventories

The value of consumable inventories at June 30, 2012, is not material to the financial statements. Purchases for inventory items are considered expenditures at the time the items were encumbered.

Cash and Cash Equivalents

The City considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments

Pooled cash and investments - a "pooled cash" concept is used in maintaining the cash and investment account in the accounting records. Under this method all cash is pooled for investment purposes, and each fund has equity in the pooled amount.

NOTE 2: CASH AND INVESTMENTS

The City's investment policies are governed by city charter and state statute. Permissible investments include direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and local associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Deposits

The City's cash deposits at June 30, 2012, are categorized to give an indication of the level of risk assumed by the City at year end as follows:

Deposit Categories of Credit Risk

(A) Insured or collateralized with securities held by the City or by its agent in the City's name.

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

(C) Uncollateralized.

	CATEGORY			BANK BALANCE	CARRYING AMOUNT
	(A)	(B)	(C)		
CASH/ INVESTMENTS	\$3,856,059	\$1,755,000	\$ 0.00	\$5,611,059	\$ 5,611,059

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Short term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. The interfund receivables or payables at June 30, 2012, were as follows:

Governmental General Fund (due to)	\$ 101,179
Bullet Proof Vest Special Revenue Fund (due from)	(3,763)
Violence Against Women(due from)	(25,000)
SWAT/Reserve Equipment Grant Fund (due from)	(26,416)
Tahlequah Impaired Driving Enforcement Grant Fund (due from)	(21,000)
Encourage to Arrest Grant Fund (due from)	(25,000)
NET	<u>\$ -0-</u>

NOTE 4: GENERAL LONG-TERM DEBT

None

NOTE 5: OTHER POST EMPLOYMENT BENEFITS

The City does not offer any early retirement incentive plans.

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6: EMPLOYMENT RETIREMENT SYSTEM

Employees and Plans

Each qualified employee is included in one of the three retirement plans in which the City of Tahlequah participates. These are the Oklahoma Public Employees Retirement system, Oklahoma Firefighters Pension and Retirement System, and the Oklahoma Police Pension and Retirement System. The City does not maintain the accounting records, hold the investments, or administer the retirement funds. The retirement plans are statewide systems administered by the State of Oklahoma.

Oklahoma Public Employees Retirement System

The plan covers qualified city employees and provides certain retirement death and disability benefits. The City contributes 14.5% of the total wages paid to covered employees. Contributions by the City of Tahlequah amount to \$388,667 for the fiscal year ended June 30, 2012. Each covered employee contributes 3.5% of individual compensation. The plan provides for retirement benefits upon reaching normal retirement age. Employees become vested after ten (10) years of service receiving benefits upon reaching normal retirement age based on the number of years of service.

Oklahoma Firefighters Pension and Retirement System

Members of the City's Fire Department participate in the Oklahoma Firefighters Pension and Retirement System, a system administered by the State of Oklahoma. In conformity with the state law, the plan covers all full time firemen of the City of Tahlequah and provides certain retirement, death, and disability benefits. In conformity with state law, the plan does not purport to be an actuarial funded plan; however, benefits are guaranteed by the State of Oklahoma. The contributions to the plan are established by the State, and the City is required to contribute 13% of total compensation paid to the firefighters. The firefighters contribute 8% of their compensation to the plan. Contributions by the City of Tahlequah to the system for the fiscal year ended June 30, 2012 amounted to \$59,887, paid primarily by the General Fund.

Oklahoma Police Pension and Retirement system

Members of the City's Police Department participate in the Oklahoma Police Pension and Retirement System, a system administered by the State of Oklahoma. The plan covers full time police officers of the City of Tahlequah, and provides retirement, death, and disability benefits. In conformity with state law, the plan does not purport to be an actuarial funded plan; however, benefits are guaranteed by the State of Oklahoma. The contributions to the plan are 13% of total compensation paid to police officers. Each police officer contributes 8% of his/her individual compensation. Contributions by the City of Tahlequah amounted to \$118,551 for the fiscal year ended June 30, 2012, paid primarily by the General Fund.

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7: CONTINGENCIES AND OTHER COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Pending Litigation

The City is a party to various legal proceedings which involve civil tort claims against the City. It is the opinion of legal counselors that the result of an unfavorable outcome is unlikely, and the amount of damages, if any, would not be measurable. Legal counsel also asserts that the City of Tahlequah has limits of liability under the Oklahoma Tort Claims Act. The City also has sufficient insurance coverage and/or tort immunity in effect to protect the City from any material loss or liability due to pending claims or litigation.

A listing of all court cases filed against the City of Tahlequah and their status can be found at the website odcr.com.

NOTE 8: LEASE COMMITMENTS

At June 30, 2012 the City and the Solid Waste Services Fund (Enterprise Fund) had several lease purchase agreements which consisted of the following:

Lessors	Asset	Interest Rate	Current Portion	Non-Current Portion	Balance
BancFirst	Fire Station	3.75%	\$ 24,990	\$ 53,758	\$ 78,748
BancFirst	Transfer Station	3.75%	101,009	90,857	191,866
BancFirst	Roller	3.75%	3,017	0	3,017
Welch State Bank	Truck	2.53%	57,334	49,812	107,146
Sandy Crosslin	Land	0.00%	50,000	0	50,000
Total			\$ 236,350	\$ 194,427	\$ 430,777

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9: ECONOMIC DEPENDENCY

As of June 2012, the City of Tahlequah sales tax revenue (63% of general revenue) consisted of the following business types:

<u>REVENUE</u>	<u>TYPE OF BUSINESS</u>	<u>SALES</u>			<u>TAX</u>
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	General Merchandise Stores	32.59%	32.80%	32.98%	32.24%
	Food Stores	10.58%	10.74%	11.41%	10.85%
	Restaurants	12.52%	13.47%	13.88%	14.71%
	Building Material & Hardware Stores	10.33%	8.88%	8.55%	8.65%
	Other	33.98%	34.11%	33.18%	33.55%

NOTE 10: USE OF ESTIMATES

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAHLEQUAH, OKLAHOMA
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2012

<u>Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Award Amount</u>	<u>Balance 6/30/11</u>	<u>Awarded (Closed)</u>	<u>Current Year Expenditures</u>	<u>Balance 6/30/12</u>
<u>Federal Awards</u>						
<u>U.S. Department of Justice</u>						
Bullet Proof Vest	16.607	\$ 5,792	\$ 1,345	\$ 287	\$ 6,229	\$ 7,287
Community Solutions	16.590	\$ 399,999	\$ 17,630	\$ 164,598	\$ 166,473	\$ 19,504
SWAT Reserve Equipment	16.804	\$ 2,500	\$ -	\$ 2,500	\$ 2,500	\$ -
Sub-Total Department of Justice		408,291	18,975	167,385	175,201	26,791
<u>Pass Through the State of Oklahoma</u>						
Civil Emergency Management	97.042	5,000	(1,250)	-	1,250	-
Civil Emergency Management	97.042	18,676	18,676	18,676	-	-
FEMA Reimbursement	97.036	26,719	-	41,626	41,626	-
Fire Department AFG Grant	97.044	74,822	(6,799)	-	7,519	720
Sub-Total Pass Through State of Oklahoma		125,217	10,627	60,302	50,395	720
Total Federal Awards		533,508	4,812	227,687	225,596	27,510
<u>State Awards</u>						
Impaired Driving Enforcement Grant	20.60	36,000	1,775	21,876	20,601	500
Oklahoma Dept of Libraries		108,875	-	38,000	105,554	67,554
Total State Awards		144,875	1,775	59,876	126,155	68,054
Total Federal and State Awards		\$ 678,383	\$ 6,587	\$ 287,563	\$ 351,751	\$ 95,565

CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 6,015,400	\$ 6,015,400	\$ 6,044,870	\$ 29,470
Licenses and Permits:	127,550	127,550	95,612	(31,938)
Charges for Services	395,620	395,620	506,190	110,570
Fines and Forfeitures	463,000	463,000	458,822	(4,178)
Miscellaneous	72,586	75,544	54,964	(20,580)
Interest Income	50,000	50,000	138,102	88,102
Intergovernmental Revenue:	1,139,826	1,139,826	1,226,505	86,679
Total Resources	8,263,982	8,266,940	8,525,065	258,125
Transfers:				
Refunds of income	-	-	(3)	(3)
Transfers from other funds	-	-	41,212	41,212
Total Other Financing Sources	-	-	41,209	41,209
Amounts available for appropriation	8,263,982	8,266,940	8,566,274	299,334
Charges to Appropriations (Outflows):				
Managerial:				
Personal services	\$ 886,837	\$ 901,993	\$ 769,764	\$ 132,229
Materials and supplies	70,337	70,337	80,032	(9,695)
Other services and charges	509,912	491,172	411,580	79,592
Capital outlay	645,000	536,465	146,837	389,628
Transfers	710,283	1,016,389	710,480	305,909
Total Managerial	2,822,369	3,016,356	2,118,693	897,663
City Clerk:				
Personal Services	53,020	53,020	50,954	2,066
Total City Clerk	53,020	53,020	50,954	2,066
City Treasurer:				
Personal services	14,544	14,544	13,681	863
Materials and supplies	-	-	-	-
Total City Treasurer	14,544	14,544	13,681	863
City Attorney:				
Personal services	52,770	52,770	51,676	1,094
Total City Attorney	52,770	52,770	51,676	1,094
Municipal Judge:				
Personal services	101,306	102,301	101,592	709
Other services and charges	200	200	-	200
Total Municipal Judge	101,506	102,501	101,592	909

**CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Cemetery:				
Personal services	182,148	190,211	186,314	3,897
Materials and supplies	25,528	25,528	21,836	3,692
Other services and charges	4,500	4,500	2,136	2,364
Capital outlay	5,000	-	-	-
Total Cemetery	217,176	220,239	210,286	9,953
Building Inspector:				
Personnel services	\$ 52,531	\$ 13,418	\$ 1,096	\$ 12,322
Materials and supplies	4,181	4,181	1,489	2,692
Other services and charges	-	-	-	-
Total Building Inspector	56,712	17,599	2,585	15,014
Emergency Management:				
Personal services	64,852	64,852	62,958	1,894
Materials and supplies	9,480	9,480	5,537	3,943
Other services and charges	8,780	8,780	7,343	1,437
Capital outlay	2,500	-	-	-
Total Civil Defense	85,612	83,112	75,838	7,274
Fire Department:				
Personal services	710,324	707,849	696,544	11,305
Materials and supplies	43,310	43,453	39,789	3,664
Other services and charges	30,040	26,133	20,699	5,434
Capital outlay	79,000	54,207	54,133	74
Total Fire Department	862,674	831,642	811,165	20,477
Law Enforcement:				
Personal services	1,866,177	1,871,357	1,820,144	51,213
Materials and supplies	179,691	173,134	158,105	15,029
Other services and charges	30,944	40,952	35,416	5,536
Capital outlay	184,600	172,692	172,502	190
Total Law Enforcement	2,261,412	2,258,135	2,186,167	71,968
Animal Shelter:				
Personal services	82,091	83,500	82,726	774
Materials and supplies	8,843	8,843	7,728	1,115
Other services and charges	4,500	4,500	3,041	1,459
Capital outlay	-	-	-	-
Total Animal Shelter	95,434	96,843	93,495	3,348
City Airport:				
Personal services	44,818	45,095	44,661	434
Materials and supplies	228,056	278,056	274,354	3,702
Other services and charges	18,548	18,548	16,455	2,093
Capital outlay	7,500	-	-	-
Total City Airport	298,922	341,699	335,470	6,229

CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Street:				
Personal services	837,955	782,596	720,595	62,001
Materials and supplies	290,376	289,039	247,648	41,391
Other services and charges	13,540	11,301	9,519	1,782
Capital outlay	466,526	368,125	367,531	594
Total Street	1,608,397	1,451,061	1,345,293	105,768
Library:				
Materials and supplies	2,000	1,691	1,691	-
Other services and charges	24,000	24,539	24,531	8
Capital outlay	-	-	-	-
Total Library	26,000	26,230	26,222	8
Parks and Recreation:				
Personal services	473,191	477,011	471,302	5,709
Materials and supplies	99,708	104,208	87,004	17,204
Other services and charges	81,008	84,008	83,420	588
Capital outlay	77,500	57,500	49,317	8,183
Total Parks and Recreation	731,407	722,727	691,043	31,684
Maintenance:				
Personal services	181,498	183,922	178,853	5,069
Materials and supplies	54,162	54,093	47,718	6,375
Other services and charges	14,500	14,580	14,569	11
Capital outlay	3,600	3,600	2,814	786
Total Maintenance	253,760	256,195	243,954	11,455
Total Charges to Appropriations	9,541,715	9,544,673	8,358,114	1,186,559
Ending Budgetary Fund Balance	\$ (1,277,733)	\$ (1,277,733)	\$ 208,160	\$ (1,485,893)

Adjustments to Reconcile Budget to Statement of Revenues
Expenditures, and Changes In Fund Balance:

Accrued Tax Revenues 06/30/12	617,539
Accrued Tax Revenue 06/30/11	(592,880)
Accrued Payroll 06/30/12	(56,352)
Accrued Payroll 06/30/11	151,013
Net Change In Fund Balance	327,480

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

BUDGETS AND BUDGETARY ACCOUNTING

Under state law the Mayor submits an annual budget to the Council for consideration and approval no later than June 30. Such budget is based on expected cash expenditures by program within a fund and estimated cash receipts by source for all funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. A proposed operating budget is submitted to the City Council for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted by the City Council through passage of an ordinance.
4. Any revisions that alter the total expenditures of any department generally must be approved by the City Council. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original appropriations ordinance.
5. Formal budgetary integration is employed as a management control device during the year to the following funds:
 - General Fund
 - Hotel/Motel Fund
 - Street and Alley Fund
 - Cemetery Care Fund
 - Capital Improvement Fund
 - Brookside Restoration Fund
6. Annual budgets are legally adopted for the General Fund, Street and Alley Fund, Hotel/Motel Fund, Cemetery Care Fund, Brookside Restoration Fund, and Capital Improvement Fund. The budget of expenditures and encumbrances for these funds cannot exceed the estimated revenues. Budgetary control is maintained by department and by the following categories of expenditures: personal services, materials and supplies, other services and charges, transfers and capital outlay. A comparison of budget to actual for the General Fund has been presented.

**CITY OF TAHLEQUAH
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>TAHLEQUAH PUBLIC SCHOOLS TAX FUND</u>
Revenues:	
Sales Tax and Use Tax	\$ 1,403,249
Total Revenue	<u>1,403,249</u>
Expenditures:	
Total Expenditures	
Excess (deficiency) of revenues over expenditures	1,403,249
Other Financing Sources (uses):	
Transferred to Tahlequah Public Schools	1,403,249
Total Other Financing Sources (Uses)	<u>1,403,249</u>
Net Change in fund balance	-
Fund balance - beginning	-
Fund balance - ending	<u>\$ -</u>

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

The Honorable Mayor and City Council
City of Tahlequah, Oklahoma

I 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 City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Tahlequah, Oklahoma basic financial statements and have issued our report thereon dated January 17, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

I did not audit the financial statements of the component units consisting of the Tahlequah Hospital Authority, Tahlequah Public Works Authority, and the City Light and Water Department and the amounts which are represented. Those Financial statements were audited by others whose reports have furnished to me and my opinion on the general purpose financial statements, insofar as it related to the amounts included for the above components units is based solely on the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, I considered the City of Tahlequah, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tahlequah, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Tahlequah, Oklahoma's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or 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 prevented, or detected and corrected on a timely basis.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tablequah, Oklahoma financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and somewhat cursive.

Michael Green, CPA
January 17, 2013