



City of
CHECOTAH,
OKLAHOMA

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2022**

THE CITY OF CHECOTAH, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITORS' REPORT

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

Report on the Modified Cash Basis Financial Statements

Disclaimer of Opinions

We were engaged to audit the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component units Checotah Recreational Authority and Checotah Industrial Development Authority, each major fund, and the aggregate remaining fund information of the City of Checotah, Oklahoma (the "City") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Because of the significance of the matters described in the Basis for Disclaimer of Opinions section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the modified cash basis financial statements of the City. Accordingly, we do not express opinions on these financial statements.

Basis for Disclaimer of Opinions

Because of the inadequacies of the accounting records relating to revenues and expenses, we are unable to form opinions on the accompanying modified cash basis financial statements of the governmental activities, business-type activities, the discretely presented component units Checotah Recreational Authority and Checotah Industrial Development Authority, each major fund, and the aggregate remaining fund information of the City.

Additionally, management has not included the Heartland Heritage Center Authority (HHCA) in the City's modified cash basis financial statements. Accounting principles generally accepted in the United States require the HHCA to be presented as a discretely presented component unit in the City's modified cash basis financial statements.

Emphasis of Matter

Basis of Accounting

We draw attention to Note 1(B) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(B), and determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Modified Cash Basis Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Required Supplementary Information


Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 9–15 and 41–42, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The non-major governmental funds combining statements—modified cash basis, the general fund combining accounts schedules—modified cash basis, the enterprise fund combining accounts schedules—modified cash basis, the schedule of expenditures of federal awards—modified cash basis, the schedule of expenditures of state awards—modified cash basis, and the schedule of debt service coverage requirement are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Shawnee, Oklahoma
February 6, 2023

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CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2022

The management of the City of Checotah is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2022. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$1,453,120, and the assets of the City exceed its liabilities at June 30, 2022, by \$12,001,419 (net position). Of this amount, \$6,036,447 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2022, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$9,524,160.
- At the end of fiscal year 2022, unassigned fund balance on a modified cash basis for the General Fund was \$3,956,284 or 79.3% of General Fund revenues.

ABOUT THE CITY

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

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

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

The City's Financial Reporting Entity

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

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

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

- **The Checotah Public Works Authority (CPWA)** – that operates the water and wastewater services of the City – blended as a proprietary fund - *considered part of the primary government presentation for reporting purposes*
- **The Checotah Recreational Authority (CRA)** – that promotes and provides financing for projects or facilities relating to the development of recreation and/or tourism within and near the jurisdictional boundaries of the City – *reported as a discretely presented component unit*
- **The Checotah Industrial Development Authority (CIDA)** – that provides financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City – *reported as a discretely presented component unit*
- **The Heartland Heritage Center Authority (HHCA)** – that promotes and provides financing opportunities to stimulate economic growth, development and well-being in or near the City – *would normally be reported as a discretely presented component unit but is excluded from this report*
- **The Checotah Educational Facilities Authority (CEFA)** – that promotes, finances, and develops projects or facilities relating to the development of educational institutions within the City – *would normally be reported as a discretely presented component unit, but is currently inactive*

OVERVIEW OF THE FINANCIAL STATEMENTS

With the exceptions noted above, the financial statements of the reporting entity presented herein include all of the activities of the City of Checotah (the “City”), the Checotah Public Works Authority (the “Authority”), the Checotah Recreational Authority (CRA), and the Checotah Industrial Development Authority (CIDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to a separate presentation for the discretely presented component units.

The government-wide financial statements present the complete financial picture of the City as applicable to the modified cash basis of accounting. They present governmental and business-type activities separately and combined, with additional columns and rows reporting the activity of the discretely presented component units. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its

activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions with selected modifications.

In the Statement of Net Position and the Statement of Activities, we divide the City's primary government into three kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water and wastewater utilities are reported as business-type activities. *Discretely component units*- Accounts for activities of the City's reporting entity that do not meet the criteria for blending, and includes the Checotah Recreational Authority and the Checotah Industrial Development Authority.

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

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City utilizes two kinds of funds - *governmental and proprietary*.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The City's proprietary fund is the Checotah Public Works Authority that accounts for the operation of the water and wastewater activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-39 of this report.

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2022

Other Information

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

THE CITY AS A WHOLE

For the year ended June 30, 2022, net position on a modified cash basis for the governmental and business-type activities increased \$1,453,120.

Net Position (Modified Cash Basis)
June 30, 2022

	Governmental Activities	Business-type Activities	Total
Beginning net position	\$ 8,062,398	\$ 2,485,901	\$ 10,548,299
Change in net position	1,461,762	(8,642)	1,453,120
Ending net position	\$ 9,524,160	\$ 2,477,259	\$ 12,001,419

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2022	2021	2022	2021	2022	2021	
	Assets	\$ 9,528,766	\$ 8,066,006	\$ 2,597,711	\$ 2,590,370	\$ 12,126,477	
Total assets	9,528,766	8,066,006	2,597,711	2,590,370	12,126,477	10,656,376	13.8%
Liabilities	4,606	3,608	120,452	104,469	125,058	108,077	15.7%
Total liabilities	4,606	3,608	120,452	104,469	125,058	108,077	15.7%
Net position:							
Restricted	5,461,861	4,625,342	503,111	720,504	5,964,972	5,345,846	11.6%
Unrestricted	4,062,299	3,437,056	1,974,148	1,765,397	6,036,447	5,202,453	16.0%
Total net position	\$ 9,524,160	\$ 8,062,398	\$ 2,477,259	\$ 2,485,901	\$ 12,001,419	\$ 10,548,299	13.8%

A portion of the City's net position, \$5,964,972, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$6,036,447, may be used to meet the government's ongoing needs.

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2022

Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2022

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities				
	2022	2021	2022	2021	2022	2021	
Revenues:							
Program revenues:							
Charges for Services	\$ 644,253	\$ 632,230	\$ 1,628,148	\$ 1,727,817	\$ 2,272,401	\$ 2,360,047	-3.7%
Grants & Contributions	36,709	266,815	-	-	36,709	266,815	-86.2%
Capital Grants & Contributions	4,990	100,000	90,200	103,425	95,190	203,425	-53.2%
Payment from CIDA	-	-	-	-	-	-	100.0%
General Revenues:							
Sales Tax	5,459,556	5,183,491	-	-	5,459,556	5,183,491	5.3%
Other Taxes	132,542	122,932	-	-	132,542	122,932	7.8%
Other General Revenues	557,716	296,465	39,560	11,844	597,276	308,309	93.7%
Total Revenues	6,835,766	6,601,933	1,757,908	1,843,086	8,593,674	8,445,019	1.8%
Program Expenses:							
General Government	\$ 527,337	\$ 838,364	-	-	527,337	838,364	-37.1%
Public Safety	1,983,810	1,788,383	-	-	1,983,810	1,788,383	10.9%
Streets and Facilities Maintenance	1,102,410	972,466	-	-	1,102,410	972,466	13.4%
Culture and Recreation	5,024	24,397	-	-	5,024	24,397	-79.4%
Recreation (Payment to CRA)	-	-	-	-	-	-	100.0%
Industrial development (Payment to CIDA)	60,889	23,004	-	-	60,889	23,004	164.7%
Water	-	-	2,500,366	2,561,625	2,500,366	2,561,625	-2.4%
Sewer	-	-	960,718	698,354	960,718	698,354	37.6%
Total Expenses	3,679,470	3,646,614	3,461,084	3,259,979	7,140,554	6,906,593	3.4%
Excess (Deficiency)	3,156,296	2,955,319	(1,703,176)	(1,416,893)	1,453,120	1,538,426	-5.5%
Net Transfers	(1,694,534)	(1,802,164)	1,694,534	1,802,164	-	-	-
Change in Net Position	\$ 1,461,762	\$ 1,153,155	\$ (8,642)	\$ 385,271	\$ 1,453,120	\$ 1,538,426	-5.5%
Beginning Net Position	8,062,398	6,909,243	2,485,901	2,100,630	10,548,299	9,009,873	17.1%
Ending Net Position	\$ 9,524,160	\$ 8,062,398	\$ 2,477,259	\$ 2,485,901	\$ 12,001,419	\$ 10,548,299	13.8%

Governmental Activities

The City's governmental activities had an increase in net position of \$1,461,762. The increase is due in part to a \$276,065 increase in sales tax in the current year and an increase of \$261,251 in other general revenue.

	Total Expense		% Inc. (Dec.)	Net Revenue		% Inc. (Dec.)
	of Services			(Expense) of Services		
	2022	2021		2022	2021	
General government	\$ 527	\$ 838	-37%	\$ (513)	\$ (732)	-30%
Public safety	1,984	1,788	11%	(1,391)	(955)	46%
Streets and facilities maintenance	1,102	972	13%	(1,032)	(920)	12%
Culture and recreation	5	24	-79%	4	(18)	-123%
Industrial development (Payment to CIDA)	61	23	165%	(61)	(23)	165%
Total	\$ 3,679	\$ 3,645	1%	\$ (2,993)	\$ (2,648)	13%

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2022

Business-type Activities

The business-type activities had a decrease in net position of \$8,642. This decrease is primarily due to an increase in wastewater expenses and a decrease in charges for services in the current year.

Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2022	2021		2022	2021	
	Water	\$ 2,500		\$2,562	-2%	
Wastewater	961	698	38%	(582)	(318)	83%
Total	\$ 3,461	\$3,260	6%	\$ (1,743)	\$ (1,428)	22%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2022 fiscal year, the governmental funds reported a combined fund balance of \$9,524,160. For the year ended June 30, 2022, the General Fund's total fund balance increased by \$884,691 to \$4,228,880 or 84.7% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2022, the General Fund reported actual budgetary basis revenues over final estimates by \$1,745,661 or a 26.7% positive variance. General Fund actual expenditures were under final appropriations by \$67,642 or a 0.9% positive variance.

The Ambulance Fund reported actual budgetary basis revenues over final estimates by \$81,678, a 15.8% positive variance for the year ended June 30, 2022. Ambulance Fund actual expenditures were under final appropriations by \$84,992, an 11.6% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

One of the primary responsibilities of City management is to prepare and submit in the City Council an annual budget for the upcoming year that is balanced, meets the needs and expectations of the City, and is appropriate to the economic conditions of the City. This management is committed to the fiduciary responsibility that we have in managing public resources.

The fact that the City has an aging infrastructure, and, as there are more government issued unfunded mandates, leads the City to look at its' priorities and budget accordingly. The City of Checotah is looking to replace an 8" water line and a clearwell over the course of the next 4 years.

CITY OF CHECOTAH, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2022

The FY 2021-2022 sales tax remained steady, and the City will be more aggressive with the numbers in the 2022-2023 budget.

Other information that will affect future economic factors and rates includes:

- The rising prices of chemicals to treat the water and the availability of the chemicals could impact the budget over the next fiscal 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 Clerk's office at 200 N. Broadway, Checotah, Oklahoma 74426-2444 or telephone at 918-473-5411.

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Statement of Net Position (Modified Cash Basis) – June 30, 2022

	Governmental Activities	Business-type Activities	Total	Component Units	
				Checotah Recreational Authority	Checotah Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 8,958,064	\$ 2,373,663	\$ 11,331,727	\$ 14,132	\$ 200,786
Investments	671,704	-	671,704	-	189,355
Deposits with insurance pool	123,046	-	123,046	-	-
Internal Balances	(224,048)	224,048	-	-	-
Total Assets	<u>9,528,766</u>	<u>2,597,711</u>	<u>12,126,477</u>	<u>14,132</u>	<u>390,141</u>
LIABILITIES					
Due to CIDA	1,711	-	1,711	-	-
Due to bondholders	2,770	-	2,770	-	-
Due to governmental agencies	125	-	125	-	-
Long-term liabilities:					
Due within one year - utility deposits	-	24,090	24,090	-	-
Due in more than one year - utility deposits	-	96,362	96,362	-	-
Total liabilities	<u>4,606</u>	<u>120,452</u>	<u>125,058</u>	<u>-</u>	<u>-</u>
NET POSITION					
Restricted for:					
Grant purposes	270,279	-	270,279	-	-
Public safety	379,052	-	379,052	-	-
Capital improvements	4,757,685	-	4,757,685	-	-
Cemetery	54,845	-	54,845	-	-
Debt service	-	503,111	503,111	-	-
Unrestricted	4,062,299	1,974,148	6,036,447	14,132	390,141
Total net position	<u>\$ 9,524,160</u>	<u>\$ 2,477,259</u>	<u>\$ 12,001,419</u>	<u>\$ 14,132</u>	<u>\$ 390,141</u>

See accompanying notes to the basic financial statements.

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2022

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Checotah Recreational Authority	Checotah Industrial Development Authority
Primary government									
Governmental Activities									
General Government	\$ 527,337	\$ 11,964	\$ 2,530	\$ -	\$ (512,843)	\$ -	\$ (512,843)	\$ -	\$ -
Public Safety	1,983,810	582,609	4,783	4,990	(1,391,448)	-	(1,391,448)	-	-
Streets and facilities maintenance	1,102,410	40,650	29,416	-	(1,032,344)	-	(1,032,344)	-	-
Culture and Recreation	5,024	9,030	-	-	4,006	-	4,006	-	-
Industrial development (Payment to CIDA)	60,889	-	-	-	(60,889)	-	(60,889)	-	-
Total governmental activities	<u>3,679,470</u>	<u>644,253</u>	<u>36,709</u>	<u>4,990</u>	<u>(2,993,518)</u>	<u>-</u>	<u>(2,993,518)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water	2,500,366	1,249,433	-	90,200	-	(1,160,733)	(1,160,733)	-	-
Wastewater	960,718	378,715	-	-	-	(582,003)	(582,003)	-	-
Total business-type activities	<u>3,461,084</u>	<u>1,628,148</u>	<u>-</u>	<u>90,200</u>	<u>-</u>	<u>(1,742,736)</u>	<u>(1,742,736)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>7,140,554</u>	<u>2,272,401</u>	<u>36,709</u>	<u>95,190</u>	<u>(2,993,518)</u>	<u>(1,742,736)</u>	<u>(4,736,254)</u>	<u>-</u>	<u>-</u>
Component Unit									
Checotah Recreational Authority	47,722	39,057	8,908	-	-	-	-	243	-
Checotah Industrial Development Authority	81,318	27,000	-	-	-	-	-	-	(54,318)
Total component units	<u>129,040</u>	<u>66,057</u>	<u>8,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243</u>	<u>(54,318)</u>
General revenues:									
Taxes:									
Sales and use taxes					\$ 5,459,556	\$ -	\$ 5,459,556	-	-
Franchise taxes and public service taxes					132,542	-	132,542	-	-
Intergovernmental revenue not restricted to specific programs					408,250	-	408,250	-	-
Unrestricted investment earnings					33,972	7,213	41,185	20	1,300
Miscellaneous					115,494	32,347	147,841	-	-
Payments received from primary government					-	-	-	-	59,178
Transfers					(1,694,534)	1,694,534	-	-	-
Total general revenues and transfers					<u>4,455,280</u>	<u>1,734,094</u>	<u>6,189,374</u>	<u>20</u>	<u>60,478</u>
Change in net position					1,461,762	(8,642)	1,453,120	263	6,160
Net position - beginning					8,062,398	2,485,901	10,548,299	13,869	383,981
Net position - ending					<u>\$ 9,524,160</u>	<u>\$ 2,477,259</u>	<u>\$ 12,001,419</u>	<u>\$ 14,132</u>	<u>\$ 390,141</u>

See accompanying notes to the basic financial statements.

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2022

	<u>General Fund</u>	<u>Restricted Sales Tax</u>	<u>Capital Improvement Fund</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 3,994,215	\$ 2,319,757	\$ 2,224,873	\$ 366,216	\$ 53,003	\$ 8,958,064
Investments	112,034	544,670	-	-	15,000	671,704
Due from other funds	2,480	-	-	-	-	2,480
Deposits with insurance pool	123,046	-	-	-	-	123,046
Total assets	<u>4,231,775</u>	<u>2,864,427</u>	<u>2,224,873</u>	<u>366,216</u>	<u>68,003</u>	<u>9,755,294</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	-	226,528	-	-	-	226,528
Due to CIDA	-	1,711	-	-	-	1,711
Due to bondholders	2,770	-	-	-	-	2,770
Payable to other governments	125	-	-	-	-	125
Total liabilities	<u>2,895</u>	<u>228,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,134</u>
Fund balances:						
Restricted for:						
Grant purposes	270,279	-	-	-	-	270,279
Public Safety	-	-	-	366,216	12,836	379,052
Capital Improvements	-	2,533,049	2,224,636	-	-	4,757,685
Cemetery	-	-	-	-	54,845	54,845
Assigned to:						
Public Safety	2,317	-	-	-	-	2,317
Cemetery	-	-	-	-	322	322
Capital Improvements	-	103,139	237	-	-	103,376
Unassigned	3,956,284	-	-	-	-	3,956,284
Total fund balances	<u>4,228,880</u>	<u>2,636,188</u>	<u>2,224,873</u>	<u>366,216</u>	<u>68,003</u>	<u>9,524,160</u>
Total liabilities and fund balances	<u>\$ 4,231,775</u>	<u>\$ 2,864,427</u>	<u>\$ 2,224,873</u>	<u>\$ 366,216</u>	<u>\$ 68,003</u>	<u>\$ 9,755,294</u>

See accompanying notes to the basic financial statements.

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2022

	<u>General Fund</u>	<u>Restricted Sales Tax</u>	<u>Capital Improvement Fund</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 4,301,323	\$ 1,290,775	\$ -	\$ -	\$ -	\$ 5,592,098
Intergovernmental	450,229	-	-	-	-	450,229
Licenses and permits	10,836	-	-	-	-	10,836
Charges for services	47,489	-	-	532,608	9,319	589,416
Fees and fines	45,912	-	-	-	2,018	47,930
Investment earnings	23,141	10,831	-	-	-	33,972
Miscellaneous	111,283	-	-	2	-	111,285
Total revenues	<u>4,990,213</u>	<u>1,301,606</u>	<u>-</u>	<u>532,610</u>	<u>11,337</u>	<u>6,835,766</u>
EXPENDITURES						
Current:						
General Government:						
Managerial	116,980	-	-	-	-	116,980
City Clerk	3,109	-	-	-	-	3,109
Attorney	28,460	-	-	-	-	28,460
General Government	177,442	-	2,068	-	-	179,510
City Treasurer	3,305	-	-	-	-	3,305
Property	-	7,050	-	-	-	7,050
Code Enforcement	92,793	-	-	-	-	92,793
Public Safety:						
Police	841,507	-	-	-	1,123	842,630
Municipal Court	17,156	-	-	-	-	17,156
Emergency Services	74,674	-	-	-	-	74,674
Ambulance	-	-	307,773	441,329	-	749,102
Fire	26,659	-	-	-	-	26,659
Animal Shelter	12,800	-	-	-	-	12,800
Maintenance	693,136	-	-	-	-	693,136
Culture and recreation	4,411	-	-	-	-	4,411
Cemetery	-	-	-	-	1,831	1,831
Capital Outlay	74,651	321,138	188,391	207,607	1,155	792,942
Total Expenditures	<u>2,167,083</u>	<u>328,188</u>	<u>498,232</u>	<u>648,936</u>	<u>4,109</u>	<u>3,646,548</u>
Excess (deficiency) of revenues over expenditures	<u>2,823,130</u>	<u>973,418</u>	<u>(498,232)</u>	<u>(116,326)</u>	<u>7,228</u>	<u>3,189,218</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	3,285,549	-	1,290,775	66,768	-	4,643,092
Transfers out	(5,163,099)	(579,792)	(566,768)	-	-	(6,309,659)
Transfers out - component unit	(60,889)	-	-	-	-	(60,889)
Total other financing sources and uses	<u>(1,938,439)</u>	<u>(579,792)</u>	<u>724,007</u>	<u>66,768</u>	<u>-</u>	<u>(1,727,456)</u>
Net change in fund balances	884,691	393,626	225,775	(49,558)	7,228	1,461,762
Fund balances - beginning	3,344,189	2,242,562	1,999,098	415,774	60,775	8,062,398
Fund balances - ending	<u>\$ 4,228,880</u>	<u>\$ 2,636,188</u>	<u>\$ 2,224,873</u>	<u>\$ 366,216</u>	<u>\$ 68,003</u>	<u>\$ 9,524,160</u>

See accompanying notes to the basic financial statements.

**CITY OF CHECOTAH, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

CITY OF CHECOTAH, OKLAHOMA
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Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2022

	<u>Checotah Public Works Authority Enterprise Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,750,100
Restricted:	
Cash and cash equivalents	570,565
Due from other funds	226,528
Total current assets	<u>2,547,193</u>
Non-current assets:	
Restricted:	
Cash and cash equivalents	52,998
Total non-current assets	<u>52,998</u>
Total assets	<u>2,600,191</u>
 LIABILITIES	
Current Liabilities:	
Due to other funds	2,480
Deposits subject to refund	24,090
Total current liabilities	<u>26,570</u>
Non-current liabilities:	
Deposits subject to refund	96,362
Total non-current liabilities	<u>96,362</u>
Total liabilities	<u>122,932</u>
 NET POSITION	
Restricted for debt service	503,111
Unrestricted	1,974,148
Total net position	<u>\$ 2,477,259</u>

See accompanying notes to the basic financial statements.

CITY OF CHECOTAH, OKLAHOMA
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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2022

	<u>Checotah Public Works Authority Enterprise Fund</u>
REVENUES	
Water	\$ 1,217,514
Wastewater	365,039
Fees, taps and penalties	38,050
Miscellaneous	7,545
Total operating revenues	<u>1,628,148</u>
OPERATING EXPENSES	
Administration	534,805
Water	1,527,607
Wastewater	632,903
Total Operating Expenses	<u>2,695,315</u>
Operating income (loss)	<u>(1,067,167)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	7,213
Miscellaneous revenue	32,347
Debt service:	
Principal retirement	(673,972)
Interest expense	(63,830)
Total non-operating revenue (expenses)	<u>(698,242)</u>
Income (loss) before contributions and transfers	<u>(1,765,409)</u>
Capital contributions - grant	90,200
Transfers in	4,452,116
Transfers out	<u>(2,785,549)</u>
Change in net position	<u>(8,642)</u>
Total net position - beginning	2,485,901
Total net position - ending	<u>\$ 2,477,259</u>

See accompanying notes to the basic financial statements.

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2022

	Checotah Public Works Authority Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,660,495
Payments to suppliers	(1,559,344)
Payments to employees	(1,135,971)
Receipts of customer meter deposits	40,925
Refunds of customer meter deposits	(24,942)
Net cash provided by (used in) operating activities	<u>(1,018,837)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	4,452,116
Transfers to other funds	(2,785,549)
Net cash provided by noncapital financing activities	<u>1,666,567</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on debt	(673,972)
Capital contribution - grant	90,200
Interest and fiscal agent fees paid on debt	(63,830)
Net cash provided by (used in) capital and related financing activities	<u>(647,602)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	7,213
Net cash provided by investing activities	<u>7,213</u>
Net increase in cash and cash equivalents	7,341
Balances - beginning of year	<u>2,366,322</u>
Balances - end of year	<u>\$ 2,373,663</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	1,750,100
Restricted cash and cash equivalents - current	570,565
Restricted cash and cash equivalents - noncurrent	52,998
Total cash and cash equivalents, end of year	<u>2,373,663</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (1,067,167)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Miscellaneous revenue	32,347
Change in assets and liabilities:	
Deposits subject to refund	15,983
Net cash provided by (used in) operating activities	<u>\$ (1,018,837)</u>

See accompanying notes to the basic financial statements.

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity consists of the primary government (including one blended component unit) and four discretely-presented component units as follows.

- **The City of Checotah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities, governed by the City Council
- **The Checotah Public Works Authority (CPWA)** – that operates the water and wastewater services of the City governed by the City Council members as trustees– blended as a proprietary fund - *considered part of the primary government presentation for reporting purposes*
- **The Checotah Recreational Authority (CRA)** – that promotes and provides financing for projects or facilities relating to the development of recreation and/or tourism within and near the jurisdictional boundaries of the City governed by separate trustees appointed by the City Council – *reported as a discretely presented component unit*
- **The Checotah Industrial Development Authority (CIDA)** – that provides financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City - *reported as a discretely presented component unit*
- **The Heartland Heritage Center Authority (HHCA)** – that promotes and provides financing to stimulate economic growth, development and well-being in or near the City governed by separate trustees appointed by the City Council – *would normally be reported as a discretely presented component unit but is excluded from this report*
- **The Checotah Educational Facilities Authority (CEFA)** – that promotes, finances, and develops projects or facilities relating to the development of educational institutions within the City – *would normally be reported as a discretely presented component unit, but is currently inactive*

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*, as amended by Statement 61, except for the exclusion of the Heartland Heritage Center Authority as discussed above. That entity has been excluded from the City's reporting entity in this financial report due to the timing of the City's release of its audited financial statements.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

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

Business-type activities are also reported on a modified cash basis.

Governmental Funds:

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Restricted Sales Tax Fund – a capital project fund that accounts for a one-cent sales tax legally restricted for street improvements, sewer improvements and utility equipment.
- Capital Improvement – a capital project fund that accounts for funds designated for capital outlay and debt service on capital related debt and other city services deemed necessary by City Council.
- Ambulance Fund – a special revenue fund that accounts for revenue collected from ambulance service provided by the City of Checotah.

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

Special Revenue Funds:

- Police Training Fund - accounts for \$10 per police fine collected for police training.

Capital Project Fund:

- Cemetery Care Fund - accounts for 12.5 percent of cemetery revenue restricted by State law for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Fund:

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

Enterprise Fund:

- Checotah Public Works Authority – accounts for the operation of the water and wastewater activities.

The proprietary fund is also reported on a modified cash basis.

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

Due to the use of the modified cash basis of accounting, as described in Note 1.B., capital assets and related depreciation are not reported in the financial statements.

E. Long-Term Debt

Due to the use of the modified cash basis of accounting, as described in Note 1.B., long-term debt obligations are not reported in the financial statements. However, the amount of long-term debt issued and outstanding at the end of the fiscal year is reported as a commitment in Note 9.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, as described in Note 1.B., liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due to employees upon termination is reported as a commitment in Note 9.

G. Fund Balances and Net Position

Net Position:

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net position* - All other net position that does not meet the definition of “restricted”.

It is the City’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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Proprietary fund equity is classified the same as in the government-wide statements.

H. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

2. Deposits and Investments

For the year ended June 30, 2022, the City recognized \$41,185 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2022, the primary government held the following deposits and investments:

<u>Primary Government</u>	Carrying Value	Credit Rating
Deposits:		
Petty cash	800	
Demand deposits	11,277,929	
Time deposits - certificates of deposit	671,704	
Investments:		
Open-ended Money Market Mutual Funds - Goldman Sachs Financial Square	52,998	Aaa
Total Deposits and Investments	<u>\$ 12,003,431</u>	
 Reconciliation to Statement of Net Position:		
Cash and cash equivalents	\$ 11,331,727	
Investments	671,704	
	<u>\$ 12,003,431</u>	
 <u>Component Unit</u>		
Checotah Recreational Authority:		
Demand deposits	<u>\$ 14,132</u>	
Checotah Industrial Development Authority:		
Demand deposits	\$ 200,786	
Investments	189,355	
	<u>\$ 390,141</u>	

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty’s trust, department or agent, but not in the government’s name.

At June 30, 2022, the city was not exposed to custodial credit risk.

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Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2022, the City’s investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City’s public trusts.

As of June 30, 2022, the City’s investments consisted of \$52,998 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of Aaa as rated by Moody’s.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2022, the City had no concentration of credit risk as defined above.

Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for utility deposits, debt service, debt reserve, or capital asset construction purposes. The restricted assets as of June 30, 2022 are as follows:

<u>Type of Restricted Assets</u>	Current Cash and Cash Equivalents	Non-Current Cash and Cash Equivalents
Utility Deposits	120,452	\$ -
2012 Refunding Bond Trust Accounts	37,586	52,998
Asset Replacement Account	357,349	-
Loan Reserve Account	55,178	-
Total Restricted Assets	\$ 570,565	\$ 52,998

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3. Sales Tax Revenue

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

4. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

5. Customer Deposits

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

	<u>\$ 120,452</u>
Current portion	\$ 24,090
Non-current portion	<u>96,362</u>
Total Customer Deposits	<u>\$ 120,452</u>

6. Internal Balances and Transfers between Funds and Legal Entities

Balances:

Interfund balances between activities at June 30, 2022, were as follows:

Due From	Due To	Amount	Nature of Balance
Capital Improvement Fund	Intake Structure Program	\$ 226,528	Expenses paid on behalf of other fund
Checotah Public Works Authority	General Fund	2,480	Deposit made to wrong account
Total		<u>\$ 229,008</u>	
Reconciliation to Fund Financial Statements:			
	Due From	Due To	Net Internal Balances
Governmental Funds	\$ 2,480	\$ (226,528)	\$ (224,048)
Proprietary Funds	226,528	(2,480)	224,048
Total	<u>\$ 229,008</u>	<u>\$ (229,008)</u>	<u>\$ -</u>

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Transfers:

Internal transfers between funds and activities for the year ended June 30, 2022, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	Capital Improvement Fund	\$ 1,290,775	Sales tax transfer
General Fund	Checotah Public Works Authority	3,872,324	Sales tax pledge
Checotah Public Works Authority	General Fund	2,581,549	Sales tax transfer- return of sales tax
Checotah Public Works Authority	General Fund	204,000	Operational subsidy
Capital Improvement Fund	General Fund	500,000	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	204,000	Operational subsidy
Restricted Sales Tax Fund	Checotah Public Works Authority	375,792	Subsidy for debt service
Capital Improvement Fund	Ambulance Fund	66,768	Budgeted transfer to offset the Ambulance Cash Account
		<u>\$ 9,095,208</u>	

Reconciliation:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 4,643,092	\$ (6,309,659)	\$ (1,666,567)
Proprietary Funds	4,452,116	(2,785,549)	1,666,567
Total	<u>\$ 9,095,208</u>	<u>\$ (9,095,208)</u>	<u>\$ -</u>

Reconciliation to Statement of Activities:

	<u>Net Transfers</u>
Net Transfers	\$ 1,666,567
Business-type activities from governmental funds	27,967
Total Transfers - Internal Activity	<u>\$ 1,694,534</u>

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

8. Pension Plan Participation

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

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

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OFPRS:

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

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 6601 Broadway Extension, Suite 100, Oklahoma City, OK 73116.

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

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2020	\$ 960	\$ 960
2021	\$ 840	\$ 840
2022	\$ 900	\$ 900

OPPRS:

Plan Summary Information. The City of Checotah, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers.

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

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

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

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The OPPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2020	\$42,922	\$42,922
2021	\$42,391	\$42,391
2022	\$41,951	\$41,951

OMRF Defined Benefit Plan:

The City contributes to the City of Checotah Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City’s individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	4.77% of covered payroll (City elected to stay at 7.18%)
-Employee Rate	3.75% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.5% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

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Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2020	\$27,638	\$98,805
2021	\$55,408	\$101,815
2022	\$69,966	\$107,480

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 1001 N.W. 63rd Street, Suite 260, Oklahoma City, Oklahoma, 73116.

9. Commitments and Contingencies

Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2022, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance Due July 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due June 30, 2022</u>	<u>Amount Due Within One Year</u>
<i>Business-Type Activities:</i>					
Notes Payable - Direct borrowings	\$ 2,616,459	\$ -	\$ 393,972	\$ 2,222,487	\$ 396,053
Revenue Bonds Payable	1,175,000	-	280,000	895,000	290,000
Total Business-Type Activities	\$ 3,791,459	\$ -	\$ 673,972	\$ 3,117,487	\$ 686,053

Governmental activities had no long-term debt payable from taxes and other general revenues at June 30, 2022.

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

Checotah Public Works Authority:

Notes Payable – Direct borrowing:

2007 Series Interim Construction Drinking Water SRF Promissory Note to Oklahoma Water Resources Board, original issue amount available for draw of \$5,360,000, secured by utility revenues and pledged sales tax, payable in semi-annual installments, interest rate at 3.69%, final maturity September 15, 2028. In the event of default on this note, the lender may: 1) file suit to require any or all of the borrower covenants to be performed; 2) accelerate the payment of the principal and interest accrued on the note; 3) appoint temporary trustees to take over, operate and maintain the System on a profitable basis; 4) file suit to enforce or enjoin the action or inaction of the borrower under the provisions of the note agreement; 5) increase the interest rate to 14% on the defaulted payments.

\$1,315,804

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USDA Loan payable – direct borrowing, original issue amount of \$1,231,800, secured by utility revenues and pledged sales tax revenue and all existing or future purchased tangible assets of the Systems, payable in monthly installments of \$3,905, interest rate at 2.25%, final maturity December 28, 2047. In the event of default, the lender may: 1) declare loan immediately due and payable; 2) enter premises and take possession of collateral; and 3) exercise any sale or other rights accorded by law.

Total Notes Payable 906,683
\$2,222,487

Current portion	\$ 396,053
Non-current portion	<u>1,826,434</u>
Total Notes Payable	<u>\$2,222,487</u>

Revenue Bonds Payable- Direct placement:

2012B Utility System Refunding Revenue Bonds, original issue amount of \$2,930,000, dated August 31, 2012, issued by the Checotah Public Works Authority, secured by utility revenue and pledged sales tax, principal maturing annually ranging from \$230,000 to \$305,000, interest payable semiannually with rates from 3.0%, final maturity May 1, 2025. In the event of default on this note, the lender may: 1) file suit to require any or all of the borrower covenants to be performed; 2) accelerate the payment of the principal and interest accrued on the note; 3) appoint temporary trustees to take over, operate and maintain the System on a profitable basis; 4) file suit to enforce or enjoin the action or inaction of the borrower under the provisions of the note agreement.

\$895,000
\$895,000

Current portion	\$ 290,000
Non-current portion	<u>605,000</u>
Total Revenue Bonds Payable	<u>\$895,000</u>

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

Year Ended June 30,	<u>Business-Type Activities</u>			
	<u>Notes Payable-</u>		<u>Revenue Bonds Payable -</u>	
	<u>Direct Borrowing</u>		<u>Direct Placement</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	396,053	26,247	290,000	24,675
2024	398,179	23,790	300,000	15,900
2025	400,424	21,312	305,000	6,900
2026	231,790	18,811		
2027	29,250	17,610		
2028-2032	156,531	78,769	-	-
2033-2037	175,149	59,151	-	-
2038-2042	195,985	38,315	-	-
2043-2047	219,298	15,002	-	-
2048	19,828	113	-	-
Total	<u>\$ 2,222,487</u>	<u>\$ 299,120</u>	<u>\$ 895,000</u>	<u>\$ 47,475</u>

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged three cents (or 75%) of future sales tax revenues and net utility revenues to repay the \$2,930,000 of the 2012B Utility System Refunding Revenue Bonds and \$5,360,000 of the OWRB 2007 Series Interim Construction Drinking Water SRF Promissory Note. Proceeds from the bonds and note provided financing for capital assets. The bonds and note are payable from pledged sales tax revenues, net utility revenues and investment income of the CPWA and are payable through 2025 and 2028, respectively. The total principal and interest payable for the remainder of the life of these bonds is \$2,271,640. Pledged sales taxes and net utility revenues received in the current year were \$3,726,884. Debt service payments of \$688,942 for the current fiscal year were 11.5% of pledged sales taxes and net utility revenues.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2022, is summarized as follows:

- City – accrued compensated absences \$12,100
- CPWA – accrued compensated absences \$11,280

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Checotah participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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SUPPLEMENTARY AND OTHER INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2022

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 810,000	\$ 928,613	\$ 3,191,579	\$ 2,262,966
Resources (Inflows):				
Taxes	3,320,000	3,320,000	4,004,866	684,866
Intergovernmental	115,300	115,300	450,229	334,929
Charges for services	23,000	23,000	47,489	24,489
Fines and Forfeitures	60,000	60,000	45,912	(14,088)
Licenses and Permits	2,000	2,000	10,836	8,836
Investment Income	9,000	9,000	23,140	14,140
Miscellaneous	11,800	11,800	111,283	99,483
Other Financing Sources - Transfers - Interaccount	-	-	296,457	296,457
Other Financing Sources - Transfers In	2,989,000	2,989,000	3,285,549	296,549
Total Resources	6,530,100	6,530,100	8,275,761	1,745,661
Amounts available for appropriation	7,340,100	7,458,713	11,467,340	4,008,627
Charges to Appropriations (Outflows):				
Managerial	143,700	133,700	116,980	16,720
City Clerk	3,335	3,335	3,109	226
City Attorney	29,400	29,400	28,460	940
Municipal Court	17,539	17,539	17,156	383
Police	863,588	884,467	866,019	18,448
Fire	45,800	50,563	38,112	12,451
Recreation	5,780	5,780	4,411	1,369
City Treasurer	3,608	3,608	3,305	303
General Government	211,100	211,100	177,442	33,658
Emergency Services	94,000	94,000	91,891	2,109
Maintenance	742,100	746,649	714,605	32,044
Animal Shelter	12,000	12,720	12,800	(80)
Planning and Zoning	1,250	1,250	-	1,250
Code Enforcement	96,900	106,180	92,793	13,387
Other Financing Uses - Transfers Out	4,260,000	5,158,422	5,223,988	(65,566)
Total Charges to Appropriations	6,530,100	7,458,713	7,391,071	67,642
Ending Budgetary Fund Balance	\$ 810,000	\$ -	\$ 4,076,269	\$ 4,076,269
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
Use Tax Account			150,294	
Dare Account			2,317	
Total General Fund Fund Balance			\$ 4,228,880	

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2022 (Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 350,000	\$ 216,228	\$ 415,774	\$ 199,546
Resources (Inflows):				
Charges for services	431,200	431,200	532,608	101,408
Miscellaneous	216,228	-	2	2
Transfers in	86,500	86,500	66,768	(19,732)
Total Resources	<u>733,928</u>	<u>517,700</u>	<u>599,378</u>	<u>81,678</u>
Amounts available for appropriation	<u>1,083,928</u>	<u>733,928</u>	<u>1,015,152</u>	<u>281,224</u>
Charges to appropriations (outflows):				
Public safety	733,928	733,928	648,936	84,992
Total Charges to Appropriations	<u>733,928</u>	<u>733,928</u>	<u>648,936</u>	<u>84,992</u>
Ending Budgetary Fund Balance	<u>\$ 350,000</u>	<u>\$ -</u>	<u>366,216</u>	<u>\$ 366,216</u>

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements, with the exceptions noted in 3. below.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.
3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

	General Fund
Resources budgetary basis	\$8,275,761
Deduct inter-account transfers in	(296,457)
Deduct transfers in	<u>(3,285,549)</u>
Revenue – modified cash basis (General Fund only)	<u>\$4,693,755</u>
Charges to appropriation budgetary basis	\$7,391,071
Deduct transfers out	(5,163,099)
Deduct transfers out – component unit	<u>(60,889)</u>
Expenditures – modified cash basis (General Fund only)	<u>\$2,167,083</u>

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NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2022

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Police Training Fund</u>	<u>Cemetery Care Fund</u>	<u>Total Other Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 12,836	\$ 40,167	\$ 53,003
Investments	-	15,000	15,000
Total assets	<u>12,836</u>	<u>55,167</u>	<u>68,003</u>
LIABILITIES AND FUND BALANCES			
Liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted for:			
Public safety	12,836	-	12,836
Cemetery	-	54,845	54,845
Assigned to:			
Cemetery	-	322	322
Total fund balances	<u>12,836</u>	<u>55,167</u>	<u>68,003</u>
Total liabilities and fund balances	<u>\$ 12,836</u>	<u>\$ 55,167</u>	<u>\$ 68,003</u>

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NonMajor Governmental Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2022

	Special Revenue Fund	Capital Project Fund	
	Police Training Fund	Cemetery Care Fund	Total-Other Governmental Funds
REVENUES			
Charges for services	\$ -	\$ 9,319	\$ 9,319
Fees and fines	2,018	-	2,018
Total revenues	<u>2,018</u>	<u>9,319</u>	<u>11,337</u>
EXPENDITURES			
Current:			
Public Safety	1,123	-	1,123
Cemetery	-	1,831	1,831
Capital Outlay	-	1,155	1,155
Total Expenditures	<u>1,123</u>	<u>2,986</u>	<u>4,109</u>
Net change in fund balances	895	6,333	7,228
Fund balances - beginning	11,941	48,834	60,775
Fund balances - ending	<u>\$ 12,836</u>	<u>\$ 55,167</u>	<u>\$ 68,003</u>

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General Fund Accounts Combining Balance Sheet (Modified Cash Basis) – June 30, 2022

	General Fund	Use Tax Account	Dare Account	Total
ASSETS				
Cash and cash equivalents	\$ 3,841,604	\$ 150,294	\$ 2,317	\$ 3,994,215
Investments	112,034	-	-	112,034
Deposits with insurance pool	123,046	-	-	123,046
Due from other funds	2,480	-	-	2,480
Total assets	4,079,164	150,294	2,317	4,231,775
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to bondholders	2,770	-	-	2,770
Payable to other governments	125	-	-	125
Total liabilities	2,895	-	-	2,895
 Fund balances:				
Restricted	270,279	-	-	270,279
Assigned to:				
Public safety	-	-	2,317	2,317
Unassigned	3,805,990	150,294	-	3,956,284
Total fund balances	4,076,269	150,294	2,317	4,228,880
Total liabilities and fund balances	\$ 4,079,164	\$ 150,294	\$ 2,317	\$ 4,231,775

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General Fund Accounts Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2022

	<u>General Fund</u>	<u>Use Tax Account</u>	<u>Dare Account</u>	<u>Total</u>
REVENUES				
Taxes	\$ 4,004,866	\$ 296,457	\$ -	\$ 4,301,323
Intergovernmental	450,229	-	-	450,229
Licenses and permits	10,836	-	-	10,836
Charges for services	47,489	-	-	47,489
Fees and fines	45,912	-	-	45,912
Investment earnings	23,140	-	1	23,141
Miscellaneous	111,283	-	-	111,283
Total revenues	<u>4,693,755</u>	<u>296,457</u>	<u>1</u>	<u>4,990,213</u>
EXPENDITURES				
Current:				
General Government:				
Managerial	116,980	-	-	116,980
City Clerk	3,109	-	-	3,109
Attorney	28,460	-	-	28,460
General Government	177,442	-	-	177,442
City Treasurer	3,305	-	-	3,305
Code Enforcement	92,793	-	-	92,793
Public Safety:				
Police	841,507	-	-	841,507
Municipal Court	17,156	-	-	17,156
Emergency Services	74,674	-	-	74,674
Fire	26,659	-	-	26,659
Animal Shelter	12,800	-	-	12,800
Maintenance	693,136	-	-	693,136
Culture and recreation	4,411	-	-	4,411
Capital Outlay	74,651	-	-	74,651
Total Expenditures	<u>2,167,083</u>	<u>-</u>	<u>-</u>	<u>2,167,083</u>
Excess (deficiency) of revenues over expenditures	<u>2,526,672</u>	<u>296,457</u>	<u>1</u>	<u>2,823,130</u>
OTHER FINANCING SOURCES (USES)				
Transfer - interaccount	296,457	(296,457)	-	-
Transfers in	3,285,549	-	-	3,285,549
Transfers out	(5,163,099)	-	-	(5,163,099)
Transfers out - component unit	(60,889)	-	-	(60,889)
Total other financing sources and uses	<u>(1,641,982)</u>	<u>(296,457)</u>	<u>-</u>	<u>(1,938,439)</u>
Net change in fund balances	884,690	-	1	884,691
Fund balances - beginning	3,191,579	150,294	2,316	3,344,189
Fund balances - ending	<u>\$ 4,076,269</u>	<u>\$ 150,294</u>	<u>\$ 2,317</u>	<u>\$ 4,228,880</u>

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ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Enterprise Fund Accounts Combining Schedule of Net Position (Modified Cash Basis) – June 30, 2022

	<u>CPWA</u>	<u>Intake Structure Program</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,254,487	\$ (504,387)	\$ 1,750,100
Restricted:			
Cash and cash equivalents	570,565	-	570,565
Due from other funds	-	226,528	226,528
Total current assets	<u>2,825,052</u>	<u>(277,859)</u>	<u>2,547,193</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	52,998	-	52,998
Total non-current assets	<u>52,998</u>	<u>-</u>	<u>52,998</u>
Total assets	<u>2,878,050</u>	<u>(277,859)</u>	<u>2,600,191</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	2,480	-	2,480
Deposits subject to refund	24,090	-	24,090
Total current liabilities	<u>26,570</u>	<u>-</u>	<u>26,570</u>
Non-current liabilities:			
Deposits subject to refund	96,362	-	96,362
Total non-current liabilities	<u>96,362</u>	<u>-</u>	<u>96,362</u>
Total liabilities	<u>122,932</u>	<u>-</u>	<u>122,932</u>
NET POSITION			
Restricted for debt service	503,111	-	503,111
Unrestricted (deficit)	2,252,007	(277,859)	1,974,148
Total net position	<u>\$ 2,755,118</u>	<u>\$ (277,859)</u>	<u>\$ 2,477,259</u>

CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022

Enterprise Fund Accounts Combining Schedule of Revenues, Expenditures and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2022

	<u>CPWA</u>	<u>Intake Structure Program</u>	<u>Total</u>
REVENUES			
Charges for services:			
Water	\$ 1,217,514	\$ -	\$ 1,217,514
Wastewater	365,039	-	365,039
Penalties	38,050	-	38,050
Miscellaneous	7,545	-	7,545
Total operating revenues	<u>1,628,148</u>	<u>-</u>	<u>1,628,148</u>
OPERATING EXPENSES			
Administration	534,805	-	534,805
Water	1,527,607	-	1,527,607
Wastewater	632,903	-	632,903
Total Operating Expenses	<u>2,695,315</u>	<u>-</u>	<u>2,695,315</u>
Operating income (loss)	<u>(1,067,167)</u>	<u>-</u>	<u>(1,067,167)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	7,213	-	7,213
Miscellaneous revenue	32,347	-	32,347
Debt service:			
Principal retirement	(673,972)	-	(673,972)
Interest expense	(63,830)	-	(63,830)
Total non-operating revenue (expenses)	<u>(698,242)</u>	<u>-</u>	<u>(698,242)</u>
Income (loss) before contributions and transfers	<u>(1,765,409)</u>	<u>-</u>	<u>(1,765,409)</u>
Capital contributions - grant	90,200	-	90,200
Transfers in	4,452,116	-	4,452,116
Transfers out	(2,785,549)	-	(2,785,549)
Change in net position	(8,642)	-	(8,642)
Total net position - beginning	2,763,760	(277,859)	2,485,901
Total net position - ending	<u>\$ 2,755,118</u>	<u>\$ (277,859)</u>	<u>\$ 2,477,259</u>

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2022

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal AL Number	Agency or Pass Thru Number	Program or Award Amount	Federal Expenditures
FEDERAL ASSISTANCE:				
<u>US DEPT OF HOMELAND SECURITY</u>				
Pass through the Oklahoma Department of Emergency Management:				
FEMA PW 4587 DR-OK	97.036	4587 DR-OK	2,530	2,530
<u>US DEPT OF TRANSPORTATION</u>				
Passed through the Oklahoma Department of Transportation:				
STP-172B(362) UT-WL - Agreement #1	20.205	STP-172B(362) UT-WL	72,160	72,160
<u>U.S. DEPT OF JUSTICE:</u>				
Passed through District Attorney's Council:				
JAG - Equipment	16.017	JAG-LLE-2020 Checotah CI-00070	\$ 4,990	\$ 4,990
TOTAL FEDERAL ASSISTANCE			<u>\$ 79,680</u>	<u>\$ 79,680</u>

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Federal/State Grantor/Pass through agency Grantor/Program Title	Agency or Pass Thru Number	Program or Award Amount	Contract Expenditures
STATE AWARDS:			
OKLAHOMA DEPARTMENT OF AGRICULTURE:			
Operational Fire Grant	N/A	\$ 4,763	\$ 4,763
OKLAHOMA DEPARTMENT OF TRANSPORTATION:			
STP-172B(362) UT-WL - Agreement #1	FEMA-1712-DR	18,040	18,040
TOTAL STATE AWARDS		<u>\$ 22,803</u>	<u>\$ 22,803</u>

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2022

	2012B Refunding Revenue Bonds and 2007 OWRB DWSRF
GROSS REVENUE AVAILABLE:	
Pledged operating revenues (water and sewer)	\$1,582,553
Investment income	7,213
Sales tax appropriated and transferred from the City General Fund	3,872,324
Total Gross Revenue Available	5,462,090
OPERATING EXPENDITURES:	
Total Operating Expenditures	1,735,206
Net Revenue Available for Debt Service	\$3,726,884
Maximum Debt Service on all Obligations Payable From Revenues of the System	\$697,266 (1)
Computed Coverage	534%
Coverage Requirement	125%

(1) Even though 2012B Refunding Revenue Bonds requires average annual debt service for current fiscal year and the 2007 OWRB DWSRF Loan payable is required at maximum, the coverage shown is maximum on all the debts, thus covering annual debt service as well.

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

INTERNAL CONTROL AND COMPLIANCE

**CITY OF CHECOTAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2022**

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component units Checotah Recreational Authority and Checotah Industrial Development Authority, each major fund, and the aggregate remaining fund information of the City of Checotah, Oklahoma (the "City") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 6, 2023. Our report includes disclaimer opinions on the modified cash basis financial statements as of and for the year ended June 30, 2022, because of inadequate accounting records for revenues and expenses and for the exclusion of the Heartland Heritage Center Authority. Our report also includes an explanatory paragraph which noted that the financial statements were prepared on the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States and includes a paragraph which disclaims an opinion on management's discussion and analysis and budgetary comparison information. In addition, our report includes a paragraph which renders an adverse opinion on the aggregate discretely presented component units due to the exclusion of the Heartland Heritage Center Authority.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the modified cash basis financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing opinions on the modified cash basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

(Continued)

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

Report on Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2022-001 through 2022-013, that we consider to be material weaknesses.

Report on Compliance and Other Matters

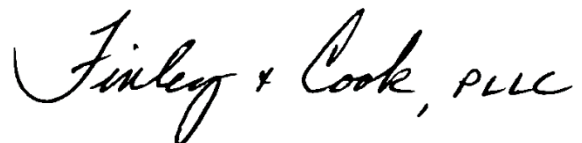
As part of obtaining reasonable assurance about whether the City's modified cash basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the modified cash basis financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Findings 2022-001 through 2022-013.

The City's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Shawnee, Oklahoma
February 6, 2023

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
WHICH ARE REQUIRED TO BE REPORTED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MATERIAL WEAKNESSES

Finding 2022-001: Bids for Purchases (Repeat Finding)

Criteria:

The approved City of Checotah and Checotah Public Works City Purchasing Policies and Procedures, revised May 14, 2018, require purchases for capital outlays over \$10,000 to include specifications and require documentation of a minimum of two bids.

Condition:

In conjunction with our testwork on a sample of purchases made during the year ended June 30, 2022, we noted that several of the purchases in our sample were not made in compliance with the City's approved purchasing policies. Purchases for capital outlays over \$10,000 were missing specifications, and for thirty-two capital outlay purchases (5 – General Fund, 8 – Special Revenue Fund, 13 – Enterprise Fund, and 6 – Capital Improvement Fund) over \$10,000, the required minimum of two bids were not documented.

Cause:

Management of the City did not follow the approved policies and procedures.

Effect:

Without following approved policies and procedures there is an increased risk that errors and fraud related to purchase and payment activities could occur and not be detected within a timely basis.

Recommendation:

The Encumbrance Clerk should present signed purchase orders to the City Council for review and approval, bids should be obtained, and supporting documentation should be retained when required as stated in the City of Checotah and Checotah Public Works City Purchasing Policies and Procedures, revised May 14, 2018.

Views of Responsible Officials and Planned Corrective Actions:

See attached corrective action plan.

Status:

This condition was initially reported in fiscal year 2021 as part of 2021-001.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-002: Missing Vendor Invoices (Repeat Finding)

Criteria:

The approved City of Checotah and Checotah Public Works City Purchasing Policies and Procedures, revised May 14, 2018, requires that all purchases by the City of Checotah and the Checotah Public Works Authority will be made in strict conformity with the requirements set forth in 62 O.S. Sec 310-1; invoices shall state the supplier's name and address and must be sufficiently itemized to clearly describe each item purchased, its unit price where applicable, the number of volume of each item purchased, its total price, the total of the purchase and the date of the purchase.

11 O.S. Sec. 17-114 requires invoices to be in writing and examined per the Purchase Order Act. Employee claims for payment or reimbursement must be in the form of a written statement and include all receipts supporting the amount expended and/or claimed.

Condition:

We were unable to obtain copies of supporting vendor invoices with sufficient detail for twenty-seven (4 – General Fund, 3 – Special Revenue Fund, 9 – Enterprise Fund and 11 – Capital Improvement Fund) of our disbursement samples for the year ended June 30, 2022.

Cause:

The City does not have procedures in place to require detailed invoices prior to payment.

Effect:

The City's expenditures could exceed its appropriations, improper payments could occur, fraud or abuse could occur and not be detected on a timely basis.

Recommendation:

An itemized invoice must be received and matched to the purchase order prior to submitting for payment. The City should assure that relevant personnel are properly trained as to the law and established procedures regarding purchases and disbursements.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

Status:

This condition was initially reported in fiscal year 2021 as part of 2021-001.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-003: Purchase Orders and Approvals (Repeat Finding)

Criteria:

The approved City of Checotah and Checotah Public Works City Purchasing Policies and Procedures, revised May 14, 2018, requires that all purchases by the City of Checotah and the Checotah Public Works Authority will be made in strict conformity with the requirements set forth in 62 O.S. Sec 310-1; prior to approving a purchase order a purchase order requisition must be approved by the mayor, purchase orders shall have written approval of a purchasing officer and an encumbering clerk prior to release, invoices are required and shall state the supplier's name and address and shall be itemized, the individual receiving satisfactory delivery of merchandise or a service shall acknowledge that fact by signing the invoice or delivery ticket; and, no purchase order shall be approved for payment by the governing body unless the required itemized invoices together with delivery tickets, freight tickets, or other supporting documentation are attached. The Encumbrance Clerk shall submit monthly a completed purchase order list to the governing body for consideration of payment. The governing body shall approve the invoices for payment in the amount determined just and correct, and, if approved, the payments will be made the Tuesday after the Monday council meeting. Additionally, purchases over \$15,000 are to be individually presented for review and approval by the governing body.

Condition:

We were unable to obtain copies of approved purchase requisitions or approved purchase orders with all required signatures for forty-two (17 – General Fund, 17 – Special Revenue Fund, 3 – Enterprise Fund and 5 – Capital Improvement Fund) of our disbursement samples. We were unable to obtain copies of purchase order requisitions for four (1 – General Fund and 3 – Special Revenue Fund) of our disbursement samples and sixty-six (19 – General Fund, 20 – Special Revenue Fund, 12 – Enterprise Fund and 15 – Capital Improvement Fund) of the purchase order requisitions obtained were dated after the invoice date. Purchases orders were dated after the invoice date for seventy-nine (22 – General Fund, 27 – Special Revenue Fund, 13 – Enterprise Fund and 17 – Capital Improvement Fund) of our disbursement samples. On all purchase orders in our disbursement sample the City Council approval date was the date the mayor signed for approval. Additionally, in review of check copies obtained with our disbursement sample, checks were issued intermittently throughout the month and not the Tuesday following approval by the City Council. For one check in our disbursement sample, the check did not have the required two signatures and was only signed by the mayor.

Monthly completed purchase order listings are not submitted to the City Council for approval for payment. For the twelve-monthly regular meeting packets reviewed a listing of vendor payment totals are submitted in place of a completed purchase order listing. The vendor payment listings are generated for the current month activity, resulting in the vendor payment totals being presented for approval after payment.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-003: Purchase Orders and Approvals (Repeat Finding), Continued

Condition, Continued:

For purchases exceeding \$15,000, twenty-one (7 – General Fund, 7 – Special Revenue Fund, 4 – Enterprise Fund, and 3 – Capital Improvement Fund) of our disbursement samples were not individually approved by the governing body.

Cause:

The City is not in compliance with 62 O.S. Sec 310 or the approved City of Checotah and Checotah Public Works City Purchasing Policies and Procedures, revised May 14, 2018.

Effect:

The City's expenditures could exceed its appropriations, improper payments could occur, fraud or abuse could occur and not be detected on a timely basis.

Recommendation:

We recommend that City management ensure that a properly executed purchase order is in place prior to the disbursement of funds. The City should ensure that relevant personnel are properly trained as to the applicable laws and established procedures regarding purchases and disbursements. Additionally, checks shall be signed by the officers designated in the City ordinance, or in absence of such officers, by the city treasurer.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

Status:

This condition was initially reported in fiscal year 2021 as part of 2021-001.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-004: Conflict of Interest with Donation

Criteria:

62 O.S. Sec. 371 states municipalities may not contract, directly or indirectly, with a member of the governing body. Municipalities may not make a donation by gift in any way to any company, association, or corporation owned by a member of the governing body. (Exception is made in 11 O.S. Section 22-125 for gifts of money for buildings or construction or real property to college or school within the municipality.)

Condition:

During our procedures relating to purchases we obtained copies of supporting documentation for the purchase of an air conditioning unit provided by the City to the Checotah Chamber of Commerce. This air conditioning unit purchase was made with a company owned by a governing body member of the Checotah Industrial Development Authority (CIDA). CIDA is a component unit of the City and the members of CIDA's Board of Trustees are appointed by the City Council.

Cause:

A purchase was made using public funds in violation of 62 O.S. Sec. 371 creating a conflict of interest.

Effect:

The City is not in compliance with 62 O.S. Sec. 371. The City's expenditures creating a conflict of interest could cause improper payments to occur, fraud or abuse could occur and not be detected on a timely basis.

Recommendation:

Procedures should be implemented to identify related party transactions and prohibit the City from entering into purchase contracts or agreements with members of the governing body, including members of the Board of Trustees of CIDA, and obtain full compliance with 62 O.S. Sec. 371.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-005: Budgeted Appropriations

Criteria:

11 O.S. Sec. 17-216 requires that no encumbrances or expenditures may be authorized or made by an officer or employee that exceeds the available appropriations for each object category within a department or fund. Budget amendments for supplemental or fund decreases shall be approved by the governing body and submission to be made to the State Auditor’s office.

Condition:

Expenditures exceeded appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Category</u>	<u>Amount</u>
General Fund	Animal Shelter	\$ 80
General Fund	Other Financing Uses—Transfers Out	65,566

Cause:

Proper oversight of budgetary limitations were not in place. In addition, adjustments at or near year-end result in budget overruns.

Effect:

Expenditures exceed appropriations at the legal level of control.

Recommendation:

We recommend that the City review its procedures, particularly as it relates to year-end adjustments, to ensure that appropriations are sufficient.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-006: Minutes of Meetings

Criteria:

25 O.S. Sec. 312 requires that proceedings of a public body shall be kept in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by such public body. 25 O.S. Sec. 311(B)(1) requires all agendas required pursuant to the provisions of this section shall identify all items of business to be transacted by a public body at a meeting.

Condition:

We were unable to obtain copies of the City meeting minutes for one month of the fiscal year, two months of City meeting minutes were not approved by the governing board, and we were unable to obtain copies of the City meeting agendas for ten months of the fiscal year. We were also unable to obtain copies of the CPWA meeting agendas for seven months of the fiscal year. For copies of the CPWA agendas we were able to obtain the notice date and certification of posting signature was not completed. For both the City and CPWA two months of meeting minutes did not document the items of which discussion, action, or no action was taken, only indicating agenda item number or letter.

Cause:

The City does not have procedures in place to sufficiently adhere to the Open Meeting Act and ensure proper retention of minutes.

Effect:

The City has not consistently followed all provisions of the Open Meeting Act.

Recommendation:

We recommend that the City review its procedures and all provisions of the Open Meeting Act, to ensure that all established procedures and laws are followed.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-007: Purchase Card Transactions

Criteria:

The City does not have policies and procedures in place to require supporting documentation for all purchases made for purchase card (p-card) transactions, restriction from personal use, and limits and conditions of use.

Condition:

The City does not have a formal written policy in place that references p-card procedures or procedures for travel and entertainment expenditures often purchased using p-cards. City Management indicated there is an informal policy of a \$45 per day meal incentive. During our review of monthly activity statements and credit limits for 16 p-card holders, we were unable to obtain copies of supporting invoices for six purchases, unable to obtain copies of conference attendance support for six purchases, and we were unable to determine if the purchase was reasonable or for personal use for five purchases. In addition, we noted a p-card issued to a terminated employee was in use after the employee's termination during the year under audit and two p-cards issued to terminated employees were still in use as of our fieldwork dates.

Cause:

Lack of proper oversight of p-card transactions and implementation of policy and procedures.

Effect:

The City's expenditures could exceed its appropriations, improper payments could occur, fraud or abuse could occur and not be detected on a timely basis.

Recommendation:

Consideration should be given to the design of internal control related to policies and procedures for p-card transactions. Copies of signed p-card policies should be obtained for all authorized p-card users.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-008: Uncashed Checks and Uncleared Journal Entries

Criteria:

11 O.S. Sec. 22-136 provides after checks and other intangible property held by a municipality or public trust have gone uncashed, unclaimed, or abandoned and (1) written notice to owner or apparent owner, (2) newspaper notice two times, if unclaimed after written notice, and (3) if not claimed within two years after mailed notice and newspaper publication notices, then shall be disposed of as to be determined by the municipal governing body.

Condition:

During our review of the June 30, 2022, bank reconciliations, reconciling items greater than two years outstanding included 262 outstanding checks totaling approximately (\$23,000), 13 outstanding debit journal entries totaling approximately (\$1,800), and 10 outstanding credit journal entries totaling approximately (\$1,900) dated June 30, 2020 or prior.

Cause:

Lack of review and maintenance of the monthly bank reconciliations.

Effect:

The City is not in compliance with 11 O.S. Sec 22-136.

Recommendation:

Monthly review and maintenance of bank reconciliations should be performed and actions in compliance with 11 O.S. Sec 22-136 should be taken on any outstanding items.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-009: Daily Deposits by City Treasurer

Criteria:

11 O.S. Sec. 9-113 provides the city treasurer shall deposit daily funds received for the city in depositories as the council may designate.

Condition:

Daily deposits are made by the utility clerk or the payroll or accounts payable clerk in their absence.

Cause:

Custody of public funds is not maintained by a City official.

Effect:

The City is not in compliance with 11 O.S. Sec 9-113.

Recommendation:

The city treasurer should make all daily deposits of funds collected. City council should designate another city official to make daily deposits when the city treasurer is unable to do so.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-010: Lack of Segregation of Duties

Criteria:

The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the City's assets and ensure accurate financial reporting.

Condition:

The City Finance Administrator has signing authority on deposits of public funds, the ability to transfer public funds between deposit accounts, the ability to issue checks, and the performs the monthly bank reconciliations.

The Utility Clerk is responsible for all aspects of the utility billing procedures including the creation of new customer accounts, acceptance of utility deposits, closing of customer accounts, creation of the billings, collection of payments, and the ability to make adjustments to any customer account. The Utility Clerk also prepares the deposit slips for the daily deposits and delivers the deposit to the financial institution.

Cause:

Proper internal controls are not implemented requiring a separation of record keeping from the associated assets or a system of governing body oversight to compensate for the lack of separation.

Effect:

Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

Recommendation:

Consideration should be given to the design of internal control to improve segregation of duties and/or implementation of mitigating activities performed by the governing body.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-011: Recording and Approval of Timesheets

Criteria:

The City of Checotah Policies and Procedures New Employee Handbook July 2016 requires all non-exempt employees to complete a timesheet thoroughly and accurately and must be submitted to their supervisor for approval for each pay period. Time sheets must be signed by the employee and their supervisor.

Condition:

During our procedures relating to payroll, we obtained copies of timesheets for twenty-four of our payroll sample selections. For seven of our twenty-four sample selections the time sheets did not contain both employee and their supervisors' signatures. Additionally, one of our sample selections was a terminated employee. The terminated employee's file did not contain a payroll change notice indicating termination of pay due to resignation.

Cause:

Time sheets and payroll change notices are not completed by supervisors as required by the City of Checotah Policies and Procedures New Employee Handbook July 2016.

Effect:

The City is not in compliance with the City of Checotah Policies and Procedures New Employee Handbook July 2016.

Recommendation:

The City's management should ensure that all department supervisors understand and follow the policies and procedures relating to employee recording of time and pay change notifications.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-012: Controls over Citations

Criteria:

11 O.S. Sec 28-113 provides that a ticket or complaint shall be endorsed by the city attorney before it is filed with the court clerk.

Condition:

During our procedures relating to citations, we obtained copies of and reviewed citations with the court clerk who confirmed the citations are not signed by the city attorney before they are filed with the court clerk; instead, the prosecutors sign the minute order when the accused goes to court. Additionally, we noted six bonds remained outstanding at year ended June 30, 2022, although their court dates had occurred prior to year-end and citations had been settled.

Cause:

The procedures provided by 11 O.S. Sec. 28-113 are not followed by the court clerk or city attorney and citation and bond revenue is not properly recorded.

Effect:

The City is not in compliance with 11 O.S. Sec 28-113. A citation may not be entered on a court docket appropriately. Fraud could occur and not be detected on a timely basis.

Recommendation:

Procedures should be implemented to ensure proper review of citations and bonds have been completed and compliance with 11 O.S. Sec 28-113 is obtained. The City should implement processes to monitor the receipt of all citations and bonds to ensure citations and bonds are properly entered and cleared in system, adjudicated in the court system, and citation revenue is properly recorded.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

MATERIAL WEAKNESSES, CONTINUED

Finding 2022-013: Controls over Water Utility Management

Criteria:

To ensure proper internal control of water utility services, City management should perform a review of records and data that traces the flow of water from its source, through the treatment process, into the water distribution system, and delivered to the customer properties. Reports should detail the volumes of water supplied, customer consumption, and loss volumes that have occurred.

Condition:

During our procedures relating to utility revenue, we obtained copies of the monthly operational reports indicating water production and water consumption and the monthly water utility billing reports for all twelve months of fiscal year 2022. For six of the twelve months total water consumption significantly exceeded total water production or expected the percentage of consumption considering environmental factors, such as total rainfall for the period.

Cause:

Equipment intended to read water production at the water plant was not in working order and incorrectly reporting water production.

Effect:

Without sufficient internal controls ensuring maintenance of equipment and review of production and consumption reports by the City inefficiencies of water and revenue loss could occur, customers may be overcharged, and fraud or abuse could occur and not be detected on a timely basis.

Recommendation:

Procedures should be implemented to ensure water operational reports are reviewed for discrepancies within a timely basis to decrease the risk of water losses and improper billings of water utilities to customers.

Views of Responsive Officials and Planned Corrective Actions:

See attached corrective action plan.

CITY OF CHECOTAH, OKLAHOMA

CORRECTIVE ACTION PLAN

Year Ended June 30, 2022

Name of auditee: **City of Checotah, Oklahoma**

Name of audit firm: **Finley & Cook, PLLC**

Period covered by the audit: **Year Ended June 30, 2022**

CAP prepared by: **Shauna Smith, Finance Administrator for City of Checotah**

MATERIAL WEAKNESSES

A. Current Findings on the Schedule of Findings and Responses

1. Finding 2022-001: Bids for Purchases

Department Heads will be responsible for turning in requisitions and all supporting documents in a timely manner. Department Heads will also let the Deputy City Clerk know if something should be placed on the agenda for approval. Encumbrance Clerk will also modify the report presented to Council.

2. Finding 2022-002: Missing Vendor Invoices

City/PWA will require itemized invoices for any and all P.O.

3. Finding 2022-003: Purchase Orders and Approvals

Former employee failed to relay the information of not reprinting a P.O. Encumbrance clerk is aware that all P.O.'s (original or reprint) must have all required information and signatures. Department Heads will be responsible for turning in requisitions and all supporting documents in a timely manner. Department Heads will also let the Deputy City Clerk know if something should be placed on the agenda for approval. Encumbrance Clerk will also modify the report presented to Council. Utility bills are paid upon receipt due to them requiring a quick turnaround.

4. Finding 2022-004: Conflict of Interest with Donation

Chamber building is a city owned building. The system was purchased from Prince Heat and Air. Mr. Prince is not a member of the City Council/PWA. The City/PWA will either not utilize Prince Heat and Air or Mr. Prince will resign from the CIDA Board.

5. Finding 2022-005: Budgeted Appropriations

Last minute utility bill caused animal shelter to be over budget. Sales Tax transfer was more than anticipated and caused a budget oversight. Finance Administrator will increase estimations for these 2 items.

CITY OF CHECOTAH, OKLAHOMA

CORRECTIVE ACTION PLAN, CONTINUED

Year Ended June 30, 2022

MATERIAL WEAKNESSES, CONTINUED

A. Current Findings on the Schedule of Findings and Responses, Continued

6. Finding 2022-006: Minutes of Meetings

Prior administration failed to comply. New administration has taken over and all agendas and minutes have been sent.

7. Finding 2022-007: Purchase Card Transactions

Mayor, Finance Administrator and Deputy City Clerk will write a formal policy regarding travel and credit card use and present to council.

8. Finding 2022-008: Uncashed Checks and Uncleared Journal Entries

Finance Administrator is researching law and procedure and working through the list.

9. Finding 2022-009: Daily Deposits by City Treasurer

It will be an agenda item on the 2-13-2023 agenda to appoint a Deputy City Treasurer.

10. Finding 2022-010: Lack of Segregation of Duties

The City Finance Administrator does NOT issue checks. The Utility Clerk does NOT make adjustments to utility accounts. Checks are issued by Accounts Payable. Utility Adjustments are done by Deputy City Clerk.

11. Finding 2022-011: Recording and Approval of Timesheets

Payroll Clerk will work with supervisors to ensure all documentation is done properly.

12. Finding 2022-012: Controls over Citations

Prior Administration failed to have City Attorney sign tickets. New Administration will have City Attorney sign tickets prior to Court. Bonds have since been cleared.

13. Finding 2022-013: Controls over Water Utility Management

Meter at the plant has since been repaired.

CITY OF CHECOTAH, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

SIGNIFICANT DEFICIENCIES

Finding 2021-001: Purchases

Criteria:

The approved City of Checotah and Checotah Public Works Authority Purchasing Policies and Procedures, revised May 14, 2018 require purchases over \$15,000 be presented for review and approval by the City Council. Additionally, the policies and procedures require purchases for capital outlays over \$10,000 to include specifications and require documentation of a minimum of two bids.

Condition:

In conjunction with our testwork on a sample of purchases made during the year ended June 30, 2021, we noted that several of the purchases in our sample were not made in compliance with the City's approved purchasing policies. Purchases over \$15,000 were not presented for review and approval by the City Council for 10 purchases. Purchases for capital outlays over \$10,000 were missing specifications, and for 20 capital outlay purchases over \$10,000, the required minimum of two bids were not documented. Purchases were made without first obtaining a purchase order signed by the mayor or other designated individual for three purchases. Purchases were made and invoices supporting the purchases were not obtained or retained for four purchases. Included in the exceptions were five purchases that were paid with funds from the REAP federal grant.

Cause:

Management of the City did not follow the approved policies and procedures.

Effect:

Without following approved policies and procedures there is an increased risk that errors and fraud related to purchase and payment activities could occur and not be detected within a timely basis.

Recommendation:

The Encumbrance Clerk should present signed purchase orders to the City Council for review and approval, bids should be obtained, and supporting documentation should be retained when required as stated in the City of Checotah and Checotah Public Works Authority Purchasing Policies and Procedures, revised May 14, 2018.

CITY OF CHECOTAH, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

SIGNIFICANT DEFICIENCIES, CONTINUED

Finding 2021-001: Purchases, Continued

Views of Responsible Officials and Planned Corrective Actions:

The City's management concurs with the auditors' findings and recommendations. The City's management will perform a review of the current operating practices for purchases and will modify as necessary to ensure they are in compliance with the requirements of the approved City of Checotah and Checotah Public Works Authority Purchasing Policies and Procedures. These procedures will be completed by the City's Finance Administrator and its Deputy City Clerk.

Follow-Up:

The City's management was unable to provide sufficient and appropriate support that purchases were in compliance with the City's approved purchasing policies. As such, this is a repeat finding for the June 30, 2022, audit.

CITY OF CHECOTAH, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2022

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS, CONTINUED**

SIGNIFICANT DEFICIENCIES, CONTINUED

Finding 2021-002: Depository Compliance

Criteria:

The City treasurer is required to comply with the State of Oklahoma's Security for Local Public Deposits Act.

Condition:

The City was under-collateralized at People's National Bank (the "Bank") by \$1,687,660 as of June 30, 2021.

Cause:

Management of the City did not obtain collateral from the Bank whose fair value exceeded the amount of uninsured deposits.

Effect:

The City was not in compliance with the State of Oklahoma's Security for Local Public Deposits Act as of June 30, 2021.

Recommendation:

The amount of collateral to be pledged for the security of the City's deposits and securities should be consistent with the provisions of the State of Oklahoma's Security for Local Public Deposits Act. The City Treasurer should verify as appropriate and at least quarterly, that the market value of collateral pledged is sufficient to cover the security and any additional deposits at the institution.

Views of Responsible Officials and Planned Corrective Actions:

The City's management concurs with the auditors' findings and recommendations. The City's management will work with the City's Treasurer and a representative of the Bank to ensure that all of the City's bank deposits are always fully insured or collateralized. This includes determining that any assets pledged by the Bank for the City's bank deposits are qualifying assets as defined in the State of Oklahoma's Security for Local Public Deposits Act. These procedures will be completed by the City's Finance Administrator and its Deputy City Clerk.

Follow-Up:

The market value of collateral pledged at June 30, 2022, was sufficient to cover the City's deposits and securities consistent with the provisions of the State of Oklahoma's Security for Local Public Deposits Act. As such, this was not a repeat finding for the June 30, 2022, audit.