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State Auditor & Inspector

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THE CITY OF CHECOTAH, OKLAHOMA

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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

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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 (the "City"), Oklahoma, as of and for the year ended June 30, 2011, 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, 2011.

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, 2011, or the changes in financial position thereof for the year then ended.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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, 2011, 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).

As described in Note 8 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information—modified cash basis, and the schedule of pension plan funding progress on pages 9 through 15, 48 through 49, and page 50 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(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 basic financial statements. The combining nonmajor governmental fund schedules—modified cash basis, combining general fund account schedules—modified cash basis, combining enterprise fund account schedules—modified cash basis, schedule of expenditures of state awards—modified cash basis, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor governmental funds schedules—modified cash basis, combining general fund account schedules—modified cash basis, combining enterprise fund account schedules—modified cash basis, schedule of expenditures of state awards—modified cash basis, schedule of debt service coverage requirements, and schedule of reserve requirements compliance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The schedule of expenditures of federal awards—modified cash basis, is also presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 basic financial statements taken as a whole.

Finley + Cook, PLLC

Shawnee, Oklahoma
December 28, 2011

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CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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, 2011. 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 \$1,100,848, and the assets of the City exceed its liabilities at June 30, 2011, by \$6,572,889 (net assets). Of this amount, \$1,825,131 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$3,052,453.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$792,717 or 25.3% of General Fund revenues.

ABOUT THE CITY

The City of Checotah is an incorporated municipality a population of approximately 3,500 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

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- **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 – *reported as a discretely presented component unit*
- **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-

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
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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 27-46 of this report.

CITY OF CHECOTAH, OKLAHOMA
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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, pension plan funding status schedules, 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, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$1,100,848.

Net Assets (Modified Cash Basis)
June 30, 2011

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 4,538,158	\$ 933,883	\$ 5,472,041
Increase/(Decrease)	744,681	356,167	1,100,848
Ending net assets	\$ 5,282,839	\$ 1,290,050	\$ 6,572,889

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2011	2010	2011	2010	2011	2010	
Assets:							
Current and other assets	\$ 3,056,658	\$ 2,383,016	\$ 1,509,688	\$ 1,171,269	\$ 4,566,346	\$ 3,554,285	28.47%
Capital assets, net	2,299,974	2,267,338	9,547,677	8,779,360	11,847,651	11,046,698	7.25%
Total assets	5,356,632	4,650,354	11,057,365	9,950,629	16,413,997	14,600,983	12.42%
Liabilities:							
Long-term liabilities	69,588	104,484	9,767,315	9,016,746	9,836,903	9,121,230	7.85%
Other liabilities	4,205	7,712	-	-	4,205	7,712	-45.47%
Total liabilities	73,793	112,196	9,767,315	9,016,746	9,841,108	9,128,942	7.80%
Net assets:							
Invested in capital assets, net	2,230,386	2,162,854	(161,862)	(239,814)	2,068,524	1,923,040	7.57%
Restricted	2,247,531	1,746,143	532,608	475,094	2,780,139	2,221,237	25.16%
Unrestricted	804,922	629,161	919,304	698,603	1,724,226	1,327,764	29.86%
Total net assets	\$ 5,282,839	\$ 4,538,158	\$ 1,290,050	\$ 933,883	\$ 6,572,889	\$ 5,472,041	20.12%

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 \$2,068,524.

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, \$2,679,234, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,825,131, may be used to meet the government's ongoing needs.

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Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		Total		
	2011	2010	2011	2010	2011	2010	
Revenues:							
Program revenues:							
Charges for Services	\$ 454,677	\$ 479,833	\$ 1,431,805	\$ 1,302,885	\$ 1,886,482	\$ 1,782,718	5.82%
Grants & Contributions	6,893	5,100	20,659	-	27,552	5,100	440.24%
Capital Grants & Contributions	342,467	15,249	-	-	342,467	15,249	2145.83%
General Revenues:							
Sales Tax	3,504,998	3,308,890	-	-	3,504,998	3,308,890	5.93%
Other Taxes	132,294	132,637	-	-	132,294	132,637	-0.26%
Other General Revenues	226,704	227,456	37,499	33,090	264,203	260,546	1.40%
Total Revenues	4,668,033	4,169,165	1,489,963	1,335,975	6,157,996	5,505,140	11.86%
Program Expenses:							
General Government	\$ 626,230	\$ 557,371	-	-	626,230	557,371	12.35%
Public Safety	1,313,226	1,237,457	-	-	1,313,226	1,237,457	6.12%
Streets and Facilities Maintenance	738,141	707,514	-	-	738,141	707,514	4.33%
Culture and Recreation	23,960	24,085	-	-	23,960	24,085	-0.52%
Interest on Long-Term Debt	4,104	6,198	-	-	4,104	6,198	-33.79%
Water	-	-	1,646,759	1,596,917	1,646,759	1,596,917	3.12%
Sewer	-	-	676,213	656,132	676,213	656,132	3.06%
Sanitation	-	-	28,515	28,969	28,515	28,969	-1.57%
Total Expenses	2,705,661	2,532,625	2,351,487	2,282,018	5,057,148	4,814,643	5.04%
Excess (Deficiency)	1,962,372	1,636,540	(861,524)	(946,043)	1,100,848	690,497	59.43%
Net Transfers	(1,217,691)	(1,259,822)	1,217,691	1,259,822	-	-	-
Increase/(Decrease) Net Assets	\$ 744,681	\$ 376,718	\$ 356,167	\$ 313,779	\$ 1,100,848	\$ 690,497	59.43%
Beginning Net Assets	4,538,158	4,161,440	933,883	620,104	5,472,041	4,781,544	14.44%
Ending Net Assets	\$ 5,282,839	\$ 4,538,158	\$ 1,290,050	\$ 933,883	\$ 6,572,889	\$ 5,472,041	20.12%

Governmental Activities

The City's governmental activities had an increase in net assets of \$744,681. The increase is due in part to an increase in sales and use tax revenue in the amount of \$196,108. Also, there was an increase of capital grants and contributions in the amount of \$327,218 related to a \$322,000 Community Development Block Grant, a \$15,000 REAP Grant and a \$5,467 District Attorney Council grant for the police department.

Business-type Activities

The business-type activities had an increase in net assets of \$356,167. The increase is due in part to an increase in charges for services revenue in the amount of \$128,920 and also reimbursements for storm damage in the amount of \$22,588. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2011 were not sufficient to cover expenses.

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$3,052,453. For the year ended June 30, 2011, the General Fund's total fund balance increased by \$77,483 to \$792,813 or 25.3% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final estimates by \$113,213 or a 2.1% negative variance. General Fund actual expenditures were under final appropriations by \$322,864 or a 5.8% positive variance.

The Ambulance Fund reported actual budgetary basis revenues under final estimates by \$88,159 or a 27.7% negative variance for the year ended June 30, 2011. Ambulance Fund actual expenditures were under final appropriations by \$14,783 or a 4.5% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately \$11.8 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 \$800,953 from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2011.¹

Capital Assets

	Governmental		Business-type		Activities		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Land	\$ 193,282	\$ 193,282	\$ 455,000	\$ 455,000	\$ 648,282	\$ 648,282	\$ 648,282	\$ 648,282
Buildings and Improvements	2,011,330	2,011,330	397,828	397,828	2,409,158	2,409,158	2,409,158	2,409,158
Machinery and Equipment	1,734,412	1,609,543	834,376	717,922	2,568,788	2,327,465	2,568,788	2,327,465
Improvements other than buildings	612,432	605,712	-	-	612,432	605,712	612,432	605,712
Infrastructure	939,806	785,975	-	-	939,806	785,975	939,806	785,975
Utility Property and Improvements	-	-	12,456,224	12,456,224	12,456,224	12,456,224	12,456,224	12,456,224
Construction-in-progress	9,000	8,100	1,145,846	110,290	1,154,846	118,390	1,154,846	118,390
Totals	5,500,262	5,213,942	15,289,274	14,137,264	20,789,536	19,351,206	20,789,536	19,351,206
Less Accumulated Depreciation	(3,200,288)	(2,946,604)	(5,741,597)	(5,357,904)	(8,941,885)	(8,304,508)	(8,941,885)	(8,304,508)
<i>Totals, Net</i>	\$ 2,299,974	\$ 2,267,338	\$ 9,547,677	\$ 8,779,360	\$ 11,847,651	\$ 11,046,698	\$ 11,847,651	\$ 11,046,698

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

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

- 2 Police Vehicles - \$28,990
- 2011 Street Improvements - \$134,000
- Street Sweeper - \$44,900
- DEQ Consent Order Sewer Line Improvements (CIP) - \$1,035,556

Debt Administration

At year-end, the City had \$9,757,506 in long-term debt outstanding, reported on a modified cash basis, which represents a \$721,412 increase from the prior year, resulting from normal debt retirements and the issuance of \$1,145,617 of new capital notes in 2011.

Long-term Debt

	Governmental Activities		Business-type		Total	
	2011	2010	2011	2010	2011	2010
Notes payable	\$ 69,588	\$ 104,484	\$ 5,970,142	\$ 5,039,198	\$ 6,039,730	\$ 5,143,682
Revenue bonds payable	-	-	3,660,000	3,835,000	3,660,000	3,835,000
Due to depositors	-	-	57,776	57,412	57,776	57,412
Totals	\$ 69,588	\$ 104,484	\$ 9,687,918	\$ 8,931,610	\$ 9,757,506	\$ 9,036,094

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- Several circumstances impacted the planning of 2011-2012 fiscal year budget process. Areas of concern were the needed repairs to the equipment, streets, water/sewer lines, the rising cost of chemicals, and the uncertainty of what the increase in health insurance premiums will be. The prediction for Checotah is that the revenue derived from sales tax will stay steady in this uncertain economy. And the revenue derived from Use Tax could increase due to new construction and the extensive improvement to State Highway 266. There are no plans to reduce the work force.

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.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Checotah Recreational Authority	Heartland Heritage Center Authority
ASSETS					
Cash and Cash Equivalents	\$ 1,824,642	\$ 944,280	\$ 2,768,922	\$ 23,559	\$ 1,848
Investments	1,012,227	356,769	1,368,996	-	-
Internal Balances	219,789	(219,789)	-	-	-
Capital Assets					
Land and construction in progress	202,282	1,600,846	1,803,128	-	11,089
Other capital assets, net of depreciation	2,097,692	7,946,831	10,044,523	8,890	35,089
Unamortized bond issuance costs	-	428,428	428,428	-	-
Total Assets	<u>5,356,632</u>	<u>11,057,365</u>	<u>16,413,997</u>	<u>32,449</u>	<u>48,026</u>
LIABILITIES					
Miscellaneous payroll liabilities	-	-	-	-	-
Due to bondholders	3,608	-	3,608	-	-
Due to other governmental agencies	597	-	597	-	-
Long-term liabilities:					
Due within one year	69,588	413,730	483,318	-	-
Due in more than one year	-	9,353,585	9,353,585	-	-
Total liabilities	<u>73,793</u>	<u>9,767,315</u>	<u>9,841,108</u>	<u>-</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,230,386	(161,862)	2,068,524	-	-
Restricted by:					
Enabling legislation	78,358	-	78,358	-	-
Statutory requirements	24,460	-	24,460	-	-
External contracts	2,144,713	532,608	2,677,321	-	-
Unrestricted	804,922	919,304	1,724,226	32,449	48,026
Total net assets	<u>\$ 5,282,839</u>	<u>\$ 1,290,050</u>	<u>\$ 6,572,889</u>	<u>\$ 32,449</u>	<u>\$ 48,026</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

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
Primary government									
Governmental Activities									
General Government	\$ 626,230	\$ 3,740	\$ -	\$ 337,000	\$ (285,490)	\$ -	\$ (285,490)	\$ -	\$ -
Public Safety	1,313,226	401,912	6,893	5,467	(898,954)	-	(898,954)	-	-
Streets and facilities maintenance	738,141	35,750	-	-	(702,391)	-	(702,391)	-	-
Culture and Recreation	23,960	13,275	-	-	(10,685)	-	(10,685)	-	-
Interest on Long-term debt	4,104	-	-	-	(4,104)	-	(4,104)	-	-
Total governmental activities	2,705,661	454,677	6,893	342,467	(1,901,624)	-	(1,901,624)	-	-
Business-type activities									
Water	1,646,759	1,081,245	20,659	-	-	(544,855)	(544,855)	-	-
Wastewater	676,213	349,467	-	-	-	(326,726)	(326,726)	-	-
Sanitation	28,515	1,073	-	-	-	(27,442)	(27,442)	-	-
Total business-type activities	2,351,487	1,431,805	20,659	-	-	(899,023)	(899,023)	-	-
Total primary government	5,057,148	1,886,482	27,552	342,467	(1,901,624)	(899,023)	(2,800,647)	-	-
Component Units									
Checotah Recreational Authority	21,867	17,317	163	1,930	-	-	-	(2,457)	-
Heartland Heritage Center Authority	4,009	-	-	-	-	-	-	-	(4,009)
Checotah Educational Fac. Authority	-	-	-	-	-	-	-	-	-
Total component units	25,876	17,317	163	1,930	-	-	-	(2,457)	(4,009)
General revenues:									
Taxes									
Sales tax					3,504,998	-	3,504,998	-	-
Franchise taxes and public service taxes					132,294	-	132,294	-	-
Grants and contributions not restricted to specific programs					129,608	-	129,608	-	-
Unrestricted investment earnings					22,066	12,120	34,186	20	15
Miscellaneous					70,124	25,379	95,503	-	-
Special item - gain on sale of asset					1,249	-	1,249	-	-
Payments received from Education Facilities Authority					3,657	-	3,657	-	-
Transfers					(1,217,691)	1,217,691	-	-	-
Total general revenues and transfers					2,646,305	1,255,190	3,901,495	20	15
Change in net assets					744,681	356,167	1,100,848	(2,437)	(3,994)
Net assets - beginning					4,538,156	933,863	5,472,041	34,886	52,020
Net assets - ending					\$ 5,282,839	\$ 1,290,050	\$ 6,572,859	\$ 32,449	\$ 48,026

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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 – *reported as a discretely presented component unit (No current year activity)*
- **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.

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.

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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.

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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

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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 “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, 2011, the City recognized \$34,186 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.

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At June 30, 2011, the primary government held the following deposits and investments:

<u>Primary Government</u>	<u>Carrying Value</u>	
Deposits:		
Petty cash	\$ 800	
Demand deposits	2,700,696	
Time deposits - certificates of deposit	1,369,196	
Investments:		<u>Credit Rating</u>
Open-ended Money Market Mutual Funds - Goldman Sachs Financial Square	67,226	Aaa
Total Deposits and Investments	<u>\$ 4,137,918</u>	
 Reconciliation to Statement of Net Assets:		
Cash and cash equivalents	\$ 2,768,922	
Investments	1,368,996	
	<u>\$ 4,137,918</u>	
 <u>Component Units</u>		
Checotah Recreational Authority:		
Demand deposits	\$ 23,559	
Heartland Heritage Center Authority:		
Demand deposits	\$ 1,848	

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, 2011, 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, 2011, 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

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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, 2011, the City's investments consisted of \$67,226 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, 2011, 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, 2011 are as follows:

<u>Type of Restricted Assets</u>	Current Cash and Cash Equivalents	Non-Current Investments
Utility Deposits	\$ 57,776	\$ -
2005 Refunding Bond Trust Accounts	80,934	350,769
Asset Replacement Account	97,381	-
Loan Reserve Account	<u>3,524</u>	<u>-</u>
Total Restricted Assets	<u>\$ 239,615</u>	<u>\$ 350,769</u>

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3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 193,282	\$ -	\$ -	\$ 193,282
Construction in progress	8,100	900	-	9,000
Total capital assets not being depreciated	<u>201,382</u>	<u>900</u>	<u>-</u>	<u>202,282</u>
Other capital assets:				
Buildings	2,011,330	-	-	2,011,330
Improvements	605,712	6,720	-	612,432
Infrastructure	785,975	153,831	-	939,806
Machinery, furniture and equipment	1,609,543	149,349	24,480	1,734,412
Total other capital assets at historical cost	<u>5,012,560</u>	<u>309,900</u>	<u>24,480</u>	<u>5,297,980</u>
Less accumulated depreciation for:				
Buildings	1,462,055	88,901	-	1,550,956
Improvements	360,248	28,970	-	389,218
Infrastructure	60,522	21,147	-	81,669
Machinery, furniture and equipment	1,063,779	139,146	24,480	1,178,445
Total accumulated depreciation	<u>2,946,604</u>	<u>278,164</u>	<u>24,480</u>	<u>3,200,288</u>
Other capital assets, net	<u>2,065,956</u>	<u>31,736</u>	<u>-</u>	<u>2,097,692</u>
Governmental activities capital assets, net	<u>\$ 2,267,338</u>	<u>\$ 32,636</u>	<u>\$ -</u>	<u>\$ 2,299,974</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 455,000	\$ -	\$ -	\$ 455,000
Construction in progress	110,290	1,035,556	-	1,145,846
Total capital assets not being depreciated	<u>565,290</u>	<u>1,035,556</u>	<u>-</u>	<u>1,600,846</u>
Other capital assets:				
Buildings	397,828	-	-	397,828
Improvements	-	-	-	-
Machinery, furniture and equipment	717,922	116,454	-	834,376
Utility property	12,456,224	-	-	12,456,224
Total other capital assets at historical cost	<u>13,571,974</u>	<u>116,454</u>	<u>-</u>	<u>13,688,428</u>
Less accumulated depreciation for:				
Buildings	321,895	6,800	-	328,695
Improvements	-	-	-	-
Machinery, furniture and equipment	606,166	33,661	-	639,827
Utility Property Improvements	4,429,843	343,232	-	4,773,075
Total accumulated depreciation	<u>5,357,904</u>	<u>383,693</u>	<u>-</u>	<u>5,741,597</u>
Other capital assets, net	<u>8,214,070</u>	<u>(267,239)</u>	<u>-</u>	<u>7,946,831</u>
Business-type activities capital assets, net	<u>\$ 8,779,360</u>	<u>\$ 768,317</u>	<u>\$ -</u>	<u>\$ 9,547,677</u>

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Component Units:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<i>Discretely Presented Component Unit - CRA:</i>				
<i>Checotah Recreational Authority:</i>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Buildings	1,615	-	-	1,615
Improvements	-	1,685	-	1,685
Machinery, furniture and equipment	17,945	-	-	17,945
Total other capital assets at historical cost	19,560	1,685	-	21,245
Less accumulated depreciation for:				
Buildings	646	161	-	807
Improvements	-	28	-	28
Machinery, furniture and equipment	7,931	3,589	-	11,520
Total accumulated depreciation	8,577	3,778	-	12,355
Other capital assets, net	10,983	(2,093)	-	8,890
Business-type activities capital assets, net	\$ 10,983	\$ (2,093)	\$ -	\$ 8,890
<i>Heartland Heritage Center Authority:</i>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	11,089	-	11,089
Total capital assets not being depreciated	-	11,089	-	11,089
Other capital assets:				
Buildings	38,897	-	-	38,897
Total other capital assets at historical cost	38,897	-	-	38,897
Less accumulated depreciation for:				
Buildings	2,836	972	-	3,808
Total accumulated depreciation	2,836	972	-	3,808
Other capital assets, net	36,061	(972)	-	35,089
Business-type activities capital assets, net	\$ 36,061	\$ 10,117	\$ -	\$ 46,178

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	\$ 7,410
Public safety	113,122
Streets and facilities maintenance	136,661
Culture and recreation	20,971
	<u>\$ 278,164</u>

Business-Type Activities:

Water	\$ 172,298
Sewer	211,395
	<u>\$ 383,693</u>

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4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance Due July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due June 30, 2011</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
Notes Payable	\$ 104,484	\$ -	\$ 34,896	\$ 69,588	\$ 69,588
<i>Business-Type Activities:</i>					
Notes Payable	\$ 5,039,198	\$ 1,145,617	\$ 214,673	\$ 5,970,142	\$ 222,175
Revenue Bonds Payable	3,835,000	-	175,000	3,660,000	180,000
Due to depositories	57,412	19,934	19,570	57,776	11,555
Total Business-Type Activities	<u>\$ 8,931,610</u>	<u>\$ 1,165,551</u>	<u>\$ 409,243</u>	<u>\$ 9,687,918</u>	<u>\$ 413,730</u>

Governmental activities long-term debt payable from taxes and other general revenues at June 30, 2011 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.	\$ 69,588
Current portion	\$ 69,588
Non-current portion	<u>-</u>
Total Capital Notes Payable	<u>\$ 69,588</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.	\$4,845,589
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.	<u>1,124,553</u>
Total Notes Payable	<u>\$5,970,142</u>
Current portion	\$ 222,175
Non-current portion	<u>5,747,967</u>
Total Notes Payable	<u>\$5,970,142</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.

	<u>\$3,660,000</u>
Add: Unamortized Bond Discount	<u>79,397</u>
	<u>\$3,739,397</u>
Current portion	\$ 180,000
Non-current portion	<u>3,559,397</u>
Total Revenue Bonds Payable	<u>\$3,739,397</u>

Customer Deposits:

Refundable customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.

	\$ 57,776
Current portion	\$ 11,555
Non-current portion	<u>46,221</u>
Total Customer Deposits	<u>\$ 57,776</u>

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

Year Ended June 30,	Governmental Activities		Business-Type Activities			
	Notes Payable		Notes Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 69,588	\$ 2,957	\$ 222,175	\$ 204,035	\$ 180,000	\$ 168,915
2013	-	-	230,682	195,529	185,000	162,525
2014	-	-	239,015	187,195	190,000	155,772
2015	-	-	247,653	178,556	200,000	148,648
2016	-	-	256,211	170,000	205,000	140,948
2017-2021	-	-	1,428,906	702,142	1,180,000	560,350
2022-2026	-	-	1,707,605	423,443	1,520,000	220,000
2027-2031	-	-	1,057,217	125,456	-	-
2032-2036	-	-	178,670	55,630	-	-
2037-2041	-	-	199,922	34,378	-	-
2042-2046	-	-	202,086	10,685	-	-
Total	\$ 69,588	\$ 2,957	\$ 5,970,142	\$ 2,287,049	\$ 3,660,000	\$ 1,557,158

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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 \$11,855,778. Pledged sales taxes and net utility revenues received in the current year were \$2,423,078. Debt service payments of \$728,259 for the current fiscal year were 30% 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, 2011, 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	\$ 73,263	To record loan payments
Checotah Public Works Authority	Use Tax Fund	73,263	To record loan payments
Checotah Public Works Authority	Capital Improvement Fund	73,263	To record loan payments
Total		<u>\$ 219,789</u>	
Reconciliation to Fund Financial Statements:			
	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 219,789	\$ -	\$ 219,789
Proprietary Funds	-	(219,789)	(219,789)
Total	<u>\$ 219,789</u>	<u>\$ (219,789)</u>	<u>\$ -</u>

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Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	Capital Improvement Fund	\$ 852,604	Sales tax transfer
General Fund	Checotah Public Works Authority	2,557,811	Sales tax pledge
Use Tax Fund	General Fund	60,000	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	200,003	Subsidy for debt service
Capital Improvement Fund	General Fund	350,000	Operational subsidy
Capital Improvement Fund	General Fund	29,000	Capital asset purchase for police department
Checotah Public Works Authority	General Fund	1,705,207	Sales tax transfer
Checotah Public Works Authority	General Fund	200,003	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	375,686	Subsidy for debt service
Checotah Public Works Authority	Restricted Sales Tax Fund	122,485	Operational subsidy
		<u>\$ 6,452,799</u>	

Reconciliation:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 3,319,299	\$ 4,425,104	\$ (1,105,805)
Proprietary Funds	3,133,500	2,027,695	1,105,805
Total	<u>\$ 6,452,799</u>	<u>\$ 6,452,799</u>	<u>\$ -</u>

Reconciliation to Statement of Activities:

	<u>Net Transfers</u>
Net Transfers	\$ 1,105,805
Reclassification and transfer of business-type activities out of governmental funds	1,396
Contributed assets from governmental funds	110,490
Total Transfers - Internal Activity	<u>\$ 1,217,691</u>

8. Fund Equity

The city implemented GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions.

Restricted Net Assets – Governmental Activities:

The following table shows the net asset 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	\$ 58,970
Police Training	Enabling legislation	19,388
		<u>\$ 78,358</u>
Cemetery	Statutory requirements	\$ 23,811
Drug Investigation Fund	Statutory requirements	649
		<u>\$ 24,460</u>
Restricted Sales Tax Fund	External contracts	\$ 1,027,744
Capital Improvement Fund	External contracts	785,268
UDAG Grant Fund	External contracts	9,634
CDBG Grant Fund	External contracts	322,067
		<u>\$ 2,144,713</u>

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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>
2009	\$1,140	\$1,140
2010	\$960	\$960
2011	\$840	\$840

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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. 63rd 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>
2009	\$35,705	\$35,705
2010	\$35,811	\$35,811
2011	\$37,267	\$37,267

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	6.42% 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

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Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2009	\$84,944	\$84,944
2010	\$91,949	\$91,949
2011	\$94,262	\$94,262

Funded Status and Funding Progress

As of January 1, 2011, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$1,599,882
Actuarial value of plan assets	<u>1,089,326</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 510,556</u>
Funded ratio (actuarial value of plan assets/AAL)	68.1%
Annual covered payroll (active plan members)	1,271,436
UAAL as a percentage of covered payroll	40.2%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, 2011, is summarized as follows:

- General Fund – accrued compensated absences \$15,399
- CPWA – accrued compensated absences \$10,531

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

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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 2011, 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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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 523,000	\$ 534,500	\$ 590,497	\$ 55,997
Resources (Inflows):				
Taxes	2,740,000	2,740,000	2,690,106	(49,894)
Intergovernmental	131,100	163,964	139,271	(24,693)
Charges for services	32,000	42,775	46,088	3,313
Fines and Forfeitures	130,000	130,000	106,275	(23,725)
Licenses and Permits	4,100	4,300	3,740	(560)
Investment Income	7,653	8,653	9,542	889
Miscellaneous	12,100	31,133	37,056	5,923
Other Financing Sources - Transfers from component unit	-	-	3,657	3,657
Other Financing Sources - Transfers In	2,343,333	2,372,333	2,344,210	(28,123)
Total Resources	5,400,286	5,493,158	5,379,945	(113,213)
Amounts available for appropriation	5,923,286	6,027,658	5,970,442	(57,216)
Charges to Appropriations (Outflows):				
Managerial	77,300	77,300	73,732	3,568
City Clerk	23,000	23,000	22,321	679
City Attorney	24,200	21,100	19,039	2,061
Municipal Court	20,000	21,800	21,598	202
Police	814,450	876,892	828,326	48,566
Fire	30,600	48,600	36,277	12,323
Recreation	4,900	4,900	2,989	1,911
City Treasurer	11,540	11,540	11,209	331
General Government	176,550	240,345	208,421	31,924
Emergency Services	14,980	39,980	29,955	10,025
Maintenance	640,900	671,900	605,846	66,054
Planning and Zoning	1,300	1,700	1,386	314
Code Enforcement	83,900	83,900	66,530	17,370
Other Financing Uses - Transfers Out	3,476,666	3,476,666	3,410,415	66,251
Total Charges to Appropriations	5,400,286	5,599,623	5,338,044	261,579
Ending Budgetary Fund Balance	\$523,000	\$428,035	\$632,398	\$204,363
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
Use Tax Fund			160,319	
Economic Development Authority Fund			96	
Total General Fund Fund Balance			\$ 792,813	

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011 (Continued)

	AMBULANCE IMPROVEMENT FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 43,806	\$ 43,806	\$ 66,068	\$ 22,262
Resources (Inflows):				
Charges for services	270,000	289,000	281,935	(7,065)
Miscellaneous	1,500	41,660	35,566	(6,094)
Transfers in	75,000	75,000	-	(75,000)
Total Resources	<u>346,500</u>	<u>405,660</u>	<u>317,501</u>	<u>(88,159)</u>
Amounts available for appropriation	<u>390,306</u>	<u>449,466</u>	<u>383,569</u>	<u>(65,897)</u>
Charges to appropriations (outflows):				
Public safety	313,382	339,382	324,599	14,783
Total Charges to Appropriations	<u>313,382</u>	<u>339,382</u>	<u>324,599</u>	<u>14,783</u>
Ending Budgetary Fund Balance	<u>\$ 76,924</u>	<u>\$ 110,084</u>	<u>58,970</u>	<u>\$ (51,114)</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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OMRF Agent Multiple Employer Defined Benefit Pension Plan - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/04	185,086	729,049	543,963	25.4%	1,014,729	53.6%
1/1/05	302,724	819,671	516,947	36.9%	1,029,787	50.2%
1/1/06	422,313	910,826	488,513	46.4%	1,024,259	47.7%
1/1/07	563,397	1,043,737	480,340	54.0%	1,190,689	40.3%
1/1/08	701,785	1,140,934	439,149	61.5%	1,166,391	37.7%
1/1/09	782,551	1,264,421	481,870	61.9%	1,192,476	40.4%
1/1/10	919,734	1,467,803	548,069	62.7%	1,358,132	40.4%
1/1/11	1,089,326	1,599,882	510,556	68.1%	1,271,436	40.2%

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NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2011

	<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>	
ASSETS						
Cash and cash equivalents	\$ 9,664	\$ 9,308	649	\$ 322,067	\$ 8,811	\$ 350,499
Investments	-	10,495	-	-	15,000	25,495
Due from other funds	-	-	-	-	-	-
Total assets	<u>9,664</u>	<u>19,803</u>	<u>649</u>	<u>322,067</u>	<u>23,811</u>	<u>375,994</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Miscellaneous payroll liabilities	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	9,634	19,388	649	322,067	23,811	375,549
Assigned	30	415	-	-	-	445
Total fund balances	<u>9,664</u>	<u>19,803</u>	<u>649</u>	<u>322,067</u>	<u>23,811</u>	<u>375,994</u>
Total liabilities and fund balances	<u>\$ 9,664</u>	<u>\$ 19,803</u>	<u>\$ 649</u>	<u>\$ 322,067</u>	<u>\$ 23,811</u>	<u>\$ 375,994</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, 2011

	<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>	
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	3,202	-	-	322,000	-	325,202
Charges for services	-	-	-	-	4,469	4,469
Fees and fines	-	8,349	-	-	-	8,349
Investment earnings	30	415	-	-	-	445
Miscellaneous	-	-	-	67	-	67
Total revenues	<u>3,232</u>	<u>8,764</u>	<u>-</u>	<u>322,067</u>	<u>4,469</u>	<u>338,532</u>
EXPENDITURES						
Current:						
General government	1,746	-	-	-	-	1,746
Public Safety	-	16,973	-	-	-	16,973
Capital Outlay	-	-	-	-	672	672
Total Expenditures	<u>1,746</u>	<u>16,973</u>	<u>-</u>	<u>-</u>	<u>672</u>	<u>19,391</u>
Excess (deficiency) of revenues over expenditures	<u>1,486</u>	<u>(8,209)</u>	<u>-</u>	<u>322,067</u>	<u>3,797</u>	<u>319,141</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,486	(8,209)	-	322,067	3,797	319,141
Fund balances - beginning	8,178	28,012	649	-	20,014	56,853
Fund balances - ending	<u>\$ 9,664</u>	<u>\$ 19,803</u>	<u>\$ 649</u>	<u>\$ 322,067</u>	<u>\$ 23,811</u>	<u>\$ 375,994</u>

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

General Fund Accounts Combining Balance Sheet (Modified Cash Basis) – June 30, 2011

	<u>General Fund</u>	<u>Use Tax Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 361,393	\$ 87,056	\$ 96	\$ 448,545
Investments	201,947	-	-	201,947
Due from other funds	73,263	73,263	-	146,526
Total assets	<u>636,603</u>	<u>160,319</u>	<u>96</u>	<u>797,018</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to bondholders	3,608	-	-	3,608
Payable to other governments	597	-	-	597
Total liabilities	<u>4,205</u>	<u>-</u>	<u>-</u>	<u>4,205</u>
 Fund balances:				
Assigned to:				
Economic development	-	-	96	96
Unassigned	632,398	160,319	-	792,717
Total fund balances	<u>632,398</u>	<u>160,319</u>	<u>96</u>	<u>792,813</u>
Total liabilities and fund balances	<u>\$ 636,603</u>	<u>\$ 160,319</u>	<u>\$ 96</u>	<u>\$ 797,018</u>

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

General Fund Accounts Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2011

	<u>General</u> <u>Fund</u>	<u>Use Tax</u> <u>Fund</u>	<u>Economic</u> <u>Development</u> <u>Fund</u>	<u>Total</u>
REVENUES				
Taxes	\$ 2,690,106	\$ 94,582	\$ -	\$ 2,784,688
Intergovernmental	139,271	-	-	139,271
Licenses and permits	3,740	-	-	3,740
Charges for services	46,088	-	-	46,088
Fees and fines	106,275	-	-	106,275
Investment earnings	9,542	-	-	9,542
Miscellaneous	37,056	1,000	-	38,056
Total revenues	<u>3,032,078</u>	<u>95,582</u>	<u>-</u>	<u>3,127,660</u>
EXPENDITURES				
Current:				
General Government:				
Managerial	73,732	-	-	73,732
City Clerk	22,321	-	-	22,321
Attorney	19,039	-	-	19,039
General Government	204,596	-	-	204,596
City Treasurer	11,209	-	-	11,209
Planning & Zoning	1,386	-	-	1,386
Code Enforcement	66,530	-	-	66,530
Public Safety:				
Police	793,869	-	-	793,869
Municipal Court	21,598	-	-	21,598
Emergency Services	17,445	-	-	17,445
Fire	29,034	-	-	29,034
Maintenance	602,596	-	-	602,596
Culture and recreation	2,989	-	-	2,989
Capital Outlay	61,285	-	-	61,285
Total Expenditures	<u>1,927,629</u>	<u>-</u>	<u>-</u>	<u>1,927,629</u>
Excess (deficiency) of revenues over expenditures	<u>1,104,449</u>	<u>95,582</u>	<u>-</u>	<u>1,200,031</u>
OTHER FINANCING SOURCES (USES)				
Transfer from component unit	3,657	-	-	3,657
Transfers in	2,344,210	-	-	2,344,210
Transfers out	(3,410,415)	(60,000)	-	(3,470,415)
Total other financing sources and uses	<u>(1,062,548)</u>	<u>(60,000)</u>	<u>-</u>	<u>(1,122,548)</u>
Net change in fund balances	41,901	35,582	-	77,483
Fund balances - beginning	590,497	124,737	96	715,330
Fund balances - ending	<u>\$ 632,398</u>	<u>\$ 160,319</u>	<u>\$ 96</u>	<u>\$ 792,813</u>

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

**Combining Statement of Net Assets – Checotah Public Works Authority (Modified Cash Basis) –
June 30, 2011**

	<u>CPWA</u>	<u>North Avenue Project Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 704,665	\$ -	\$ 704,665
Investments	6,000	-	6,000
Restricted:			
Cash and cash equivalents	239,615	-	239,615
Total current assets	<u>950,280</u>	<u>-</u>	<u>950,280</u>
Non-current assets:			
Restricted:			
Investments	350,769	-	350,769
Capital Assets:			
Land and construction in progress	1,600,846	-	1,600,846
Other capital assets, net of accumulated depreciation	7,946,831	-	7,946,831
Unamortized note issue costs	428,428	-	428,428
Total non-current assets	<u>10,326,874</u>	<u>-</u>	<u>10,326,874</u>
Total assets	<u>11,277,154</u>	<u>-</u>	<u>11,277,154</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	219,789	-	219,789
Deposits subject to refund	11,555	-	11,555
Notes payable	222,175	-	222,175
Bonds payable	180,000	-	180,000
Total current liabilities	<u>633,519</u>	<u>-</u>	<u>633,519</u>
Non-current liabilities:			
Deposits subject to refund	46,221	-	46,221
Notes payable	5,747,967	-	5,747,967
Bonds payable	3,559,397	-	3,559,397
Total non-current liabilities	<u>9,353,585</u>	<u>-</u>	<u>9,353,585</u>
Total liabilities	<u>9,987,104</u>	<u>-</u>	<u>9,987,104</u>
NET ASSETS			
Invested in capital assets, net of related debt	(161,862)	-	(161,862)
Restricted for debt service	435,227	-	435,227
Restricted for capital replacement	97,381	-	97,381
Unrestricted	919,304	-	919,304
Total net assets	<u>\$ 1,290,050</u>	<u>\$ -</u>	<u>\$ 1,290,050</u>

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

Combining Statement of Revenues, Expenses and Changes in Net Assets – Checotah Public Works Authority (Modified Cash Basis) – June 30, 2011

	<u>CPWA</u>	<u>North Avenue Project Fund</u>	<u>Total</u>
REVENUES			
Charges for services:			
Water	\$ 1,066,339	\$ -	\$ 1,066,339
Sewer	344,669	-	344,669
Sanitation	1,059	-	1,059
Penalties	14,072	-	14,072
Miscellaneous	5,666	-	5,666
Total operating revenues	<u>1,431,805</u>	<u>-</u>	<u>1,431,805</u>
OPERATING EXPENSES			
Administration	329,866	-	329,866
Water	938,475	-	938,475
Wastewater	282,033	-	282,033
Sanitation	28,284	-	28,284
Amortization expense	27,558	-	27,558
Depreciation	383,693	-	383,693
Total Operating Expenses	<u>1,989,909</u>	<u>-</u>	<u>1,989,909</u>
Operating income (loss)	<u>(558,104)</u>	<u>-</u>	<u>(558,104)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	12,120	-	12,120
Miscellaneous revenue	25,379	-	25,379
Operating grants and contributions	20,659	-	20,659
Interest expense	(360,182)	-	(360,182)
Total non-operating revenue (expenses)	<u>(302,024)</u>	<u>-</u>	<u>(302,024)</u>
Income (loss) before transfers	<u>(860,128)</u>	<u>-</u>	<u>(860,128)</u>
Capital contributions	110,490	-	110,490
Transfers in	3,133,500	-	3,133,500
Transfers out	(1,905,210)	(122,485)	(2,027,695)
Interaccount Transfers in	993,286	1,115,771	2,109,057
Interaccount Transfers out	(1,115,771)	(993,286)	(2,109,057)
Change in net assets	356,167	-	356,167
Total net assets - beginning	933,883	-	933,883
Total net assets - ending	<u>\$ 1,290,050</u>	<u>\$ -</u>	<u>\$ 1,290,050</u>

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

Schedule of Expenditures of Federal Awards (Modified Cash Basis) – Year Ended June 30, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Contract Expenditures
FEDERAL AWARDS:				
US DEPARTMENT OF JUSTICE				
Passed through District Attorney's Council:				
Recovery Act - Justice Assistance Bullet Proof Vest (ARRA)	16.803	2009-SU-B9-0038	\$5,467	\$5,467
USDA:				
Rural Development Loan (ARRA monies)	10.781	Loan 02-92	1,231,800	1,145,617
FEDERAL EMERGENCY MANAGEMENT AGENCY:				
Reimbursement - Storm damage	97.036	PA-1917 PW 171 & 172	2,462	2,462
Reimbursement - Storm damage	97.036	PA-1917 PW 009	18,197	18,197
Reimbursement - Wind damage at softball complex	97.036	PA-1917 PW 124	1,929	1,929
TOTAL FEDERAL AWARDS			<u>\$1,259,855</u>	<u>\$1,173,672</u>

Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2011

Federal/State Grantor/Pass through agency Grantor/Program Title	Agency or Pass Thru Number	Program or Award Amount	Contract Expenditures
STATE AWARDS:			
OKLAHOMA DEPARTMENT OF AGRICULTURE:			
Operational Fire Grant	N/A	\$4,398	\$4,398
EASTERN OKLAHOMA DEVELOPMENT DISTRICT:			
2010 REAP FUND 4904	N/A	15,000	15,000
TOTAL STATE AWARDS		<u>\$19,398</u>	<u>\$19,398</u>

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

Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2011

	<u>2005 Refunding Revenue Bonds and 2007 OWRB DWSRF</u>
GROSS REVENUE AVAILABLE:	
Pledged operating revenues (water, sewer and sanitation)	\$1,431,805
Investment income	12,120
Sales tax appropriated and transferred from the City General Fund	<u>2,557,811</u>
Total Gross Revenue Available	<u>4,001,736</u>
 OPERATING EXPENDITURES:	
Total Operating Expenditures (water, sewer and sanitation systems, excluding depreciation and amortization)	<u>1,578,658</u>
Net Revenue Available for Debt Service	<u><u>\$2,423,078</u></u>
 Annual Debt Service on all Obligations Payable From Revenues of the System	
	<u><u>\$831,021 (1)</u></u>
 Computed Coverage	 <u><u>292%</u></u>
Coverage Requirement	<u><u>125%</u></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

	<u>2005 Refunding Revenue Bonds</u>
Required Balance:	
Revenue Bond Reserve Requirement	<u>\$349,865</u>
Balance in Reserve Account, June 30, 2010	<u>350,769</u>
Excess of Account Balance over Required Balance	<u><u>\$904</u></u>

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

SINGLE AUDIT AND INTERNAL CONTROL AND COMPLIANCE



**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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2011. Our report includes a paragraph which notes 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, budgetary comparison information—modified cash basis, and other required supplemental information. 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. Our report includes an explanatory paragraph noting the implementation of GASB 54 for the year ended June 30, 2011. 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

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

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, 2011



**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 compliance of the City of Checotah, Oklahoma, (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2011. 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 grant agreements 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 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, 2011.

(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 in order to determine our 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 an entity's internal control over compliance 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 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, 2011

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

**Unqualified opinion on
the modified cash basis
financial statements**

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)
16.803	District Attorney's Council Justice Assistance Bullet Proof Vest Grant (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, 2011

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

**Unqualified opinion on
the modified cash basis
financial statements**

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)
16.803	District Attorney's Council Justice Assistance Bullet Proof Vest Grant (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, 2011

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, 2011

There were no findings or questioned costs noted in the audit report for the year ended June 30, 2010.

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