

ANNUAL FINANCIAL STATEMENTS

for the

CITY OF TAHLEQUAH

FOR THE YEAR ENDED JUNE 30, 2011

CITY OF TAHLEQUAH

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Tahlequah's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the aggregate discretely presented component units consisting of the Tahlequah Public Works Authority, Tahlequah Hospital Authority, and the City Light and Water Department and the amounts which are represented. Those financial statements were audited by other auditors whose reports have been furnished to me, and my opinion on the basic financial statements, insofar as it relates to the amounts included for the above component units, is based solely on the reports of the other auditors.

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

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tahlequah, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 30, 2012, on my consideration of the City of Tahlequah's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of that

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

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

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

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

Michael Green, CPA
January 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Tahlequah's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements. All discreetly presented component units which issued separate financial reports are disclosed in Note I to the financial statements.

FINANCIAL HIGHLIGHTS

- As reported on the statement of Net Assets, Net Assets decreased by \$ 4,399,952.
The following highlights relate to the General Fund:
- Overall General Fund revenues of \$8,318,639 exceeded budget projections by \$377,159.
- Collections of the 2% sales tax in the General Fund exceeded budget projections by \$192,362. Total 2% sales tax revenue was \$5,347,362, which was an increase over last fiscal year in the amount of \$175,936 or approximately 3%. Last fiscal year was the first year that there was no growth in sales tax revenues, but a loss of 3%. Hopefully, this year's increase is signaling a rebound of the local economy. Sales Tax accounted for 64.3% of this year's total revenues for the general fund.
- Transfers from City Light & Water are the General Fund's second largest source of revenue. This fiscal year the transfer of the monthly utility collections of Tahlequah Public Works Authority not including natural gas was increased from 4% to 6%. This year's transfer of \$1,050,079 accounted for 12.6% of total revenues, and was an increase over last year of \$383,439.
- Use tax collections of 2% were under budget projections by \$68,567 and were down \$13,222 from the previous year.
- Northeast Public Facilities Authority made a transfer in the amount of \$90,000 which was above the projected amount by \$15,000.
- Although revenue from building permits exceeded this year's budget projection by \$11,836, the revenue actually decreased \$1,519 from last year's collections. Revenues from inspection fees fell short of budget by \$445.
- Other licenses and fees exceeded projections by \$15,477.
- Sales of Aviation Gasoline and Jet Fuel were above budget by a total of \$60,548.
- Revenues from the City Golf Course rebounded this year by topping last year by \$23,997. Efforts to improve the greens and the overall condition of the course seem to be having an impact on the number of golfers returning to the course.
- Municipal Court Fines, Fees, Costs and Forfeitures met and exceeded projections in the amount of \$31,811. A total of \$469,811 was collected. The City has continued the contract with American Municipal Services to collect warrants and old fines. Through the services of this company several thousand dollars have been received that would not have been collected otherwise.
- Interest income again fell well below expectations. It was under budget by \$7,479 and again fell from the previous year in the amount of \$15,218. Current funds invested as of June 30 are \$2,503,423. \$2,924,033 was being held in the general operating account for daily operations for all funds.

- Reimbursement from FEMA in the amount of \$26,719 was received for relief on the ice storm expenditures. This amount was not included in budget projections due to the uncertainty of the payment timeline from the State of Oklahoma. Again this year, as last, only the federal portion of relief funds was received. The portion expected from the State of Oklahoma was not received and the city has been given no expected date that we might receive payment.
- A supplemental compensation in the amount of \$600 for all full time employees and \$300 for all part time employees was paid in December 2010. The funds were re-allocated from Operating Reserve and through inner department reallocations.
- The cost of gasoline and diesel stayed below estimated budget costs. A total of \$344,639 was budgeted, and \$279,133 was spent. This is an increase over the previous year of \$55,143.
- Employee health insurance costs continue to increase. This year's increase was due to additional fixed costs for the insurance carrier. These costs are for administration of our health plan, along with the costs of re-insurance for claims exceeding \$25,000 per employee and a stop-loss carrier. Annual amount expensed per employee was \$5,724, up \$225 from the previous year. The City continues to be on a partially self-funded insurance plan. Funds available for the payment of claims (under the specific limit of \$25,000) grew from \$239,721 on June 30, 2010 to \$296,841 on June 30, 2011. This amount is reflected in the Health Insurance Contra-Account. Employees were still required to pay \$25.00 per month for their health insurance.
- Transfers of \$83,048 were made to the Capital Improvement Fund from the General Fund for reserves to purchase equipment and for capital projects.
- Transfer of \$20,000 from general funds was made to Tahlequah Industrial Authority to meet debt requirements.
- Transfers of match funds for grants were \$27,427.
- A transfer was made to the Cops-In-Schools fund in the amount of \$45,448 for salary and fringe benefits for one school resource officer.
- A transfer of \$200,000 was made from the General Fund to the Solid Waste Services fund to be used for construction costs related to the building of the new Solid Waste Transfer station.
- All departments within the General Fund were under projected budget expenditures. Revenues exceeded expenditures by a total of \$660,667 for an increase in fund balance June 30, for a total of \$3,173,858.
- **Street and Alley** Revenues of \$136,173 exceeded expenditures of \$63,557 by \$72,616 for an increased fund balance of \$276,346.
- **Hotel Motel** Tax revenues exceeded projections by \$1,088. Expenditures exceeded revenues in the amount of \$139, leaving a fund balance carryover of \$19,123.
- **Cemetery Care Fund** received \$6,206 from 12.5% of all cemetery lot sales and grave openings and closings. No expenditures were made from this fund this fiscal year.
- The City's enterprise fund-**Solid Waste Services** Department-received \$365,478 more in revenues and transfers than funds expended. Sanitation receipts from Tahlequah Public Works exceeded budget expectations in the amount of \$13,181. Transfer station fees were also above budget by \$19,845. Expenditures were at 74.3% of the year's budget. Several large capital purchases were made during this Fiscal Year totaling \$161,764. Construction on the new transfer station continued this fiscal year with expenditures totaling \$265,343. A transfer was made from the General Fund in the amount of \$200,000 for use on the construction project. Construction of the new plant and adjacent buildings is projected to be completed during the coming fiscal year.

- **Stormwater Management Fund** received \$192,971 from stormwater management fees collected by Tahlequah Public Works Authority on customer utility billings. Permit fees of \$1,579 were collected. Expenditures totaled \$182,080. Several drainage projects in the amount of \$46,953 were completed along with White Avenue drainage project-in-progress of \$31,512.
- **Brookside Restoration Fund** received \$7,450 in rental fees. Expenditures for the year were \$7,502.84 for maintenance purposes which included repainting the exterior of the home.
- The **School Resource Officer Expense Fund** received \$5,000 from Tahlequah Public Schools to be used for expenses related to the officers hired from the Cops in Schools Retention Fund. Expenditures were made from the fund in the amount of \$5,028 leaving a fund balance of \$2,383.
- The **Capital Improvement Fund** received a transfer from the General Fund in the amount of \$83,048 for various reserves for equipment and capital projects. Several donations were received this fiscal year from the following entities: Cherokee County Fire Department Sales Tax Fund, \$83,000, for a portion of the construction contract on the new Fire Station at Southridge; Cherokee Nation, \$4,000 for the purchase of equipment for the Police Department and a \$5,000 Grant from the State of Oklahoma for the purchase of equipment for Emergency Management. \$388,969 was spent from this fund for the purchase of equipment including a new street sweeper, mowers for the park department, police units, motor pool vehicle, and dump truck for street department. Land and right of way in the amount of \$221,061 was purchased. capital projects leaving a fund balance of \$567,184.
- The **Tahlequah Police Canine Fund** received \$5,075 for service fees of the drug dogs. A total of \$163 was spent for equipment. The fund has a balance of \$18,559.
- The **Tahlequah Police Dare Fund** received additional donations in the amount of \$1,300 to be used for the purpose of training & supplies for the Dare Officer in the Police Department. Expenditures totaled \$183 leaving a fund balance of \$2,412.
- **The Restricted Sales & Use Tax Fund** was established to account for an earmarked one-half of one percent (.5%) sales and use tax that was approved by the voters at a special election held on August 7, 2009. The new tax was effective on October 1, 2009 and will end on September 30, 2019 or at such a time as the indebtedness issued pursuant to the tax is paid, whichever occurs earlier. Funds are to be transferred to Tahlequah Public Works for payment on the indebtedness. Funds are to be used for Tahlequah Public Schools construction fund in an amount of \$3,200,000 and the City of Tahlequah for public improvements in the amount of \$4,800,000. Funds were received in December 2009. Total receipts from earmarked sales and use tax were \$1,377,049 and total transferred to Tahlequah Public Works was \$1,377,049.
- **The Bond Improvement Fund** was established to account for the funds which were received from the bond issue in the amount of \$4,782,419. These funds are to be spent on public improvements which include street projects on West Allen Road, East Ross Street and West Fourth Street. Other projects are the Sports Complex, Community Beautification and Fire Station Annex. A total of \$1,192,227 was expended. Projects must be completed by September 2012.
- The **Cops in School Retention Fund** is for the purpose of accounting for the expenses of providing three School Resource Officers for the Tahlequah Public School System. The expense of two officers was paid by Tahlequah Public Schools in the amount of \$90,355. One officer was funded by a transfer from the general fund of the City.
- Funds were received from the **Bullet Proof Vest Grant Program** in the amount of \$720. This is an ongoing 50% reimbursement grant with \$5,717 remaining for purchase of vests.

- **Relocate and Rehabilitate Taxiway Grant** project at the Tahlequah Municipal Airport was completed. The project came in under projected costs and \$7,281 in FAA funds along with \$8,775 in OAC funding was not used. Additional \$2,638 in match funds from the City of Tahlequah General Fund was required. Total expenditures made this fiscal year were \$81,214 and total reimbursements were \$120,948.
- The **Fire Department AFG Grant** received funds from the Department of Homeland Security, Assistance to Firefighters Grant through FEMA in the amount of \$74,822. City Match Fund required on the grant were \$8,313 or 10% of the total project of \$83,135. However, expenditures made were only in the amount of \$75,616. Therefore a reimbursement to FEMA in the amount of \$6,766.83 is due and will be returned to them upon their request at the close out of the grant. Match funds were returned to the general fund in the amount of \$752.
- The **Encourage to Arrest Grant Fund** is to account for the ongoing grant from the Department of Justice, Office on Violence Against Women. Funds in the amount of \$134,684 were expended and reimbursements from the Department of Justice in the amount of \$154,976 were received. A supplement to this grant in the amount of \$399,999 was awarded to the city and will be accounted for in a fund entitled **Community Solutions to Violence Against Women Grant**. Of these funds \$17,630 has been expended.
- Of the award received from the Department of Justice, **Swat/Reserve Equipment Grant** in the amount of \$26,416 expenditures of \$12,191 have been made this fiscal year. Reimbursements this fiscal year totaled \$19,070.
- **Tahlequah Impaired Driving Enforcement Grant** in the amount of \$18,000 was completed this fiscal year. Expenditures made were \$7,055 and reimbursements received were \$9,438. \$2,430 of the grant award was not used.
- The **Cherokee Nation S&H Grant Fund** project was completed. Funds in the amount of \$562 that were not used by the City were returned to the Cherokee Nation.
- A grant in the amount of \$70,875 was received from the **Eastern Oklahoma Department of Libraries**. The general fund provided \$25,000 in match funds. Funds are to be used for construction and re-model at the City Library.
- Tahlequah Police Department received a grant award from the Oklahoma Highway Safety Office, **Tahlequah Impaired Driving Enforcement Grant II** in the amount of \$18,000. Expenditures were \$9,462 and reimbursements received were \$5,257.
- The City of Tahlequah received a total of \$537,339 in grant funds this fiscal year, including the reimbursement of \$221,694 from FEMA.
- **USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirement of the Governmental Accounting Standards Board (GASB) Statement No.34. The report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the city as a whole and present a longer-view of the City's finances. Fund financial statements, for governmental activities, tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Basis of Accounting

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

Reporting the City as a Whole

The City’s Reporting Entity Presentation

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

The primary government includes the following legal entity:

- The City of Tahlequah

The component unit presentation includes the following legal entities:

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

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

Our financial analysis of the City as a whole begins on page 12. The government-wide financial statements are presented on pages 14 and 15. One of the most important questions asked about the City’s finances is, “Is the City as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer that question. These statements include all of the City’s assets and liabilities resulting from the use of the modified accrual basis of accounting.

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

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

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

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

Component unit activities.

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

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 14. The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds, like the Tahlequah Public School Tax Fund, to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money such as the grant from the Federal Aviation Administration. The City's three kinds of funds—*governmental, proprietary and fiduciary*—use different accounting approaches.

Governmental funds-Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements. The City considers the General Fund, the Capital Improvement Fund and the **Restricted Sales & Use Tax Fund** to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds-When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the City's proprietary (enterprise) fund financial statement is essentially the same as the business-type activities we report in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows. The City has one enterprise fund-the Solid Waste Services Fund.

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

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

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

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund Budget at various times. For the year ended June 30, 2011, General Fund expenditures were \$1,282,247 below final budgeted amounts, and General Fund revenues were \$377,159 above final budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the City had 22.8 million invested in capital assets, net of depreciation, including land, buildings, improvements, machinery, equipment, autos, infrastructure, computers and software, office equipment and furniture and work in progress.

This year's more significant capital assets additions included:

Drainage Ditch-Cedar & Maple	\$ 17,900
Purchase of Property & Rights of Way	\$ 76,500
Senior Citizen Building	\$ 24,730
Bluff Avenue Sidewalk	\$ 21,303
Southwest Parkway	\$ 30,000
Surveillance Equipment	\$ 14,645
Police Vehicles	\$ 75,414
Equipment for Police Units	\$ 30,400
Cab Chassis & Dump Bed-Street Dept	\$ 10,000
Dozer	\$ 54,088
Sidewalks & Drainage Projects	\$ 29,908
Capital Street Projects	\$ 88,688
Community Beautification Project (Bond)	\$325,834
Relocate & Rehabilitate Airport Taxiway (Grant)	\$630,606
Tahlequah History Trail (Grant)	\$ 72,860
Construction in Progress-General Fund	\$ 44,301
Construction in Progress-W Allen Road (Bond)	\$209,196
Construction in Progress-E Ross Street (Bond)	\$ 42,712
Construction in Progress-W Fourth Street (Bond)	\$131,287
Construction in Progress-Fire Station #2 (Bond)	\$ 41,474
Construction in Progress-Sports Complex (Bond)	\$454,279

SOLID WASTE SERVICES FUND-ENTERPRISE FUND

Compactor Truck	\$ 58,985
Transfer Trailer with Walking Floor	\$ 63,099
Construction Dumpsters	\$ 39,680
Construction in Progress-Transfer Station	\$788,805

Long-Term Debt

At June 30, 2011 the City had \$40,236 in a lease purchase agreement with BancFirst, Tahlequah, Oklahoma for the purchase of a sheep's foot roller.

At June 30, 2011 the Solid Waste Services Fund (Enterprise Fund) had \$55,497 outstanding at 3.75% in a lease purchase agreement with BancFirst for the purchase of the following buildings at the new solid waste plant; Transfer Station, Warehouse and Shop Building.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGT AND RATES

For the upcoming fiscal year ending June 30, 2012, the City's budget is fairly consistent with this year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director at 111 S. Cherokee, Tahlequah, Oklahoma or telephone at (918)456-0651.

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 2,225,798	\$ 1,078,568	\$ 3,304,366	\$ 18,224,452
Restricted Cash	-	-	-	562,887
Investments	3,352,525	-	3,352,525	-
Federal Treasury Obligations	16,323,165	-	16,323,165	-
Meter Deposits	-	-	-	906,908
Due From Other Funds	181,841	-	181,841	-
Bond Issuance Fees	518,625	-	518,625	-
Accumulated Amortization	(79,234)	-	(79,234)	-
Accounts Receivable	25,609,128	1,013	25,610,141	11,988,870
Prepays	-	-	-	818,198
Other	-	-	-	2,170,656
Unamortized Loan Organization Costs	-	-	-	308,274
Inventory and Supplies	-	-	-	3,122,246
Investment in Joint Ventures	-	-	-	3,505,325
Capital Assets (page 30)	33,419,603	3,115,351	36,534,954	64,853,721
Assets Limited to Use	-	-	-	12,085,847
Accumulated Depreciation	(12,696,064)	(1,213,909)	(13,909,973)	-
Total Assets	<u>68,855,387</u>	<u>2,981,023</u>	<u>71,836,409</u>	<u>118,547,384</u>
LIABILITIES				
Due to Other Funds	167,999	-	167,999	-
Bonds Outstanding	19,850,000	-	19,850,000	-
Long-Term Liabilities (Note5):	-	-	-	-
Due Within One Year	40,236	55,497	95,733	2,698,299
Due in More Than One Year	-	-	-	41,352,584
Due to TPWA	-	-	-	-
Federal Withholding	115,864	-	115,864	-
Accounts Payable	312,447	-	312,447	4,061,190
Accrued Expenses	154,899	37,849	192,748	2,962,664
Accrued Compensated Absences	135,403	-	135,403	-
Bond / Cleet Deposits Payable	35,865	-	35,865	886,311
Deferred Revenue/Minority Interest in Joint Ventures	25,001,950	-	25,001,950	-
Total Liabilities	<u>45,814,663</u>	<u>93,346</u>	<u>45,908,009</u>	<u>51,961,048</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	20,723,539	1,901,442	22,624,981	29,490,710
Restricted for Statutory Requirements	-	-	-	4,930,918
Restricted for External Contracts	-	-	-	-
Unrestricted	2,317,185	986,235	3,303,420	32,164,708
Total Net Assets	<u>\$ 23,040,724</u>	<u>\$ 2,887,677</u>	<u>25,928,401</u>	<u>\$ 66,586,336</u>

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

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense)Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Subsidies	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		Total
Primary Government:								
General Government	\$ 8,380,444	\$ -	\$ -	\$ -	\$ (8,380,444)	\$ -	\$ (8,380,444)	\$ -
Public Safety	3,077,417	469,811	582,840	-	(2,024,766)	-	(2,024,766)	-
Public Services	2,158,888	958,481	-	-	(1,200,406)	-	(1,200,406)	-
Culture and Recreation	884,227	122,168	-	-	(762,059)	-	(762,059)	-
Total Governmental Activities	<u>14,500,976</u>	<u>1,550,460</u>	<u>582,840</u>	<u>-</u>	<u>(12,367,675)</u>	<u>-</u>	<u>(12,367,675)</u>	<u>-</u>
Business Type Activities:								
Sanitation	1,603,384	2,060,489	-	-	-	457,105	457,105	-
Total Business-Type Activities	<u>1,603,384</u>	<u>2,060,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457,105</u>	<u>457,105</u>	<u>-</u>
Total Primary Government	<u>16,104,359</u>	<u>3,610,949</u>	<u>582,840</u>	<u>-</u>	<u>(12,367,675)</u>	<u>457,105</u>	<u>(11,910,570)</u>	<u>-</u>
Component Units	<u>85,851,026</u>	<u>89,789,087</u>	<u>-</u>	<u>-</u>				<u>3,938,061</u>
General Revenues:								
Tax Revenue					6,241,514	-	6,241,514	-
Investment Income					71,484	-	71,484	98,786
Bond Proceeds					-	-	-	-
Other					154,060	-	154,059	305,021
Transfers - Internal Activity					843,560	200,000	1,043,560	-
Total General Revenues and Transfers					<u>7,310,619</u>	<u>200,000</u>	<u>7,510,618</u>	<u>403,807</u>
Change in Net Assets					(5,057,057)	657,105	(4,399,952)	4,341,868
Net Assets - Beginning					28,097,781	2,230,572	30,328,354	62,244,468
Net Assets - Ending					<u>\$ 23,040,724</u>	<u>\$ 2,887,677</u>	<u>\$ 25,928,401</u>	<u>\$ 66,586,336</u>

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

**CITY OF TAHLEQUAH, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Bond Improvement Fund</u>	<u>Tahlequah Educational Facility Authority</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	822,529	\$ 567,184	\$ -	\$ 20,998	\$ 815,088	\$ 2,225,798
Federal Treasury Obligations	-	-	2,423,352	13,899,813	-	16,323,165
Investments	2,503,423	-	849,102	-	-	3,352,525
Due from Other Funds	181,841	-	-	-	-	181,841
Accounts Receivable	607,178	-	-	25,001,950	-	25,609,128
Bond Issuance Fees	-	-	-	518,625	-	518,625
Accumulated Amortization	-	-	-	(79,234)	-	(79,234)
Total Assets	<u>4,114,971</u>	<u>567,184</u>	<u>3,272,453</u>	<u>39,362,152</u>	<u>815,088</u>	<u>48,131,848</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Bonds Outstanding	-	-	-	19,850,000	-	19,850,000
Deferred Revenue	-	-	-	25,001,950	-	25,001,950
Federal Withholding and Retirement Payable	312,367	-	-	80	-	312,447
Due to TPWA	115,864	-	-	-	-	115,864
Accrued Payroll	151,013	-	-	-	3,886	154,899
Bond / Cleet Deposits Payable	35,865	-	-	-	-	35,865
Due to Other Funds	-	-	-	-	167,999	167,999
Total Liabilities	<u>615,109</u>	<u>-</u>	<u>-</u>	<u>44,852,030</u>	<u>171,885</u>	<u>45,639,024</u>
Fund Balances:						
Unassigned	3,499,862	567,184	3,272,453	(5,489,878)	643,203	2,492,824
Assigned	-	-	-	-	-	-
Total Fund Balances	<u>3,499,862</u>	<u>567,184</u>	<u>3,272,453</u>	<u>(5,489,878)</u>	<u>643,203</u>	<u>2,492,824</u>
Total Liabilities and Fund Balances	<u>\$ 4,114,971</u>	<u>\$ 567,184</u>	<u>\$ 3,272,453</u>	<u>\$ 39,362,152</u>	<u>\$ 815,088</u>	

Reconciliation to Statement of Net Assets:

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

Accrued Compensated Absences not payable out of current funds	(135,403)
Capital Assets Used in Governmental Activities of \$33,419,603 net of accumulated depreciation of \$12,723,539 are not Financial Resources and, therefore, are not Reported in the Funds.	20,723,539
Capital Lease not payable out of current funds	(40,236)
Net Assets of Governmental Activities	<u>\$ 23,040,724</u>

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

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Bond Improvement Fund</u>	<u>Tahlequah Educational Facility Authority</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes	\$ 5,933,504	\$ 83,000	\$ -	\$ -	\$ 225,011	\$ 6,241,514
Charges for Services	463,075	-	-	287,325	208,081	958,481
Fines and Forfeitures	469,811	-	-	-	-	469,811
Licenses and Permits	122,168	-	-	-	-	122,168
Investment Income	62,521	-	7,035	1,833	96	71,484
Miscellaneous	141,610	-	-	-	12,450	154,060
Bond Proceeds	-	-	-	-	-	-
Grants and Subsidies	26,719	9,000	-	355,591	191,530	582,840
Total Revenues	<u>7,219,407</u>	<u>92,000</u>	<u>7,035</u>	<u>644,749</u>	<u>637,168</u>	<u>8,600,359</u>
Expenditures:						
General Government:						
Managerial	1,176,153	-	-	-	-	1,176,153
City Clerk	50,035	-	-	-	-	50,035
City Treasurer	14,191	-	-	-	-	14,191
City Attorney	51,638	-	-	-	-	51,638
Municipal Judge	102,388	-	-	-	-	102,388
Maintenance	237,484	-	-	-	111,118	348,601
Hotel/Motel	-	-	-	-	91,227	91,227
Tahlequah Educational Facility Authority	-	-	-	5,830,608	-	5,830,608
Public Safety:						
Law Enforcement	1,968,227	-	-	-	53,325	2,021,552
Fire	745,040	-	-	-	-	745,040
Building Inspector	45,718	-	-	-	-	45,718
Emergency Management	74,519	-	-	-	-	74,519
Public Services:						
Cemetery	240,484	-	-	-	-	240,484
Animal Shelter	93,566	-	-	-	-	93,566
Streets	1,109,061	-	-	-	63,556	1,172,618
Airport	287,331	-	-	-	-	287,331
Culture and Recreation:						
Parks and Recreation	651,000	-	-	-	-	651,000
Library	25,189	-	-	-	99,875	125,064
Capital Outlay	561,038	750,652	1,192,227	-	78,465	2,582,382
Total Expenditures	<u>7,433,062</u>	<u>750,652</u>	<u>1,192,227</u>	<u>5,830,608</u>	<u>497,566</u>	<u>15,704,115</u>
Excess (deficiency) of Revenues Over Expenditures	(213,655)	(658,652)	(1,185,192)	(5,185,859)	139,602	(7,103,756)
Other Financing Sources (Uses)						
Transfers In	1,089,905	83,048	-	-	46,530	1,219,483
Transfers Out	(375,923)	-	-	-	-	(375,923)
Total Other Financing Sources (Uses)	<u>713,982</u>	<u>83,048</u>	<u>-</u>	<u>-</u>	<u>46,530</u>	<u>843,560</u>
Net Change in Fund Balance	<u>500,328</u>	<u>(575,604)</u>	<u>(1,185,192)</u>	<u>(5,185,859)</u>	<u>186,131</u>	<u>(6,260,196)</u>
Fund Balances - Beginning	<u>2,999,534</u>	<u>1,142,788</u>	<u>4,457,645</u>	<u>(304,019)</u>	<u>457,072</u>	<u>8,753,021</u>
Fund Balances - Ending	<u>\$ 3,499,862</u>	<u>\$ 567,184</u>	<u>\$ 3,272,453</u>	<u>\$ (5,489,878)</u>	<u>\$ 643,203</u>	<u>\$ 2,492,824</u>

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

**CITY OF TAHLEQUAH, OKLAHOMA
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF
GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2011**

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

Net change in fund balances - total governmental funds	\$ (6,260,196)
Accrued Compensated Absences not payable out of current funds	(13,471)
Governmental funds report outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciated expenses. This is the amount by which capital outlays exceeded depreciation net of gain/loss on desposial of assets in the current period.	\$ 1,216,610
Change in Net Assets - Statement of Activities	<u>\$ (5,057,057)</u>

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

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,078,568
Accounts receivable	1,013
Total Current Assets	1,079,581
Noncurrent Assets	
Land and construction in progress	605,861
Other capital assets, net of accumulated depreciation	1,295,581
Total Noncurrent Assets	1,901,442
Total Assets	2,981,023
LIABILITIES	
CURRENT LIABILITIES	
Accrued Payroll	37,849
Capital Lease Payable Current	55,497
Total Current Liabilities	93,346
NONCURRENT LIABILITIES	
Total Noncurrent Liabilities	-
Total Liabilities	93,346
NET ASSETS	
Invested in capital assets, net of related debt	1,901,442
Reserved	-
Unrestricted	986,235
Total Net Assets	\$ 2,887,677

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

CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Charges for services:	
Transfer station fees	\$ 184,845
Sanitation/TPWA	1,703,181
Miscellaneous operating revenue	172,463
Total Operating Revenues	<u>2,060,489</u>
 OPERATING EXPENSES	
Salaries and Employee Benefits	602,606
Materials and Supplies	909,004
Other Expenses	-
Depreciation	91,773
Total Operating Expenses	<u>1,603,384</u>
 OPERATING INCOME	<u>457,105</u>
 NON OPERATING REVENUES (EXPENSES)	
Miscellaneous revenue	-
Total Non-Operating Revenues (Expenses)	<u>-</u>
 Net Income (Loss) Before Transfers	457,105
 TRANSFERS	
Transfers in	200,000
Transfers out	
 CHANGES IN NET ASSETS	<u>657,105</u>
 TOTAL NET ASSETS - BEGINNING	<u>2,230,572</u>
 TOTAL NET ASSETS - ENDING	<u><u>\$ 2,887,677</u></u>

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

**CITY OF TAHLEQUAH, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,887,049
Other	172,463
Personel Services	(602,606)
Maintenance and Operations	(871,156)
Net Cash Provided by Operations	<u>585,749</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Transfers to Other Funds	-
Transfers from Other Funds	200,000
Net Cash Provided by Noncapital Financing Activities	<u>200,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets Net of Retirements	(421,249)
Net Cash Used by Capital and Related Financing Activities	<u>(421,249)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Cash Provided by Investing Activities	<u>-</u>
Net Increase in cash and cash equivelants	<u>364,501</u>
Beginning cash and cash equivelants	<u>714,067</u>
Ending cash and cash equivelants	<u>\$ 1,078,568</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	457,105
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	91,773
Decrease in Accounts Recivable	(978)
Increase in Accrued Expenses	37,849
Decrease in Outstanding Encumberances	-
Net cash provided by operating activities	<u>\$ 585,749</u>

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

Tahlequah Public Works Authority

The Tahlequah Public Works Authority is a public trust created to provide utility services to the citizens of Tahlequah, Oklahoma, and the surrounding community. The City of Tahlequah is the beneficiary of the trust and the excess funds the trust generates. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College. During the 2010-2011 fiscal year, the TPWA transferred \$1,050,079 (cash basis) to the City of Tahlequah through the City Light and Water Department.

Tahlequah Hospital Authority

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

Tahlequah Industrial Authority

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

Tahlequah Redevelopment Authority

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

City Light and Water Department (Tahlequah)

This department originally began as the Municipal Utility Board of Tahlequah. The Tahlequah City charter, adopted in 1940, set up this board to operate all utilities. When the Tahlequah

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

City Light and Water Department (continued)

Public Works Authority (TPWA) was established, this board continued, as a legal entity, to pay director fees, legal fees, and municipal lighting expenses. Funds are transferred to this entity from TPWA to pay the above expenses with the balance reverting to the City of Tahlequah General Fund. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College. The audit of this component unit was completed by another auditor and reflected the following information.

<u>RECEIPTS</u>	<u>2010-2011</u>
Transfers from TPWA	\$ 1,134,704
Interest Income	<u>131</u>
Total Receipts	<u>1,134,835</u>
<u>DISBURSEMENTS</u>	
Director's Fees	\$ 30,000
Legal Expense	8,400
Apportioned to the City of Tahlequah	<u>1,096,304</u>
Total Disbursements	<u>\$ 1,134,704</u>
Excess Receipts over Disbursements	<u>\$ 131</u>

Northeastern Oklahoma Public Facilities Authority

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

B. FUND ACCOUNTING

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

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

Fiduciary Fund Types

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

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

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expendable Trust Funds (continued)

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

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

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

Cash in Escrow	2011
Court Bonds	\$ 32,880
Cleet Account	2,985

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical costs, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

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

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Government-Wide Statements (continued)

Fund Financial Statements

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

C. BASIS OF ACCOUNTING

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

Revenue Recognition

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

Expenditure Recognition

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reservations of Fund Equity

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

Compensated Absences

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

D. ENCUMBRANCES

Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed purchase orders in process are completed. Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in the governmental funds. Unencumbered appropriations lapse at the end of the fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the budgets of governmental funds on the same basis of accounting that the financial statements are presented. The unencumbered balance of each appropriation lapses at year end, reverts to the respective fund from which it was appropriated, and becomes available for future appropriation. For the 2010-2011 fiscal year there were no outstanding encumbrances.

Requirement for All Budgeted Funds

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

Unreserved Fund Balance

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
E. REVENUES, EXPENDITURES, AND INTERFUND TRANSACTIONS

Tax Revenues

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

Licenses and Permits

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

Charges for Services

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

Fines and Forfeitures

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

Intergovernmental Programs

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

Miscellaneous Revenue

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

Expenditures

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

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Revenues, Expenditures, and Interfund Transactions continued

<p><u>General Government</u></p> <ul style="list-style-type: none"> Managerial City Clerk City Treasurer City Attorney Municipal Judge Maintenance Department Fringe Benefits Purchasing 	<p><u>Public Safety</u></p> <ul style="list-style-type: none"> Building Inspector Civil Defense Fire Department Law Enforcement <p><u>Culture and Recreation</u></p> <ul style="list-style-type: none"> Library Park Department
<p><u>Public Services</u></p> <ul style="list-style-type: none"> Street Department Animal Shelter City Airport Cemetery 	<p><u>Capital Outlay</u></p> <p>Consists of all capital expenditures of all departments.</p>

Interfund Transactions

Loans to funds are properly classified as due to and due from amounts, and transactions which constitute reimbursements to a fund appropriately cancel the original transactions. Expenditures initially made with loaned funds are properly classified within the fund (see Note 4). All other interfund transactions are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. The following operating transfers are identified as other financing sources (uses). No residual equity transfers occurred during the fiscal year 2011.

	<u>Transfer To</u>	<u>Transfer From</u>
General	\$1,089,905	\$ 375,923
Capital Improvement	83,048	-
Special Revenue	72,875	-
Proprietary Funds	200,000	-
Fiduciary Funds	-	1,488,553
Component Units	<u>1,508,553</u>	<u>1,089,905</u>
Totals	<u>\$ 2,954,381</u>	<u>\$ 2,954,381</u>

**CITY OF TAHLEQUAH, OKLAHOMA,
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

F. ASSETS, LIABILITIES AND FUND EQUITY

Investments on hand at June 30, 2011, consist of the following.

<u>Number - Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Bonds	03-15-12	1.375%	849,102.00	849,102.00
FHL Mortgage Corp	12-15-16	1.500%	750,000.00	750,000.00
FHL Mortgage Assoc	07-14-15	2.941%	90,000.00	90,000.00
FHL Banks	03-12-21	2.941%	198,423.00	198,423.00
#Various CD's Various Bank's	Various	5.16%-1.05%	<u>1,465,000.00</u>	<u>1,465,000.00</u>
		Total	<u>\$3,352,525.00</u>	<u>\$3,352,525.00</u>

The City's bank balance in all depository accounts at year end was \$3,304,366 at June 30, 2011. At June 30, 2011 all cash deposits and certificates of deposits were either FDIC insured or covered by collateral pledged by the banks trust department.

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

Inventories

The value of consumable inventories at June 30, 2011, is not material to the financial statements. Purchases for inventory items are considered expenditures at the time the items were encumbered.

Cash and Cash Equivalents

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

Investments

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

**CITY OF TAHLEQUAH, OKLAHOMA,
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets and Property, Plant, and Equipment

Capital asset activity for governmental activities for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Capital Assets not being Depreciated				
Land	\$ 2,085,223	\$ 155,735	\$ -	\$ 2,240,958
Construction in Progress	699,211	700,660	-	1,399,871
Capital Assets being Depreciated				
Automobiles and Trucks	3,692,419	290,515	675,403	3,307,531
Buildings and Building Improvements	5,037,755	206,487	-	5,244,242
Infrastructure	15,695,862	1,382,510	-	17,078,372
Computers and Office Equipment	457,650	14,908	-	472,558
Machinery and Equipment	<u>3,216,040</u>	<u>460,032</u>	<u>-</u>	<u>3,676,072</u>
Total Capital Assets being Depreciated	28,099,726	2,354,451	675,403	29,778,774
Total Capital Assets	<u>30,884,160</u>	<u>3,210,846</u>	<u>675,403</u>	<u>33,419,603</u>
Less Accumulated Depreciation	11,390,525	1,365,772	60,233	12,696,064
Governmental Activities, Capital Assets, Net	<u>\$ 19,493,635</u>	<u>\$ 1,845,074</u>	<u>\$ 615,170</u>	<u>\$ 20,723,539</u>

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

General Government	\$ 702,133
Public Safety	190,587
Public Services	364,888
Culture and Recreation	<u>108,164</u>
Total Depreciation from Governmental Activities	<u>\$ 1,365,772</u>

**CITY OF TAHLEQUAH, OKLAHOMA,
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Capital Assets and Property, Plant, and Equipment (continued)

Capital asset activity for business-type activities for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Capital Assets, not being Depreciated				
Land	\$ 76,100	\$ -	\$ -	\$ 76,100
Construction in Progress	<u>368,525</u>	<u>161,236</u>	<u>-</u>	<u>529,761</u>
Total Capital Assets not being Depreciated	444,625	161,236	-	605,861
Capital Assets being Depreciated				
Other Capital Assets	<u>2,340,480</u>	<u>169,010</u>	<u>-</u>	<u>2,509,490</u>
Total Capital Assets	2,785,105	330,246	-	3,115,351
Less Accumulated Depreciation				
Other Capital Assets	<u>1,122,136</u>	<u>91,773</u>	<u>-</u>	<u>1,213,909</u>
Total Accumulated Depreciation	1,122,136	91,773	-	1,213,909
Business-Type Activities, Capital Assets, Net	<u>\$ 1,662,969</u>	<u>\$ 238,473</u>	<u>\$ -</u>	<u>\$ 1,901,442</u>

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2: CASH AND INVESTMENTS

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

Deposits

The City's cash deposits at June 30, 2010, are categorized to give an indication of the level of risk assumed by the City at year end as follows:

Deposit Categories of Credit Risk

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

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

(C) Uncollateralized.

	<u>CATEGORY</u>			<u>BANK</u>	<u>CARRYING</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>BALANCE</u>	<u>AMOUNT</u>
CASH/					
INVESTMENTS	\$5,101,891.00	\$1,555,000	\$ 0.00	\$6,656,891	\$6,656,891
TOTAL	<u>\$5,101,891.00</u>	<u>\$1,555,000</u>	<u>\$ 0.00</u>	<u>\$6,656,891</u>	<u>\$6,656,891</u>

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Short term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. The interfund receivables or payables at June 30, 2011, were as follows:

Governmental General Fund (due to)	\$ 181,841
Bullet Proof Vest Special Revenue Fund (due from)	(3,763)
Violance Against Women(due from)	(25,000)
Others (due from)	(13,843)
Relocate and Rehab Taxiway Grant Fund (due from)	(69,819)
SWAT/Reserve Equipment Grant Fund (due from)	(26,416)
Tahlequah Impaired Driving Enforcement Grant Fund (due from)	(18,000)
Encourage to Arrest Grant Fund (due from)	<u>(25,000)</u>
NET	<u>\$ -0-</u>

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4: GENERAL LONG-TERM DEBT

None

NOTE 5: OTHER POST EMPLOYMENT BENEFITS

The City does not offer any early retirement incentive plans.

NOTE 6: EMPLOYMENT RETIREMENT SYSTEM

Employees and Plans

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

Oklahoma Public Employees Retirement System

The plan covers qualified city employees and provides certain retirement death and disability benefits. The City contributes 14.5% of the total wages paid to covered employees. Contributions by the City of Tahlequah amount to \$305,939 for the fiscal year ended June 30, 2010. Each covered employee contributes 3.5% of individual compensation. The plan provides for retirement benefits upon reaching normal retirement age. Employees become vested after ten (10) years of service receiving benefits upon reaching normal retirement age based on the number of years of service.

Oklahoma Firefighters Pension and Retirement System

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

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

to the plan. Contributions by the City of Tahlequah to the system for the fiscal year ended June 30, 2011 amounted to \$56,979, paid primarily by the General Fund.

NOTE 6: EMPLOYMENT RETIREMENT SYSTEM (continued)
SUMMARY OF SIGNIFICANT DATA FOR EACH RETIREMENT PLAN

Oklahoma Police Pension and Retirement system

Members of the City's Police Department participate in the Oklahoma Police Pension and Retirement System, a system administered by the State of Oklahoma. The plan covers full time police officers of the City of Tahlequah, and provides retirement, death, and disability benefits. In conformity with state law, the plan does not purport to be an actuarial funded plan; however, benefits are guaranteed by the State of Oklahoma. The contributions to the plan are 13% of total compensation paid to police officers. Each police officer contributes 8% of his/her individual compensation. Contributions by the City of Tahlequah amounted to \$113,583 for the fiscal year ended June 30, 2011, paid primarily by the General Fund.

NOTE 7: CONTINGENCIES AND OTHER COMMITMENTS

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

Pending Litigation

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

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

**CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8: LEASE COMMITMENTS

At June 30, 2011 the City had \$40,236 in a lease purchase agreement with BancFirst, Tahlequah, Oklahoma for the purchase of a sheep's foot roller.

At June 30, 2011 the Solid Waste Services Fund (Enterprise Fund) had \$55,497 at 3.75% in a lease purchase agreement with BancFirst for the purchase of the following buildings at the new solid waste plant; Transfer Station, Warehouse and Shop Building.

NOTE 9: ECONOMIC DEPENDENCY

As of June 2011, the City of Tahlequah sales tax revenue (66% of general revenue) consisted of the following business types:

<u>TYPE OF BUSINESS</u>	<u>SALES TAX REVENUE</u>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Merchandise Stores	34.24%	32.59%	32.80%	32.98%
Food Stores	11.50%	10.58%	10.74%	11.41%
Restaurants	11.56%	12.52%	13.47%	13.88%
Building Material & Hardware Stores	10.09%	10.33%	8.88%	8.55%

NOTE 10: USE OF ESTIMATES

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

CITY OF TAHLEQUAH, OKLAHOMA
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
JUNE 30, 2011

<u>Grantor/Pass-Through Grantor/ Program Title</u>	CFDA Number	Award Amount	Balance 6/30/10	Awarded (Closed)	Current Year Expenditures	Balance 6/30/11
<u>Federal Awards</u>						
<u>U.S. Department of Justice</u>						
Bullet Proof Vest	16.607	\$ 1,006	\$ 195	\$ 720	\$ 1,870	\$ 1,345
Community Solutions	16.590	\$ 399,999	\$ -	\$ -	\$ 17,630	\$ 17,630
SWAT Reserve Equipment	16.804	\$ 26,416	\$ -	\$ 19,070	\$ 12,191	\$ (6,879)
Encourage to Arrest	16.590	352,545	-	154,976	134,684	(20,292)
Sub-Total Department of Justice		779,966	195	174,766	166,375	(8,196)
<u>Federal Aviation Administration</u>						
Airport Action Plan	20.106	320,576	7,281	40,445	40,445	7,281
Sub-Total Federal Aviation Administration		320,576	7,281	40,445	40,445	7,281
<u>Pass Through the State of Oklahoma</u>						
Tahlequah Hiatory Trail	20.219	152,000	30,400	30,400	-	-
Civil Emergency Management	97.042	5,000	-	5,000	3,750	(1,250)
Civil Emergency Management	97.042	18,676	18,676	18,676	-	-
FEMA Reimbursement	97.036	26,719	-	26,719	26,719	-
Fire Department AFG Grant	97.044	-	68,056	74,822	-	(6,766)
Sub-Total Pass Through State of Oklahoma		202,395	117,132	155,617	30,469	(8,016)
Total Federal Awards		1,302,937	4,812	370,828	237,289	(8,931)
<u>State Awards</u>						
Oklahoma Aeronautics Commission		274,568	48,509	80,503	40,769	8,775
Oklahoma Water Resources Board		-	-	-	-	-
Oklahoma Historical Society Grant	15.904	1,000	1,000	1,000	-	-
Impaired Driving Enforcement Grant	20.60	36,000	-	14,695	16,470	1,775
Oklahoma Tourism & Recreation Dept		-	-	-	-	-
Total State Awards		311,568	49,509	96,198	57,239	10,550
Total Federal and State Awards		\$ 1,614,505	\$ 54,321	\$ 467,026	\$ 294,528	\$ 1,619

**CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 5,787,050	\$ 5,787,050	\$ 5,942,830	\$ 155,780
Licenses and Permits:	95,300	95,300	122,168	26,868
Charges for Services	342,835	365,823	463,075	97,252
Fines and Forfeitures	438,000	438,000	469,811	31,811
Miscellaneous	145,760	153,760	230,850	77,090
Intergovernmental Revenue:	1,101,547	1,101,547	1,089,905	(11,642)
Total Resources	7,910,492	7,941,480	8,318,639	377,159
Transfers:				
Refunds of income	-	-	-	-
Transfers from other funds	-	-	-	-
Total Other Financing Sources	-	-	-	-
Amounts available for appropriation	7,910,492	7,941,480	8,318,639	377,159
Charges to Appropriations (Outflows):				
Managerial:				
Personal services	844,865	845,558	751,634	93,924
Materials and supplies	69,912	61,858	56,119	5,739
Other services and charges	506,630	414,555	25,105	389,450
Capital outlay	670,000	664,631	561,038	103,593
Transfers	548,720	648,452	375,923	272,529
Total Managerial	2,640,127	2,635,054	1,769,819	865,235
City Clerk:				
Personal Services	50,107	50,107	48,535	1,572
Total City Clerk	50,107	50,107	48,535	1,572
City Treasurer:				
Personal services	14,539	14,539	13,691	848
Total City Treasurer	14,539	14,539	13,691	848
City Attorney:				
Personal services	50,647	50,972	49,903	1,069
Total City Attorney	50,647	50,972	49,903	1,069
Municipal Judge:				
Personal services	99,151	100,225	98,965	1,260
Other services and charges	-	-	384	(384)
Total Municipal Judge	99,151	100,225	99,349	876

**CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2011**

(CONT.)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Cemetery:				
Personal services	212,259	216,159	210,552	5,607
Materials and supplies	25,513	25,513	14,090	11,423
Other services and charges	4,500	4,500	11,237	(6,737)
Capital outlay	-	-	-	-
Total Cemetery	242,272	246,172	235,879	10,293
Building Inspector:				
Personnel services	54,072	54,853	43,120	11,733
Materials and supplies	4,028	4,028	2,598	1,430
Total Building Inspector	58,100	58,881	45,718	13,163
Emergency Management:				
Personal services	61,101	62,212	60,958	1,254
Materials and supplies	9,292	8,966	4,939	4,027
Other services and charges	8,780	8,780	7,845	935
Capital outlay	5,000	-	-	-
Total Civil Defense	84,173	79,958	73,742	6,216
Fire Department:				
Personal services	686,316	695,771	660,015	35,756
Materials and supplies	49,685	48,334	38,887	9,447
Other services and charges	30,620	29,620	24,361	5,259
Capital outlay	19,500	11,848	11,821	27
Total Fire Department	786,121	785,573	735,084	50,489
Law Enforcement:				
Personal services	1,808,246	1,837,043	1,730,548	106,495
Materials and supplies	187,964	180,661	159,736	20,925
Other services and charges	32,384	34,499	27,851	6,648
Capital outlay	117,518	122,017	105,814	16,203
Total Law Enforcement	2,146,112	2,174,220	2,023,949	150,271
Animal Shelter:				
Personal services	80,611	81,983	81,232	751
Materials and supplies	8,512	8,662	6,828	1,834
Other services and charges	4,500	4,500	3,450	1,050
Capital outlay	2,500	-	-	-
Total Animal Shelter	96,123	95,145	91,510	3,635
City Airport:				
Personal services	43,989	51,327	44,308	7,019
Materials and supplies	227,877	222,947	226,282	(3,335)
Other services and charges	18,428	16,777	15,521	1,256
Capital outlay	12,500	-	-	-
Total City Airport	302,794	291,051	286,111	4,940

**CITY OF TAHLEQUAH, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
JUNE 30, 2011**

(CONT.)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Street:				
Personal services	821,635	830,842	802,313	28,529
Materials and supplies	269,670	308,073	276,119	31,954
Other services and charges	13,540	13,540	10,817	2,723
Capital outlay	207,048	185,794	182,684	3,110
Total Street	1,311,893	1,338,249	1,271,933	66,316
Library:				
Materials and supplies	3,000	3,000	2,245	755
Other services and charges	26,000	23,000	22,944	56
Capital outlay	-	-	-	-
Total Library	29,000	26,000	25,189	811
Parks and Recreation:				
Personal services	478,953	485,280	459,213	26,067
Materials and supplies	96,831	102,435	97,017	5,418
Other services and charges	81,308	77,756	76,539	1,217
Capital outlay	50,500	35,000	22,008	12,992
Total Parks and Recreation	707,592	700,471	654,777	45,694
Maintenance:				
Personal services	223,091	226,213	170,650	55,563
Materials and supplies	52,889	52,889	48,439	4,450
Other services and charges	14,500	14,500	13,694	806
Capital outlay	-	-	-	-
Total Maintenance	290,480	293,602	232,783	60,819
Total Charges to Appropriations	8,909,231	8,940,219	7,657,972	1,282,247
Ending Budgetary Fund Balance	\$ (998,739)	\$ (998,739)	\$ 660,667	\$ (1,659,406)

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

Accrued Tax Revenues 06/30/11	\$ (598,621)
Accrued Tax Revenue 06/30/10	589,295
Accrued Payroll 06/30/11	<u>(151,013)</u>
Net Change In Fund Balance	<u>\$ 500,328</u>

CITY OF TAHLEQUAH, OKLAHOMA
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2011

BUDGETS AND BUDGETARY ACCOUNTING

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

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

**CITY OF TAHLEQUAH
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>TAHLEQUAH PUBLIC SCHOOLS TAX FUND</u>
Revenues:	
Sales Tax and Use Tax	\$ 1,377,048
Total Revenue	<u>1,377,048</u>
Expenditures:	
Total Expenditures	
Excess (deficiency) of revenues over expenditures	1,377,048
Other Financing Sources (uses):	
Transferred to Tahlequah Public Schools	1,377,048
Total Other Financing Sources (Uses)	<u>1,377,048</u>
Net Change in fund balance	-
Fund balance - beginning	-
Fund balance - ending	<u><u>\$ -</u></u>

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

The Honorable Mayor and City Council
City of Tahlequah, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2010, which collectively comprise the City of Tahlequah, Oklahoma basic financial statements and have issued our report thereon dated January 30, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Michael Green, CPA
January 30, 2012