

**CITY OF CHEROKEE, OKLAHOMA**

FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

## TABLE OF CONTENTS

Independent Accountant's Report on Applying Agreed-Upon Procedures .....1-8

### **Financial Statements**

Summary of Changes in Fund Balances and Net Assets..... 9

Budgetary Comparison Schedule General Fund- Modified Cash Basis.....10 -11

Budgetary Comparison Schedule Special RevenueFund- Modified Cash Basis ..... 12

Budgetary Comparison Schedule Capital Impr. Fund- Modified Cash Basis ..... 13

Statement of Revenues, Expenses and Changes in Net Assets-

Proprietary Fund Type- Cherokee Development Authority..... 14

Selected Notes to the Financial Statements..... 15-18

**Derrel S. White, CPA**

1011 Texas Avenue  
P.O. Box 842  
Woodward, OK 73802-0842  
Phone (580) 256-6830  
Fax (580) 256-6019

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON  
PROCEDURES

To the Specified Users of the Report:

The Honorable Mayor and City Council  
Cherokee, Oklahoma

Oklahoma Office of State Auditor and Inspector  
Oklahoma City, Oklahoma

We have compiled the accompanying Summary of Changes in Fund Balances and Net Assets of the City of Cherokee, OK and Proprietary Funds for the year ending June 30, 2010, the Budgetary Comparison Schedule-Modified Cash Basis-General and Other Governmental Funds, and the Statement of Revenues, Expenses and Changes in Net Assets for the Cherokee Development Authority for the year ended June 30, 2010. The financial statements have been prepared in a format and basis of accounting, as prescribed by Oklahoma Statutes, that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis described above.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and the requirements of Oklahoma Statutes and for designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the cash basis for governmental funds and accrual basis for proprietary funds. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the City's assets, liabilities, equity, revenues and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Additionally, we have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, and as defined within the applicable state laws of the State of Oklahoma solely to assist the City in meeting its financial accountability requirements as prescribed by such state laws and evaluating compliance with specified legal or contractual requirements for the fiscal year ended June 30, 2010. Management of the City of Cherokee is responsible for the City's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the additional requirements prescribed in Oklahoma Statutes §11-17-105-.107 and §60-180.1-.3 and the fieldwork and reporting standards of *Government Audit Standards*.

The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### **Procedures and Findings**

As to the **City of Cherokee** as of and for the fiscal year ended June 30, 2010:

1. **Procedures Performed:** From the City's trial balances, we prepared a schedule of changes in fund balances for each fund presented (see accompanying Summary of Changes in Fund Balances-Modified Cash Basis) and compared the schedule results to the statutory prohibition of creating fund balance deficits to report any noted instances of noncompliance.

**Findings:** We found no instances of noncompliance.

2. **Procedures Performed:** From the City's trial balances, we prepared a budget and actual financial schedule for the General Fund and any other significant funds itemized by department (see accompanying Notes) and compared the actual expenditures and encumbrances reported to the authorized appropriations to report any noted instances of noncompliance with the appropriation limitations.

**Findings:** The City adopted a budget in compliance with relevant Oklahoma statutes for each fund required. The control level for the budget is the department level. There were instances of non-compliance where department level expenditures exceeded the appropriated funds and instances where there were no appropriations made to departments that had expenditures. We did not find effective budgetary control where supplemental appropriations could be made to prevent non-compliance. Additionally, there is not consistency in classifying expenditures correctly which can and did impact compliance with the budgetary statutes.

**Recommendations:** There are changes that need to be made in both the control processes for accurately classifying expenditures and monitoring department level expenditures throughout the year in order to fully comply with both budgetary statutes and effective management of city funds.

3. **Procedures Performed:** We agreed the City's material bank account balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

**Findings:** We found instances where there were significant reconciling items that did not timely clear and instances where changes to the reconciliations were made well after the cutoff for that period. The control for reconciling material bank balances each period is effectively designed if reconciliations are performed properly and a good cutoff is observed. However, the reconciliations were not always done properly which resulted in items which were incorrect being reconciled and then errors corrected at a much later date after there should have been cutoff and no further transactions performed. This is effectively a management override of controls.

**Recommendations:** All bank accounts should be timely and completely reconciled and any differences immediately investigated and reported to management. Once a period is cutoff, there should be no changes to that period. Cutoff for each month should ideally be as soon after that month is reasonably possible and in no instances later than the end of the subsequent period. Management should be involved in supervisory activities to ensure that these controls are being followed.

**Procedures Performed:** We compared the City's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

**Findings:** We found no deposits that were uninsured or not properly collateralized.

4. **Procedures Performed:** We compared use of material-restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

**Findings:** No material instances of noncompliance were noted. However, there are numerous instances where expenditures were made from an improper account directly instead of a transfer to the appropriate fund being made and the expenditure coming from the correct fund. Restricted account balances are being maintained, however due to those improper expenditures, our opinion is that all restricted balances are likely overstated. There is no feasible way for us to determine the exact correct balance of restricted accounts. Because we believe the restricted accounts are overstated, rather than understated we did not have indications of either material or non-material compliance.

**Recommendations:** Management should implement new controls which prohibit any expenditure being made from a non-restricted account for restricted purposes or from

another fund. Properly designed fund accounting principles should provide adequate segregation from restricted and unrestricted activities as well as be able to provide a basis for change in fund balance for each legal fund. It appeared that there were changes made to these procedures in this current year, however there were still numerous instances where an improper payment either from unrestricted funds for restricted purposes or from the incorrect fund were made.

5. **Procedures Performed:** We compared the accounting for the City's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

**Findings:** We found numerous instances of noncompliance. As discussed in the prior finding, there was management override of controls to an extent that those controls were wholly inadequate to prevent expenditures being made from an incorrect fund. Our procedures evaluated and corrected those instances to the extent possible. However, the instances were so prevalent that it is likely there were inappropriate expenditures from different funds that were not reclassified as a transfer.

**Recommendations:** We recommend consideration and implementation of a training program for employees to better understand fund accounting, implementation of additional controls to ensure that funds are separated according to type and use as required by legal and contractual requirements and that there is more effective management oversight to prevent override of these controls by employees.

6. **Procedures Performed:** We performed recalculations of debt service coverage requirements as well as an evaluation of compliance with material terms of all debt instruments.

**Findings:** We found no instances of material non-compliance with debt covenants. However we still have concerns due to inadequate procedures to properly classify expenditures and that would be considered a material weakness in the design and operation of the system and could have an impact on our conclusion if the scope of our engagement was broader.

7. **Procedures Performed:** We performed substantive testing on a sample of all transactions to test for proper account classification, budgeting compliance, approval, and indications of fraud or misappropriations.

**Findings:** We noted significant instances of noncompliance. Our conclusion was this was due to management override of controls and inadequate employee training rather than intentional errors or misrepresentations of the financial statements.

- 8. Procedures Performed:** We reviewed the grant agreements for grants received during the year, evaluated the City's compliance with grant terms and tested the grant expenditures for allowability under the grant terms and for reasonableness.

**Findings:** We found no instances of noncompliance.

As to the **Cherokee Development Authority** as of and for the fiscal year ended June 30, 2010:

- 1. Procedures Performed:** From the Authority's trial balances, we compiled a schedule of revenues, expenses and changes in net assets for the Authority (see accompanying schedules) and compared the schedule results to applicable trust prohibitions for creating fund balance deficits to report any noted instance of compliance.

**Findings:** No instances of noncompliance were noted.

**Procedures Performed:** We agreed the Authority's material bank balances to bank statements, and traced the timely clearance of significant reconciling items to report any significant or unusual instances of reconciling items that have not cleared.

**Findings:** We found instances where there were significant reconciling items that did not timely clear and instances where changes to the reconciliations were made well after the cutoff for that period. The control for reconciling material bank balances each period is effectively designed if reconciliations are performed properly and a good cutoff is observed. However, the reconciliations were not always done properly which resulted in items which were incorrect being reconciled and then errors corrected at a much later date after there should have been cutoff and no further transactions performed. This is effectively a management override of controls.

**Recommendations:** All bank accounts should be timely and completely reconciled and any differences immediately investigated and reported to management. Once a period is cutoff, there should be no changes to that period. Cutoff for each month should ideally be as soon after that month is reasonably possible and in no instances later than the end of the subsequent period. Management should be involved in supervisory activities to ensure that these controls are being followed.

- 2. Procedures Performed:** We compared the Authority's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

**Findings:** All deposits were fully insured or collateralized at June 30, 2010.

- 3. Procedures Performed:** We compared the Authority's use of material restricted revenues and resources to report any noted instances of noncompliance.

**Findings:** We were unable to ascertain whether or not there was material noncompliance with the use of restricted revenues and resources do to accurate information being unavailable or beyond the scope of our engagement. In particular, while a list of meter

deposits being held is maintained, there is no evidence that list is accurate or is being reconciled in a timely manner. There are instances where we believe that meter deposits have been applied to a delinquent account or even refunded, but no entries made to reduce the balance in the meter deposit account or transfer those funds from restricted resources to unrestricted.

**Recommendations:** Forensic accounting procedures should be instituted to develop an accurate list of current meter deposits and compare those records to the restricted balances maintained for meter deposits. Controls and procedures should be implemented to ensure that this list is maintained contemporaneously and is reconciled to the utility system records and compared to the balances maintained in restricted accounts.

- 4. Procedures Performed:** We compared the accounting for the Authority's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

**Findings:** No instances of noncompliance were noted. However, due to the lack of effectively operating controls with governmental funds, we believe that this area should be addressed for proprietary and public trust funds as well as governmental funds

- 5. Procedures Performed:** We performed recalculations of debt service coverage requirements as well as an evaluation of compliance with material terms of all debt instruments.

**Findings:** We found no instances of material non-compliance with debt covenants. However we still have concerns due to inadequate procedures to properly classify expenditures and that would be considered a material weakness in the design and operation of the system and could have an impact on our conclusion if the scope of our engagement was broader.

**Recommendations:** Additional controls and procedures should be implemented to ensure that consistent and accurate classification of expenditures is done in order to ensure that the calculations of covenants is correct and that the authority maintains compliance with those covenants.

- 6. Procedures Performed:** We performed substantive testing on a sample of all transactions to test for proper account classification, budgeting compliance, approval, and indications of fraud or misappropriations.

**Findings:** We noted significant instances of noncompliance. Our conclusion was this was due to management override of controls and inadequate employee training rather than intentional errors or misrepresentations of the financial statements.

7. **Procedures Performed:** We reviewed the grant agreements for grants received during the year, evaluated the City's compliance with grant terms and tested the grant expenditures for allowability under the grant terms and for reasonableness.

**Findings:** We found no instances of noncompliance.

**Additional Findings and Comments based on procedures performed in accordance with engagement for agreed upon procedures and statutory requirements:**

- **Improper or non-existent records on fixed assets and depreciation.** We found no evidence to support prior year fixed asset carrying amounts or correct depreciation amounts for prior or current years. For proprietary funds, generally accepted accounting principles in the United States requires that assets are carried on the balance sheet at the lower of historical cost less accumulated depreciation or their impaired value. Since there does not seem to be a comprehensive list of these assets maintained by the municipality, it is difficult to form a conclusion on what the correct amount of depreciation expense that should be taken in the current year, whether or not the accumulated depreciation is correct and whether any assets are no longer in service or are impaired.
- **Non-compliance with statutes regarding timely submission of an audit or agreed upon procedures report to the State Auditor.** Oklahoma Statutes requires that a municipality submit a copy of their financial audit or agreed upon procedures as applicable prior to six months after the end of a fiscal year. Since this was not done, the gasoline excise tax has been withheld by the Oklahoma Tax Commission. If this is not completed within two years the amounts due to the municipality are lapsed and remitted to the county.
- **Inadequate accounting system set-up and integration with other accounting programs and inadequate training and supervision of employees responsible for entry into the accounting system.** Most if not all of our findings were directly or indirectly due to a poor design of the financial reporting system and/or poor training and procedures of accounting system personnel. There were changes made to those procedures and systems from the prior year which were improvements, however the overall operation of the reporting function does not meet the minimum standards of a similarly sized municipality in our opinion. We recommend that system design changes be considered and new procedures and controls be implemented along with adequate staff training and supervision that would improve the reporting function to at least minimal standards.
- **Scope of engagement was limited by system limitations beyond the control of city management.** We were not able to apply certain procedures that we feel could have allowed us to come to more informed decisions due to scope limitations because certain records are not maintained or available. Many of these were the result of reports in the utility system needing to be run as of the end of the close of a fiscal period. Subsequent activities posted in these ledgers impact those reports if ran after a fiscal period has already been closed which make it difficult or impossible for us to reconcile those account balances.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'D. White'.

Derrel S. White, CPA  
Woodward, Oklahoma

May 8, 2013

City of Cherokee  
 Summary of Changes in Fund Balances and Net Assets  
 For the Year Ending June 30, 2010

	<b><u>Beginning of Year Fund Balances</u></b>	<b><u>Current Year Change</u></b>	<b><u>End of Year Fund Balances</u></b>
<b>CITY:</b>			
General Fund- Modified Cash Basis	91,439	30,254	121,693
Special Revenue Funds- Modified Cash Basis	21,921	57,080	79,001
Capital Improvement Funds-Modified Cash	24,906	1,937	26,843
<b>Town Subtotal</b>	138,266	89,271	227,537
<b>ENTERPRISE FUNDS:</b>			
Public Works Authority (Accrual Basis)	2,228,809	(14,632)	2,214,177
<b>Enterprise Funds Subtotal</b>	2,228,809	(14,632)	2,214,177
<b>Overall Totals</b>	2,367,075	74,639	2,441,714

See independent accountant's report on agreed upon procedures.

City of Cherokee  
 Budgetary Comparison Schedule-Modified Cash Basis  
 General Fund  
 For the Year Ending June 30, 2010

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Amendments</u>	<u>Final</u>		
<b>General Fund</b>					
<b>Revenues</b>					
Taxes	490,000	-	490,000	378,277	(111,723)
Fines and Forfeitures	25,000	-	25,000	25,343	343
RV Park Rental Income	15,000	-	15,000	-	(15,000)
Grant Income	-	-	-	5,100	5,100
Ambulance Income	-	-	-	-	-
Other	10,000	-	10,000	95,336	85,336
<b>Total Revenues</b>	<b>540,000</b>	<b>-</b>	<b>540,000</b>	<b>504,056</b>	<b>(35,944)</b>
<b>Expenditures:</b>					
<b>Administration</b>					
Personal Services	93,676	-	93,676	17,213	76,463
Maintenance and Operations	65,000	-	65,000	43,476	21,524
Other Services and Charges	19,400	-	19,400	4,400	15,000
Capital Outlay	7,500	-	7,500	10,219	(2,719)
Debt Service	-	-	-	3,106	(3,106)
<b>Total Expenditures-Administration</b>	<b>185,576</b>	<b>-</b>	<b>185,576</b>	<b>78,414</b>	<b>107,162</b>
<b>Police</b>					
Personal Services	192,189	-	192,189	240,412	(48,223)
Maintenance and Operations	33,100	-	33,100	23,613	9,487
Other Services and Charges	750	-	750	3,290	(2,540)
Capital Outlay	9,933	-	9,933	2,500	7,433
Debt Service	-	-	-	46,484	(46,484)
<b>Total Expenditures-Police</b>	<b>235,972</b>	<b>-</b>	<b>235,972</b>	<b>316,299</b>	<b>(80,327)</b>
<b>Fire Department</b>					
Personal Services	15,723	-	15,723	13,013	2,710
Maintenance and Operations	17,100	-	17,100	7,408	9,692
Other Services and Charges	-	-	-	2,941	(2,941)
Capital Outlay	-	-	-	2,782	(2,782)
Debt Service	-	-	-	-	-
<b>Total Expenditures-Fire/Ambulance</b>	<b>32,823</b>	<b>-</b>	<b>32,823</b>	<b>26,144</b>	<b>6,679</b>
<b>Ambulance</b>					
Personal Services	-	-	-	508	(508)
Maintenance and Operations	-	-	-	45	(45)
Other Services and Charges	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service	-	-	-	-	-
<b>Total Expenditures-Ambulance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>553</b>	<b>(553)</b>
<b>Hotel/Motel Tax</b>					
Main Street (Tourism and ED)	6,000	-	6,000	-	6,000
Tourism	3,000	-	3,000	-	3,000
<b>Total Hotel/Motel Tax Expenditures</b>	<b>9,000</b>	<b>-</b>	<b>9,000</b>	<b>-</b>	<b>9,000</b>

See independent accountant's report on agreed upon procedures.

<b>Library</b>					
Personal Services	42,872		42,872	34,080	8,792
Maintenance and Operations	7,000		7,000	6,845	155
Capital Outlay	-		-	2,100	(2,100)
<b>Total Library Expenditures</b>	<u>49,872</u>	-	<u>49,872</u>	<u>43,025</u>	<u>6,847</u>
<b>Non-departmentalized</b>					
Grant Expenditures	-	-	-	15,500	(15,500)
Personal Services	-	-	-	28,774	(28,774)
<b>Total Non-Departmentalized</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,274</u>	<u>(44,274)</u>
<b>Total General Fund Expenditures</b>	<u>513,243</u>	-	<u>513,243</u>	<u>508,709</u>	<u>4,534</u>
<b>Excess of Revenues over Appropriations</b>					
<b>Before other Financing Sources</b>	26,757	-	26,757	(4,653)	(31,410)
Transfers (to)/from CDA			-	(9,692)	(9,692)
Other Financing Sources			-	27,130	27,130
Transfers to/from Special Revenue Fund	(26,757)		(26,757)	17,469	44,226
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,254</u>	<u>30,254</u>
Fund Balance Beginning of Year				<u>91,439</u>	
Fund Balance End of Year				<u><u>121,693</u></u>	

See independent accountant's report on agreed upon procedures.

City of Cherokee  
 Budgetary Comparison Schedule-Modified Cash Basis  
 Special Revenue Funds  
 For the Year Ending June 30, 2010

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Amendments</u>	<u>Final</u>		<u>Final Budget</u>
					<u>Positive/(Negative)</u>
<b>Special Revenue Funds</b>					
<b>Revenues</b>					
Taxes	218,000	-	218,000	167,807	(50,193)
911 Services	6,600	-	6,600	6,049	(551)
Cemetery	5,000	-	5,000	11,058	6,058
Airport	-	-	-	4,593	4,593
Sales and Other Revenues	6,000	-	6,000	6,051	51
<b>Total Revenues</b>	<b>235,600</b>	<b>-</b>	<b>235,600</b>	<b>195,558</b>	<b>(40,042)</b>
<b>Expenditures:</b>					
<b>Street and Alley</b>					
Personal Services	118,000	-	118,000	106,088	11,912
Maintenance and Operations	120,000	-	120,000	61,113	58,887
Other Services and Charges	3,000	-	3,000	9,070	(6,070)
Capital Outlay	20,000	-	20,000	578	19,422
<b>Total Expenditures-Street and Alley</b>	<b>261,000</b>	<b>-</b>	<b>261,000</b>	<b>176,849</b>	<b>84,151</b>
<b>Parks and Recreation</b>					
Personal Services	39,242	-	39,242	12,495	26,747
Maintenance and Operations	28,254	-	28,254	8,189	20,065
Other Services and Charges	12,000	-	12,000	15,040	(3,040)
Capital Outlay	5,000	-	5,000	-	5,000
Debt Service	-	-	-	-	-
<b>Total Expenditures-Parks and Recreation</b>	<b>84,496</b>	<b>-</b>	<b>84,496</b>	<b>35,724</b>	<b>48,772</b>
<b>Airport</b>					
Maintenance and Operations	-	-	-	3,730	(3,730)
Capital Outlay	-	-	-	-	-
<b>Total Expenditures-Airport</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,730</b>	<b>(3,730)</b>
<b>Non-departmentalized</b>					
Emergency Services-Debt Service	28,261	-	28,261	28,261	-
Personal Services	-	-	-	7,504	-
911 Services	8,600	-	8,600	5,757	2,843
Cemetery	5,000	-	5,000	3,418	1,582
<b>Total Expenditures-Non-Departmentalized</b>	<b>41,861</b>	<b>-</b>	<b>41,861</b>	<b>9,175</b>	<b>4,425</b>
<b>Total Special Revenue Expenditures</b>	<b>387,357</b>	<b>-</b>	<b>387,357</b>	<b>225,478</b>	<b>133,618</b>
<b>Excess of Revenues over Appropriations</b>					
<b>Before other Financing Sources</b>	<b>(151,757)</b>	<b>-</b>	<b>(151,757)</b>	<b>(29,920)</b>	<b>93,576</b>
Transfers (to)/ from General Fund	26,757	-	26,757	(18,000)	(44,757)
Transfers from CDA	125,000	-	125,000	105,000	(20,000)
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,080</b>	<b>28,819</b>
Fund Balance Beginning of Year				21,921	
Fund Balance End of Year				<u>79,001</u>	

City of Cherokee  
 Budgetary Comparison Schedule-Modified Cash Basis  
 Capital Project Funds  
 For the Year Ending June 30, 2010

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Amendments</u>	<u>Final</u>		
<b>Revenues</b>					
Insurance Proceeds	-	-	-		
Loan Proceeds	-	-	-		
Cemetary Capital Improvement	2,000	-	2,000	1,937	(63)
Grants	-	-	-		-
<b>Total Revenues</b>	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>1,937</u>	<u>(63)</u>
<b>Expenditures</b>					
Cemetary	2,000	-	1,000		1,000
Library	-	-	-		-
Capital Improvement Plan	-	-	-		-
<b>Total Expenditures</b>	<u>2,000</u>	<u>-</u>	<u>1,000</u>		
<b>Net Change in Fund Balance</b>	-	-	1,000	1,937	(63)
Fund Balance-Beginning of Year				<u>24,906</u>	
Fund Balance-End of Year				<u><u>26,843</u></u>	

City of Cherokee  
Statement of Revenues, Expenses and Changes in Net Assets  
Cherokee Development Authority  
For the Fiscal Year Ending June 30, 2010

**Operating Revenues:**

Charges for Services:	
Water Revenue	461,187
Sewer Charges	108,539
Trash Revenue	167,906
Penalties and Reconnection	15,126
Miscellaneous	26,291
RV Park Revenues	15,100

Total Operating Revenues	<u>794,149</u>
--------------------------	----------------

**Operating Expenses:**

Salaries,Wages and Benefits	247,344
Professional Fees	19
Purchase of Utilities-Electric	52,952
Purchase of Utilities-Natural Gas	
Trash Hauling	136,835
Maintenance and Operations	202,265
Depreciation Expense	110,969

Total Operating Expenses	<u>750,384</u>
--------------------------	----------------

Operating Income/(Loss)	43,765
-------------------------	--------

**Non-Operating Revenues/(Expenses):**

Interest Income	46,603
-----------------	--------

Total Non-Operating Revenues/(Expenses)	<u>46,603</u>
---	---------------

<b>Net Income(Loss) Before Contributions and Transfers</b>	90,368
--	--------

Transfers In/(Out)	<u>(105,000)</u>
--------------------	------------------

<b>Change in Fund Balance</b>	(14,632)
-------------------------------	----------

<b>Fund Balance-Beginning</b>	2,228,809
<b>Prior Period Adjustments</b>	<u>-</u>

<b>Fund Balance-Ending</b>	<u><u>2,214,177</u></u>
----------------------------	-------------------------

**City of Cherokee**  
**Notes to the General Purpose Financial Statements**  
**As of and for the Year Ended June 30, 2010**

**1. Summary of Significant Accounting Policies**

**The Reporting Entity**

The City of Cherokee operates under the City Manager/Mayor/City Council form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, planning and zoning, and general administration. The financial statements of the reporting entity include those of the City of Cherokee (the primary government) and its component units. The component unit discussed below is included in the Town's reporting entity because of the significance of its operational and financial relationships with the Town.

**Component Units**

Cherokee Development Authority, a legally separate entity from the Town is governed by the same council that governs the Town. For financial reporting purposes, the CDA is reported as if it were part of the Town's operations because its purpose is to finance and provide water, sewer, and trash utility services to the citizens of the Town and operate a RV park for the benefit of their residents.

**Basis of Presentation- Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**GOVERNMENTAL FUND TYPES** – These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

**GENERAL FUND**- The general fund is used to account for all financial resources except those required to be accounted for in another fund.

**SPECIAL REVENUE FUNDS**- (Street & Alley Fund, Emergency Services, 911 Special, Cemetery, Airport and Grant Funds) – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes.

**PROPRIETARY FUND TYPES** – These funds account for operations that are organized to be self supporting through user charges.

**City of Cherokee**  
**Notes to the General Purpose Financial Statements**  
**As of and for the Year Ended June 30, 2010**

**1. Summary of Significant Accounting Policies (continued)**

ENTERPRISE FUND – (Cherokee Development Fund) – This fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Basis of Accounting and Measurement Focus**

The entity reports the results of operations on a budgetary basis of accounting as directed by Oklahoma State Statute. Revenues are recognized when received and expenditures are recognized when they are encumbered or expended.

**Budgetary Accounting and Control**

The budget, as adopted by the City Council is filed with the Alfalfa County Excise Board. Budget amendments or supplements made during the year are recommended by the Town Clerk and must be approved by the City Council. Amendments are then filed with the agency mentioned above. The budget and actual comparisons presented in the financial statements include the legally amended budgets for the respective funds.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

Budgets as adopted by the Board of Trustees are prepared on a modified cash basis of accounting for governmental funds which is the same basis used to record actual revenues and expenditures.

All unencumbered budget appropriations lapse at the end of each fiscal year.

The level of control at which expenditures and encumbrances may not legally exceed appropriations is at the department level by fund for each legally adopted fiscal operating budget.

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements 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.

City of Cherokee  
Notes to the General Purpose Financial Statements  
As of and for the Year Ended June 30, 2010

1. Summary of Significant Accounting Policies (continued)

Restricted Assets

Certain assets of the Town are restricted for use for certain payments. The assets consist of cash and short-term investments which are restricted for use as future refunds of utility customer deposits.

Compensated Absences

Under Town personnel policies, Town employees are granted vacation and sick leave in varying amounts depending upon years of service. In the event of termination, an employee is paid for accumulated vacation. It is the policy of the town that paid time off does not carry over from year to year. Rather employees either take the time off or are paid for it when they are at their maximum annual accumulation.

Capital Assets

The Town uses the budgetary basis for recognizing its capital assets. Under budgetary basis the expense for the capital asset is recognized in the period in which cash is expended. No depreciation expense is recorded for governmental funds.

For proprietary type funds, depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Revenues, Expenses and Changes in Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land	N/A
Buildings	40 years
Equipment	5-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

The City has not maintained adequate fixed asset records for prior years and consequently there is no detailed listing of assets placed in service, historical cost of those assets and accumulated depreciation. The City is in the process of preparing a comprehensive list of all government assets, evaluating impairments and recalculating depreciation based on their remaining useful lives. The depreciation expense recognized in the current year is based on the net book value of all depreciable assets, depreciated over a remaining useful life of an estimated twenty years.

City of Cherokee  
Notes to the General Purpose Financial Statements  
As of and for the Year Ended June 30, 2010

1. Summary of Significant Accounting Policies (continued)

Inventory

The Town has adopted the accounting policy of expensing the purchases of inventory items at the time of purchase. Inventory balances are not maintained for unused materials and supplies on hand at the end of the year.

Contingencies

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, it has accomplished the objectives of the Town to the provisions of the grant.

2. Risk Management

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

3. Accounting Basis for Grants

The Town does not follow its normal accounting procedures for recognizing revenue and expenses related to grants. The Town uses the modified accrual basis of accounting consistent with generally accepted accounting principles for municipalities.