

***Town of Chelsea***  
***Rogers County, Oklahoma***

Audited Financial Statements

For the Fiscal Year Ended  
June 30, 2010

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**OBER & ASSOCIATES INC., PC**  
CERTIFIED PUBLIC ACCOUNTANTS  
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918-542-4401

**INDEPENDENT AUDITOR'S REPORT**

To the Town Council,  
Town of Chelsea, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chelsea, State of Oklahoma, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Chelsea, State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has incorrectly presented the "Trust & Agency Fund" in the Town of Chelsea, State of Oklahoma's, financial statements. The context of the assets reported in the "Trust & Agency Fund" is assets of the Town therefore are not fiduciary in nature. Accounting principles generally accepted in the United States of America require these funds to be reported as assets of the City and with-in a governmental fund and in the governmental activities of Town of Chelsea, State of Oklahoma's financial statement presentation.

Management has incorrectly reported the fair value of the certain assets acquired during the acquisition of a local rural water district now owned and operated by the Town. These assets were received in part as a donation from a quasi-governmental entity and are currently not reported at the fair value when received and nor have they been depreciated. The amounts are reported as "Investment – Rural Water Town #13". Accounting principles generally accepted in the United States of America require these assets to be reported at fair value and depreciated, reported within assets of a major enterprise fund and part of the business-type activities, thus increasing that activity's assets, and changing its net assets. The amount by which this departure would affect the Town's assets is not readily determinable.

In our opinion, because of the incorrect presentation of the "Trust and Agency Fund" and the in correct presentation of the "Investment – Rural Water Town #13", as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Chelsea, State of Oklahoma, as of June 30, 2010, or the changes in financial position or cash flows thereof for the year then ended.

In addition, in our opinion, except for the effects of the incorrect presentation of the "Trust and Agency Fund" and the in correct presentation of the "Investment – Rural Water Town #13", as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chelsea, State of Oklahoma, as of June 30, 2010, and the respective

changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2012, on our consideration of the Town of Chelsea, State of Oklahoma'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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.

As discussed in the Schedule of Findings and Responses as finding 2010-1, the Town of Chelsea, State of Oklahoma, has invested certain municipal funds in a manner that may have violated the provisions of Oklahoma Statutes governing such activity. There is no current determination as to the possible outcome of these matters.

OBER & ASSOCIATES, INC., PC

November 6, 2012

**OBER & ASSOCIATES INC., PC**  
CERTIFIED PUBLIC ACCOUNTANTS  
124 South Main  
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**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 Town Council,  
Town of Chelsea, Oklahoma

We have audited the accompanying financial statements of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Chelsea for the year ended June 30, 2010, which collectively comprise the Town of Chelsea's basic financial statements and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Chelsea's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Chelsea's financial statements that is more than inconsequential will not be prevented or detected by the Town of Chelsea's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Chelsea's internal control. We consider items 2010-1, and 2010-2 reported in the accompanying Schedule of Findings and Responses to be material weaknesses in internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Chelsea's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests indicated, as discussed in the Schedule of Findings and Responses under item 2010-1, the Town of Chelsea may be in violation of Oklahoma Statutes regarding the nature of the investments made by the Town. Such matters are required to be reported under *Government Auditing Standards*.

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

OBER & ASSOCIATES, INC., PC

NOVEMBER 6, 2012

**OBER & ASSOCIATES INC., PC**  
CERTIFIED PUBLIC ACCOUNTANTS  
124 South Main  
Miami, Oklahoma 74354  
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**SCHEDULE OF FINDINGS AND REPSONSES**

**2010-1: Investment Activities**

*Criteria or specific requirement:* Municipalities are governed by State Statues and local ordinances. Such criterion is explicit as to the types of activities municipalities may conduct both operationally and fiscally and are required to be evaluated when conducting an audit under Government Auditing Standards (aka. the Yellowbook).

*Context:* The Town currently reports an investment of approximately \$1.46 million in a fiduciary fund, which are not fiduciary in nature. Additionally, the investment types appear to be in violation of Oklahoma Statues, local ordinances and voter propositions. The investment, according to local ordinance was to remain intact at an approximate \$2.2 million.

*Effect:* The Town's governmental assets are understated and potentially misused. Municipal officers and/or service providers may be subject to litigation for violation of certain provisions when overseeing such assets.

*Cause:* The Town did not consult experts in involved in municipal management and finance when conducting such transactions.

*Recommendation:* The Town should obtain a legal opinion as to the legality of the investments made and determine what further legal actions, if any, should be taken to correct losses, if any, that may be incurred in relation to the investment.

*Management Response:* We understand our responsibility regarding this issue and will take appropriate actions as recommended.

**2010-2: Valuation of Municipal Assets**

*Criteria or specific requirement:* Generally accepted accounting principles required the recognition of non-exchange transactions to be recognized at fair value. Those principles also require the proper capitalization and depreciation of such items.

*Condition:* The Town entered into a non-exchange agreement with a local water district which is now operated by the Town. The agreement did not call for the Town to purchase the water district's assets at market value; rather, the Town paid a significant amount less than the fair value (non-exchange) for such assets and assumed debt in relation to the agreement. The Town has reported this transaction as an investment within the governmental activities of the Town. Such item does not qualify as a governmental type activity and should be reported within business type activities.

*Context:* Testing of the investment titled "Investment – Rural Water Town #13" revealed improper recognition of the transaction.

*Effect:* The Town's financial statements are misstated.

*Cause:* No controls exist for the review of significant contracts and consultation of financial reporting matters.

*Recommendation:* The Town should consult with its current external accountant regarding proper compilation procedures regarding the Town's fixed assets and financial activities.

*Management Response:* We understand our responsibility regarding this issue and will take appropriate actions as recommended.

***Town of Chelsea***  
Management Discussion & Analysis  
For the Year Ended June 30, 2010

This section of the Town of Chelsea's financial report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities at June 30, 2010 by \$2,477,457, representing a increase in net assets of \$57,083 from the prior fiscal year.
- Total revenues were \$2,019,361 this fiscal year while expenses and other net expenses were \$1,962,278, resulting in the increase in net assets of \$57,083.
- The Town has \$501,670 (net of accumulated depreciation) invested in fixed assets as of June 30, 2010.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts - *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and an optional section that presents supplementary information. The basic financial statements include two kinds of statements that present different views of the Town.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Town's operations in more detail than the government-wide financial statements.
- The *governmental funds* statements tell how *general government* services like public safety were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like businesses*, such as the sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Town’s financial statements, including the portion of the Town government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure A-1  
Major Features of Town of Chelsea’s Government-wide and Fund Financial Statements**

	<u>Government-wide Statements</u>	<u>Fund Statements</u>	
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Scope	Entire Town government (except fiduciary funds) and Town’s component units	The activities of the Town are not proprietary or fiduciary, such as police, fire, and parks.	Activities the Town operates similar to private businesses: the water and sewer system, and parking facilities.
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of net assets *Statement of revenues, expenses, and changes in net assets *Statement of cash flows
Accounting basis and Measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources Focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities; both financial and capital, and short-term and long-term	Only assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflows/outflow information	All revenues and expenses during year, regardless of when cash is received or Paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town’s *net assets* and how they have changed. Net assets - the difference between the Town’s assets and liabilities - is one way to measure the Town’s financial health, or *position*.

\* Over time, increases or decreases in the Town’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Town are divided into three categories:

\* *Government activities* - Most of the Town’s basic services are included here, such as the police, fire, public works, parks departments and general administration. Sales taxes, use taxes and grants finance most of these activities.

\* *Business-type activities* - The Town charges fees to customers to help it cover the costs of certain services it provides. The Towns sewer system is included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds - not the town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes.

The Town has two kinds of funds:

*Governmental Funds* - Most of the Town's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or in the subsequent page, that explains the relationship (or differences) between them.

\* *Proprietary Funds* - Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Table A-1  
Town of Chelsea's Net Assets

	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Current and other assets	\$ 312,028	\$ 231,336	\$ 701,095	\$ 844,895
Capital assets	409,061	501,670	3,406,818	3,288,267
<b>Total Assets</b>	<b>721,088</b>	<b>733,006</b>	<b>4,107,913</b>	<b>4,133,162</b>
<b>Total Liabilities</b>	<b>49,577</b>	<b>52,272</b>	<b>2,359,051</b>	<b>2,336,440</b>
Net assets				
Invested in capital assets	409,061	501,670	1,230,526	1,124,158
Restricted for specific purpose	133,144	43,059	228,199	303,134
Unrestricted	129,307	136,005	290,137	369,431
<b>Total Net Assets</b>	<b>\$ 671,512</b>	<b>\$ 680,734</b>	<b>\$1,748,863</b>	<b>\$1,796,723</b>

**Table A-2**  
**Changes in Town of Chelsea's Increase (Decrease) in Net Assets**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 313,385	\$ 359,759	\$1,069,776	\$ 1,087,379
Sale of assets	(38,876)		(1,564)	8,766
Investment earnings	84,308	86,657	4,840	1,221
Sales tax revenues	408,429	380,541		
Other taxes	170,922	95,037		
Grants	<u>133,218</u>	<u>33,084</u>	<u>257,600</u>	
<b>Total Revenues</b>	<b><u>1,071,386</u></b>	<b><u>955,078</u></b>	<b><u>1,330,652</u></b>	<b><u>1,097,366</u></b>
<b>Expenses</b>	<b><u>760,264</u></b>	<b><u>818,731</u></b>	<b><u>1,411,973</u></b>	<b><u>1,176,631</u></b>
<b>Non-Operating Gains (Losses) and Transfers</b>	<b><u>(135,824)</u></b>	<b><u>(127,124)</u></b>	<b><u>135,824</u></b>	<b><u>127,124</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$175,295</u></b>	<b><u>\$ 9,223</u></b>	<b><u>\$ 54,503</u></b>	<b><u>\$ 47,859</u></b>

### Governmental Activities

Revenues for the Town governmental activities decrease \$116,308, while total expenses increased by \$58,467.

### Business-type Activities

Revenues of the Town's business-type activities increased \$233,286 and expenses increased \$235,342.

### General Fund Budgetary Highlights

The actual total expenditures were \$176,438 above final budget amounts and revenues collected were \$172,167 over than the amount estimated.

### Capital Assets

**Table A-4**  
**Town of Chelsea's Capital Assets**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Land	\$ 101,000	\$ 101,000	\$ 65,898	\$ 65,898
Building and improvements	393,720	493,703	419,192	419,192
Equipment and vehicles	508,497	527,572	241,921	241,921
Water & Sewer system	<u>0</u>	<u>0</u>	<u>3,759,364</u>	<u>3,759,364</u>
<b>Total</b>	<b><u>\$1,003,217</u></b>	<b><u>\$1,122,275</u></b>	<b><u>\$4,486,375</u></b>	<b><u>\$ 4,486,375</u></b>

***Town of Chelsea***  
***Rogers County, Oklahoma***  
*Budget and Actual*  
 Budgeted General Fund Types  
 For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues:</u>			
Taxes	\$ 440,380	\$ 460,020	\$ 19,640
Investment income	84,321	84,031	(290)
Sales, services, fines & other	133,048	285,865	152,817
Contributions			
Total revenues	<u>657,749</u>	<u>829,916</u>	<u>172,167</u>
<u>Expenditures</u>			
Clerk	44,435	55,074	(10,642)
Court	14,807	13,260	1,547
Treasurer	5,867	5,893	(26)
Attorney	6,000	9,681	(3,681)
General Government	143,277	173,507	(30,230)
Police	254,711	326,020	(71,309)
Fire	42,198	56,618	(14,420)
Town Administration		24,698	(24,698)
Parks	<u>8,360</u>	<u>31,343</u>	<u>(22,983)</u>
Total Expenditures	<u>519,655</u>	<u>696,093</u>	<u>(176,438)</u>
Excess of Revenues over/(under) expenditures Before Other Sources/(Uses)	138,094	133,823	(4,271)
<u>Other Sources/(Uses):</u>			
Operating Transfers in (Out)	<u>(67,733)</u>	<u>(127,124)</u>	<u>(59,391)</u>
Revenues/Other Sources (Uses) Over (Under) Expenditures	70,361	6,699	(63,662)
Fund Balance, beginning	<u>66,900</u>	<u>129,307</u>	<u>62,407</u>
Fund Balance, end of year	<u>\$ 137,261</u>	<u>\$ 136,006</u>	<u>\$ (1,255)</u>

**Town of Chelsea**  
**Rogers County, Oklahoma**  
**Statement of Net Assets**  
June 30, 2010

	Primary Government		Totals	Trust & Agency Fund
	Governmental Activities	Business-Type Activities		
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 127,063.02	\$ 276,424.51	\$ 403,487.53	\$
Accounts receivable	6,929.23	81,330.90	88,260.13	
Taxes receivable	40,371.27		40,371.27	
Inventory		47,180.91	47,180.91	
Investments	56,972.86		56,972.86	1,461,702.76
Total Current Assets	231,336.38	404,936.32	636,272.70	1,461,702.76
Non-current Assets:				
Cash, restricted		249,512.69	249,512.69	
Investments, restricted		53,620.83	53,620.83	
Investment - Development Land		51,970.17	51,970.17	
Investment - Rural Water Town #13		17,323.83	17,323.83	
	0.00	372,427.52	372,427.52	0.00
Capital Assets:				
Property, plant and equipment, net of accumulated depreciation	501,669.62	3,288,267.47	3,789,937.09	0.00
Other Assets:				
Bond Issuance Costs, net of accumulated amortization	0.00	67,531.28	67,531.28	0.00
Total Assets	733,006.00	4,133,162.59	4,866,168.59	1,461,702.76
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	52,271.96	72,963.59	125,235.55	
Accrued liabilities		38,297.02	38,297.02	
Current portion of LT Debt		52,384.00	52,384.00	
Meter deposits payable		61,070.00	61,070.00	
Total Current Liabilities	52,271.96	224,714.61	276,986.57	0.00
Non-current Liabilities:				
Leases payable		22,916.61	22,916.61	
Bonds payable		61,192.76	61,192.76	
Notes payable		2,080,000.00	2,080,000.00	
Less current portion		(52,384.00)	(52,384.00)	
Total Non-current Liabilities	0.00	2,111,725.37	2,111,725.37	0.00
Total Liabilities	52,271.96	2,336,439.98	2,388,711.94	0.00
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	501,669.62	1,124,158.10	1,625,827.72	
Restricted	43,058.99	242,063.52	285,122.51	1,461,702.76
Unrestricted	136,005.43	430,500.99	566,506.42	
Total Net Assets	\$ 680,734.04	\$ 1,796,722.61	\$ 2,477,456.65	\$ 1,461,702.76

*The accompanying notes are an integral part of the combined financial statements.*

**Town of Chelsea**  
**Rogers County, Oklahoma**  
**Statement of Activities**  
For The Year Ended June 30, 2010

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue																																																																																																
Expenses	Charges for Services	Operating Grants and Contributions																																																																																																			
<b>Functions/Programs:</b>																																																																																																					
Primary Government:																																																																																																					
Police Department	\$ 303,461.75	\$ 108,285.16	\$	\$	\$ (195,176.59)																																																																																																
Canine	2,735.78	564.50			(2,171.28)																																																																																																
Civil Defense	2,122.14				(2,122.14)																																																																																																
Playground		2,405.00			2,405.00																																																																																																
Town Administrator	24,697.72				(24,697.72)																																																																																																
Spec Assessment	8,454.02	8,454.32			.30																																																																																																
Municipal Court	13,259.76				(13,259.76)																																																																																																
Treasurer	5,892.84				(5,892.84)																																																																																																
Clerk	55,073.76				(55,073.76)																																																																																																
Fire Department	96,164.23		25,932.19		(70,232.04)																																																																																																
City Attorney	9,681.25				(9,681.25)																																																																																																
Park Department	5,276.40				(5,276.40)																																																																																																
Street Department	32,400.04				(32,400.04)																																																																																																
Cemetery Department	16,812.15	21,603.91			4,791.76																																																																																																
Library	29,306.59	1,380.29	7,151.64		(20,774.66)																																																																																																
Swimming Pool	22,352.07	9,919.30			(12,432.77)																																																																																																
General Government	<u>195,374.07</u>	<u>142,549.19</u>			<u>(52,874.88)</u>																																																																																																
Total Governmental Activities	<u>823,064.75</u>	<u>295,161.67</u>	<u>33,083.83</u>	<u>0.00</u>	<u>(494,819.25)</u>																																																																																																
Business-Type Activities:																																																																																																					
Economic Development	<u>1,176,631.02</u>	<u>1,087,379.38</u>	<u>0.00</u>	<u>0.00</u>	<u>(89,251.64)</u>																																																																																																
Total Primary Government	<u>\$ 1,999,695.77</u>	<u>\$ 1,382,541.05</u>	<u>\$ 33,083.83</u>	<u>\$ 0.00</u>	<u>\$ (584,070.89)</u>																																																																																																
<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Primary Government</th> <th></th> <th></th> </tr> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Governmental Activities</th> <th style="text-align: center; border-bottom: 1px solid black;">Business-Type Activities</th> <th></th> <th style="text-align: center; border-bottom: 1px solid black;">Totals</th> </tr> </thead> <tbody> <tr> <td>Changes in Net Assets:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net (expense) revenue</td> <td style="text-align: right;">\$ (494,819.25)</td> <td style="text-align: right;">\$ (89,251.64)</td> <td style="text-align: right;">\$ (584,070.89)</td> </tr> <tr> <td colspan="4">General revenues:</td> </tr> <tr> <td colspan="4">Taxes:</td> </tr> <tr> <td>Resale App</td> <td style="text-align: right;">317.68</td> <td></td> <td style="text-align: right;">317.68</td> </tr> <tr> <td>Sales Tax</td> <td style="text-align: right;">380,540.55</td> <td></td> <td style="text-align: right;">380,540.55</td> </tr> <tr> <td>Use Tax</td> <td style="text-align: right;">27,630.53</td> <td></td> <td style="text-align: right;">27,630.53</td> </tr> <tr> <td>Alcoholic Beverage Tax</td> <td style="text-align: right;">12,151.61</td> <td></td> <td style="text-align: right;">12,151.61</td> </tr> <tr> <td>Franchise Tax</td> <td style="text-align: right;">30,017.54</td> <td></td> <td style="text-align: right;">30,017.54</td> </tr> <tr> <td>Cigarette Tax</td> <td style="text-align: right;">5,441.25</td> <td></td> <td style="text-align: right;">5,441.25</td> </tr> <tr> <td>Fire Tax</td> <td></td> <td></td> <td></td> </tr> <tr> <td colspan="4">Restricted for transportation purposes:</td> </tr> <tr> <td>Motor Vehicle Tax</td> <td style="text-align: right;">15,241.25</td> <td></td> <td style="text-align: right;">15,241.25</td> </tr> <tr> <td>Gasoline Tax</td> <td style="text-align: right;">4,237.23</td> <td></td> <td style="text-align: right;">4,237.23</td> </tr> <tr> <td>Interest income</td> <td style="text-align: right;">86,656.67</td> <td style="text-align: right;">1,221.02</td> <td style="text-align: right;">87,877.69</td> </tr> <tr> <td>Gain (Loss) on Sale of Assets</td> <td style="text-align: right;">6,098.50</td> <td style="text-align: right;">8,766.96</td> <td style="text-align: right;">14,865.46</td> </tr> <tr> <td>Transfers – Internal Activities</td> <td style="text-align: right;"><u>(127,123.55)</u></td> <td style="text-align: right;"><u>127,123.55</u></td> <td style="text-align: right;"><u>0.00</u></td> </tr> <tr> <td>Total general revenues</td> <td style="text-align: right;"><u>441,209.26</u></td> <td style="text-align: right;"><u>137,111.53</u></td> <td style="text-align: right;"><u>578,320.79</u></td> </tr> <tr> <td>Change in Net Assets</td> <td style="text-align: right;">(53,609.99)</td> <td style="text-align: right;">47,859.89</td> <td style="text-align: right;">(5,750.10)</td> </tr> <tr> <td>Prior Period Adjustment</td> <td style="text-align: right;">62,833.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">62,833.00</td> </tr> <tr> <td>Net Assets-beginning</td> <td style="text-align: right;"><u>671,511.03</u></td> <td style="text-align: right;"><u>1,748,862.72</u></td> <td style="text-align: right;"><u>2,420,373.75</u></td> </tr> <tr> <td>Net Assets-ending</td> <td style="text-align: right;"><u>\$ 680,734.04</u></td> <td style="text-align: right;"><u>\$ 1,796,722.61</u></td> <td style="text-align: right;"><u>\$ 2,477,456.65</u></td> </tr> </tbody> </table>						Primary Government				Governmental Activities	Business-Type Activities		Totals	Changes in Net Assets:				Net (expense) revenue	\$ (494,819.25)	\$ (89,251.64)	\$ (584,070.89)	General revenues:				Taxes:				Resale App	317.68		317.68	Sales Tax	380,540.55		380,540.55	Use Tax	27,630.53		27,630.53	Alcoholic Beverage Tax	12,151.61		12,151.61	Franchise Tax	30,017.54		30,017.54	Cigarette Tax	5,441.25		5,441.25	Fire Tax				Restricted for transportation purposes:				Motor Vehicle Tax	15,241.25		15,241.25	Gasoline Tax	4,237.23		4,237.23	Interest income	86,656.67	1,221.02	87,877.69	Gain (Loss) on Sale of Assets	6,098.50	8,766.96	14,865.46	Transfers – Internal Activities	<u>(127,123.55)</u>	<u>127,123.55</u>	<u>0.00</u>	Total general revenues	<u>441,209.26</u>	<u>137,111.53</u>	<u>578,320.79</u>	Change in Net Assets	(53,609.99)	47,859.89	(5,750.10)	Prior Period Adjustment	62,833.00	0.00	62,833.00	Net Assets-beginning	<u>671,511.03</u>	<u>1,748,862.72</u>	<u>2,420,373.75</u>	Net Assets-ending	<u>\$ 680,734.04</u>	<u>\$ 1,796,722.61</u>	<u>\$ 2,477,456.65</u>
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*The accompanying notes are an integral part of the combined financial statements.*

**Town of Chelsea**  
**Rogers County, Oklahoma**  
*Balance Sheet – Governmental Funds*  
June 30, 2010

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 123,957.90	\$ 3,105.12	\$ 127,063.02
Taxes Receivable	39,066.92	1,304.35	40,371.27
Accounts Receivable	6,929.23		6,929.23
Investments		56,972.86	56,972.86
Total Assets	<u>\$ 169,954.05</u>	<u>\$ 61,382.33</u>	<u>\$ 231,336.38</u>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Liabilities:			
Accounts Payable	<u>\$ 33,948.62</u>	<u>\$ 18,323.34</u>	<u>\$ 52,271.96</u>
Fund Balances:			
Unreserved	136,005.43		136,005.43
Restricted for a Specific Purpose:			
Non-major Special Revenue Funds		43,058.99	43,058.99
Total Fund Balances	<u>136,005.43</u>	<u>43,058.99</u>	<u>179,064.42</u>
Total Liabilities & Fund Balances	<u>\$ 169,954.05</u>	<u>\$ 61,382.33</u>	<u>\$ 231,336.38</u>

*The accompanying notes are an integral part of the combined financial statements.*

*Town of Chelsea*  
*Rogers County, Oklahoma*  
*Reconciliation of Governmental Funds Balance Sheet*  
June 30, 2010

**Total Fund Balances – Governmental Funds** \$ 179,064.42

Amounts reported for governmental activities in the statement of net assets are different  
Because:

Capital assets used in governmental activities are not financial resources and  
Therefore are not reported in the funds. These assets consist of:

Net Capital Assets 501,669.62

**Net Assets of Governmental Activities** \$ 680,734.04

*The accompanying notes are an integral part of the combined financial statements.*

**Town of Chelsea**  
**Rogers County, Oklahoma**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
For the Year Ended June 30, 2010

	General Fund	Other Governmental Funds	Totals
<b>REVENUES</b>			
<i><u>Taxes:</u></i>			
Sales Tax	\$ 380,540.55	\$	\$ 380,540.55
Use Tax	27,630.53		27,630.53
Alcoholic Beverage	12,151.61		12,151.61
Cigarette Tax	5,441.25		5,441.25
Motor Vehicle Tax		15,241.25	15,241.25
Gasoline Tax	4,237.23		4,237.23
Franchise Tax	30,017.54		30,017.54
Resale Apportionment	317.68		317.68
<i><u>Other:</u></i>			
Other	121,608.23		121,608.23
Admissions		9,919.30	9,919.30
Donations	9,375.00	8,348.29	17,723.29
Grants		33,083.83	33,083.83
Interest Income	84,031.49	2,625.18	86,656.67
Lot Sales/Misc.		14,635.91	14,635.91
Police Fines	78,400.95	41,308.03	119,708.98
Reimbursements	73,874.71		73,874.71
Licenses/Permits	2,288.75		2,288.75
Total Revenues	829,915.52	125,161.79	955,077.31
<b>EXPENDITURES</b>			
Town Administrator	24,697.72		24,697.72
General Government	173,507.07		173,507.07
Civil Defense		2,122.14	2,122.14
Canine		2,735.78	2,735.78
Police	326,019.87	50,896.08	376,915.95
Library		32,181.59	32,181.59
Municipal Court	13,259.76		13,259.76
Treasurer	5,892.84		5,892.84
Clerk	55,073.76		55,073.76
Cemetery		16,812.15	16,812.15
Fire Department	56,617.72	55,746.51	112,364.23
City Attorney	9,681.25		9,681.25
Park Department	31,343.40		31,343.40
Street Department		32,400.04	32,400.04
Swim Pool		22,352.07	22,352.07
Total Expenditures	696,093.39	215,246.36	911,339.75
Excess (deficiency) of revenues over expenditures before Other Financing Sources (Uses)	133,822.13	(90,084.57)	43,737.56
Other Financing Sources (Uses):			
Transfers Out – CEDA	(127,123.55)	0.00	(127,123.55)
Excess (deficiency) of revenues over expenditures	6,698.58	(90,084.57)	(83,385.99)
Fund Balance-Beginning	129,306.85	133,143.56	262,450.41
Fund Balance-Ending	\$ 136,005.43	\$ 43,058.99	\$ 179,064.42

*The accompanying notes are an integral part of the combined financial statements.*

*Town of Chelsea*  
*Rogers County, Oklahoma*  
*Reconciliation of Change in Fund Balances of Governmental Funds*  
*To the Statement of Activities*  
For the Year Ended June 30, 2010

<b>Net Change in Fund Balances – Total Governmental Funds</b>	\$ (83,385.99)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital Asset Acquisitions	119,058.00
Depreciation Expense	<u>(26,449.00)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ 9,223.01</u>

*The accompanying notes are an integral part of the combined financial statements.*

**Town of Chelsea**  
**Rogers County, Oklahoma**  
*Statement of Net Assets*  
*Proprietary Funds-Enterprise Funds*  
June 30, 2010

	<u>Economic Development Authority</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 276,424.51
Accounts receivable	81,330.90
Inventory	<u>47,180.91</u>
Total Current Assets	<u>404,936.32</u>
Noncurrent Assets:	
Cash, restricted	249,512.69
Investments, restricted	53,620.83
Investment - Development Land	51,970.17
Investment - Rural Water Town #13	<u>17,323.83</u>
Total Noncurrent Assets	<u>372,427.52</u>
Capital Assets:	
Property, plant and equipment, net of accumulated depreciation	<u>3,288,267.47</u>
Other Assets:	
Bond issuance costs, net of accumulated amortization	<u>67,531.28</u>
Total Assets	<u>4,133,162.59</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	72,963.59
Accrued Liabilities	38,297.02
Current Portion of Long-term Liabilities	52,384.00
Meter deposits payable	<u>61,070.00</u>
Total Current Liabilities	<u>224,714.61</u>
Non-current Liabilities:	
Leases payable	22,916.61
Note payable	61,192.76
Bonds payable	2,080,000.00
Less Current Portion of Long-term Liabilities	<u>(52,384.00)</u>
Total Non-current Liabilities	<u>2,111,725.37</u>
Total Liabilities	<u>2,336,439.98</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,124,158.10
Restricted	242,063.52
Unrestricted	<u>430,500.99</u>
Total Net Assets	<u>\$ 1,796,722.61</u>

*The accompanying notes are an integral part of the combined financial statements.*

*Town of Chelsea  
Rogers County, Oklahoma  
Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2010*

Economic Development  
Authority

**Operating Revenues:**

Sales - Water	\$ 728,274.43
- Sewer	307,517.13
- Garbage	4058.67
Miscellaneous	33,879.19
Rent	3999.96
Tap fees	<u>9,650.00</u>
Total Operating Revenues	<u>1,087,379.38</u>

**Operating Expenses:**

Personal services	369,981.69
Operating expenses	426,220.28
Depreciation	118,551.00
Amortization	2,674.51
Repairs and maintenance	<u>139,093.70</u>
Total Operating Expenses	<u>1,056,521.18</u>

Operating Income	<u>30,858.20</u>
------------------	------------------

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

Grant revenues	
Sales tax revenues	127,123.55
Interest revenues/dividends	1,221.02
Loss on sale of assets	8,766.96
Interest expenses/trustee fees	<u>(120,109.84)</u>
Total Non-Operating Revenues (Expenses)	<u>17,001.69</u>

Change in Net Assets	47,859.89
Total Net Assets-Beginning	<u>1,748,862.72</u>
Total Net Assets-Ending	<u>\$ 1,796,722.61</u>

*The accompanying notes are an integral part of the combined financial statements.*

**Town of Chelsea**  
**Rogers County, Oklahoma**  
*Statement of Cash Flows*  
Proprietary Fund Type - Enterprise Fund  
For the Year Ended June 30, 2010

Economic Development  
Authority

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 1,090,665.89
Cash paid for personnel costs	(369,981.69)
Cash paid good/supplies	<u>(550,437.22)</u>
Net Cash Provided (Used) by Operating Activities	<u>170,246.98</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Sales tax income	<u>127,123.55</u>
------------------	-------------------

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Long term payments	(46,729.06)
Interest paid on capital debt	<u>(120,711.32)</u>
Net cash provided (used) by capital and related financing activities	<u>(167,440.38)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Sale of Property loss	8,766.96
Grant revenues	
Interest and dividends on investments	<u>1,221.02</u>
Net cash provided (used) by investing activities	<u>9,987.98</u>

Net increase (decrease) in cash	139,918.13
Cash and cash equivalents, beginning of year	<u>439,639.90</u>
Cash and cash equivalents, end of year <i>(Note 1)</i>	<u>\$ 579,558.03</u>

**Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:**

Operating income	\$ 30,858.20
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation/Amortization	121,225.51
Inventories	11,590.97
Accounts receivable	(3,286.51)
Current liabilities	<u>9,858.81</u>
Net cash provided (used) by operating activities	<u>\$ 170,246.98</u>

*The accompanying notes are an integral part of the combined financial statements.*

NOTES TO THE FINANCIAL STATEMENTS

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncement and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

For the fiscal year ended June 30, 2004, the Town implemented the new financial reporting requirements of GASB Statements No. 33 and 34. As a result, an entirely new financial presentation format has been implemented. This implementation will affect comparability with reports issued in prior years.

**Reporting Entity**

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Chelsea
Blended Component Unit:	Chelsea Economic Development Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

*Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

<b>Component Unit</b>	<b>Brief Description/Inclusion Criteria</b>	<b>Reporting</b>
Chelsea Economic Development Authority	Created to finance, develop and operate The water and sewer services activities.	Enterprise Fund

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

*Town of Chelsea*  
*Rogers County, Oklahoma*  
*Notes to the Financial Statements*  
June 30, 2010

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

*Fund Financial Statements:* Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Fund are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- A. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- B. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**GOVERNMENTAL FUNDS**

*General Fund.* This is the Town's primary operating fund. It accounts for all financial resources of the general government , except those required to be accounted for in another fund.

**PROPRIETARY FUND**

*Enterprise Fund.* Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

- Chelsea Economic Development Authority      Accounts for activities of the public trust in providing water and sewer services to the public.

**MAJOR AND NON-MAJOR FUNDS**

- Major:*                      General fund  
                                    Proprietary Fund: Chelsea Economic Development Authority
- Non-Major:*                None

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Measurement Focus, Basis of Accounting**

Measurement focus is a term used to describe “when” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**MEASUREMENT FOCUS**

The government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

**BASIS OF ACCOUNTING**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expense, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of account, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**Cash and Investments**

For the purpose of Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use and franchise taxes. Business-type activities report water and sewer charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

**Fixed Assets**

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-60
Building improvements	20-60
Utility system	20-60
Equipment	3-20

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

**Restricted Assets**

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Restricted assets include funds on deposit representing utility customer meter deposits which are refundable to the customer and funds on deposit required to be reserved by terms of promissory notes.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

**Compensated Absences**

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**Equity Classifications**

*Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, the unreserved further split between designated. Proprietary fund equity is classified the same as in the government-wide statements.

*Town of Chelsea*  
*Rogers County, Oklahoma*  
*Notes to the Financial Statements*  
June 30, 2010

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Revenues, Expenditures and Expenses**

**SALES TAX**

The town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately on month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) are received by the Town in July and August have been accrued and are included under the caption "Due from other governments".

**USE TAX**

The town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received by the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments".

**OPERATING REVENUES AND EXPENSES**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

**EXPENDITURES/EXPENSES**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

- Governmental Funds – By Character: Current (further classified by function), Debt Service,  
Capital Outlay
- Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**INTERFUND TRANSFERS**

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state and local laws and contractual regulations.

**Fund Accounting Requirements**

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Economic Development Authority Fund	Trust Indenture

**Deposits and Investment Laws and Regulations**

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III A., all deposits were fully insured or collateralized.

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

- 1- Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
- 2- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
- 3- With certain limitation, negotiable certificates of deposit, prime bankers acceptance, 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;
- 5- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
- 6- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2010, the Town and its public trusts complied, in all material respects, with these investment restrictions.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Accounting and Control**

The town operates under the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"), as amended in 1991. The budget, as adopted by the town council, is filed with the State of Oklahoma office of the Auditor and Inspector and with the County Excise Board. Budget supplements made during the year are recommended by the town manager and must be approved by the town council. Amendments are then filed with the two agencies mentioned above. The budget and actual comparisons presented in the financial statements include the legally amended budgets for the respective funds.

The town uses the following procedures in establishing the budgetary data reflected in the accompanying combined financial statements:

- a. Prior to June 1, the town manager submits to the town council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted as regular town meetings to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a motion by the town council.

Formal budgetary integration is employed as a management control device during the year for all governmental funds.

Once the legal budget is adopted by the governing body, all budget amendments, including supplemental, decrease or transfer of appropriations, to the legal level of control as defined below, requires governing body approval.

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

**Revenue Restrictions**

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water and Sewer Revenue	Debt Service and Utility Operations

For the year ended June 30, 2010 the Town complied, in all material respects, with those revenue restrictions.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Debt Restrictions and Covenants**

**GENERAL OBLIGATION DEBT**

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2010, the Town had no outstanding general obligation debt.

**OTHER LONG-TERM DEBT**

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2010, the Town incurred no such indebtedness.

**Fund Equity Restrictions**

**DEFICIT PROHIBITION**

Title 11, Section 17-211 of Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2010.

**NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS**

**CASH AND INVESTMENTS**

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town invests entirely in certificates of deposit.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, none of the Town's investments were exposed to custodial credit risk because there were uninsured or uncollateralized.

**INVESTMENT - DEVELOPMENT LAND AND RWD#13**

CEDA purchased a tract of land that is to be made available for purchase or lease, for economic development activities. The tract of land was purchased for \$125,275. This land is carried as Investment - Development Land in the accompanying financial statements in the amount of \$51,970.

CEDA purchased all existing assets and the note payable to Rural Community Development Authority of the Rural Water Town #13. The note payable to Rural Community Development Authority was paid in full on the date of the purchase. The total amount paid for purchase of the Investment - RWD#13 during the current fiscal year was \$17,323.83.

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS**

**Restricted Assets**

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Economic Development Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2010 are as follows:

Meter Deposits	\$ 40,770.71
Project Accounts	<u>208,741.98</u>
Total	<u>\$ 249,512.69</u>

**Accounts Receivable**

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2010 is as follows:

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>\$ 47,300.50</u>	<u>\$ 81,330.90</u>	<u>\$ 128,631.40</u>

**Capital Assets**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Land	\$ 101,000	\$	\$	\$ 101,000
Building/Improvements	393,720	99,983		393,720
Equipment	<u>508,497</u>	<u>19,075</u>		<u>527,572</u>
Total capital assets	1,003,217	<u>\$ 119,058</u>	<u>\$ 0</u>	1,122,275
Less accumulated depreciation	<u>594,156</u>	<u>\$ 26,449</u>	<u>\$ 0</u>	<u>620,605</u>
Governmental activity capital assets, net	<u>\$ 409,061</u>			<u>\$ 501,670</u>
<b>Business-type activities:</b>				
Land	\$ 65,898	\$	\$	\$ 65,898
Construction in Progress	0			0
Improvements	100,493			100,493
Buildings	318,699			318,699
Equipment	241,921			241,921
Water & Sewer System	<u>3,759,364</u>			<u>3,759,364</u>
Total capital assets	4,486,375	<u>\$ 0</u>	<u>\$ 0</u>	4,486,375
Less accumulated depreciation	<u>1,079,558</u>	<u>\$ 118,551</u>	<u>\$ 0</u>	<u>1,198,109</u>
Business-type activity capital assets, net	<u>\$3,406,817</u>			<u>\$ 3,288,266</u>

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS (cont.d)**

**Long Term Debt**

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

*Business-Type Activities*

On April 1, 2010, CEDA issued Utility System Revenue Bonds, Series 2010, in the amount of \$2,175,000. The proceeds of the bonds were to be used for capital improvements of the water and sanitary sewer systems of the Authority and the Town of Chelsea, to retire certain indebtedness of the Authority, to capitalize interest, and to pay the costs and expenses of issuance of the Bonds.

The amount of the bonds and its terms are as follows:

Amount of note	\$ 2,175,000
Date of bonds	April 1, 2010
Interest rate	Variable, currently 5.0%
Semi-annual payments	Variable
Maturity date	April 1, 2036
Balance June 30, 2010	\$ 2,080,000

Monthly payments are to be submitted to the bond fund account at the trustee bank, BancFirst in Oklahoma City, Oklahoma. Payments are then made from the bond fund account to the bondholder on March 1 and September 1 of each year.

The CEDA executed an additional note secured by the development land (See Note 5). The note matures in January, 2010, and carries a 6.99% interest rate. Payments of \$595 are due monthly until maturity. The balance at June 30, 2010 was \$3,706.

On October 21, 2008, CEDA entered into a promissory note agreement with Lakeside State Bank to purchase two (2) trucks in the amount of \$42,056.05. The note requires 41 payments of \$1,100.30 per month at an interest rate of 5.28%.

On September 23, 1999, CEDA received a loan award from Oklahoma Department of Commerce in the amount of \$101,987. The loan requires 239 payments of \$424.94 and 1 payment of \$426.34. The balance at June 30, 2010 was \$61,193.

Anticipated principal payments on long-term debt for the next five years are as follows:

2011	\$ 52,384
2012	\$ 50,779
2013	\$ 40,099
2014	\$ 45,099
2015-2020	\$ 300,495
2021-2025	\$ 350,297
2026-2030	\$ 440,000
2031-2035	\$ 595,000
2036	\$ 289,956

**CHANGES IN LONG-TERM DEBT**

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2010:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2011</u>
Business-Type Activities:				
Notes Payable	<u>\$2,210,839</u>	<u>\$ 0</u>	<u>\$ 46,730</u>	<u>\$2,164,109</u>

*Town of Chelsea  
Rogers County, Oklahoma  
Notes to the Financial Statements  
June 30, 2010*

**NOTE 4: OTHER INFORMATION**

**Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**Employee Pension Plan**

The town participates in two retirement funds for employees as identified below:

**Oklahoma Municipal Retirement Fund**

The Town of Chelsea, Oklahoma contributes to the Oklahoma Municipal Retirement Fund (OMRF), a cost-sharing multiple-employer defined benefit pension plan. OMRF provides retirement and disability benefits to all regular full-time employees, except any firemen and other employees covered under a state retirement system, and death benefits to members and beneficiaries. OMRF benefit provisions are set forth in the Fund's documents. The documents assign responsibility for the administration of the Fund to nine member board of trustees. OMRF issues a publicly available financial report that includes financial statements and required supplementary information.

OMRF members are required to contribute up to 3% of their applicable earnings and the Town of Chelsea, Oklahoma is required to contribute an amount determined by the Fund's actuary to fund the benefit level selected by the Town of Chelsea, Oklahoma. The contribution requirements of members and the Town of Chelsea, Oklahoma, are established and may be amended by the OMRF board of trustees.

**Oklahoma Firefighters Pension and Retirement System**

The Town of Chelsea, Oklahoma contributes to the Oklahoma Firefighters Pension and Retirement System (OFPRS), a cost-sharing multiple-employer defined benefit pension plan. OFPRS provides retirement and disability benefits to full-time (and certain voluntary) firefighters and death benefits to members and beneficiaries. OFPRS benefit provisions are set forth in Oklahoma State Statutes. The statutes assign responsibility for the administration of the system to a thirteen member board of trustees. OFPRS issues a publicly available financial report that includes financial statements and required supplementary information.

OFPRS members are required to contribute 8% of their applicable earnings and the Town of Chelsea, Oklahoma is required to contribute 13% of the member's applicable earnings, for full-time firefighters. The required contributions for volunteer firefighters are based on an annual rate of \$60 per volunteer.

The contribution requirements of the members and the Town of Chelsea, Oklahoma, are established and may be amended by the OFPRS board of trustees. The Town of Chelsea, Oklahoma's contributions to OFPRS for the year ending June 30, 2010 were \$1,140, equal to the required contributions.

**Related Party Investments**

As of June 30, 2010, the two retirement funds held no related party investments of the Town or any of its entities.

*Town of Chelsea*  
*Rogers County, Oklahoma*  
*Notes to the Financial Statements*  
June 30, 2010

**NOTE 4: OTHER INFORMATION (cont'd)**

**Deposits in Insurance Pool**

The town is entitled to a refund of workers compensation insurance from the Oklahoma Municipal Assurance Group (OMAG) in the amount of \$4,072.55 town may receive their refund at any time upon by a letter of request to OMAG accompanied by a copy of the board minutes in which the request was approved. The balance is held in an escrow account, invested in U.S. Treasury securities and is fully collateralized.

In addition, the town has accumulated a balance in the OMAG Rate Stabilization Reserve (RSR) account, as a result of prior credits from worker's compensation premiums paid. This money could be drawn on by OMAG if the worker's compensation premium increased by more than 10% in any given year. OMAG credits this account with interest in April of each year. The town would be entitled to a refund of the entire account balance upon termination of their participation in the OMAG plan.

**Lease Agreements**

As of June 30, 2011, the governmental funds had three leases payable which consisted of the following:

*Oklahoma State Bank*

The Town entered into a lease purchase agreement on April 13, 2009 with Oklahoma State Bank for a 1998 International 4700 Tanker Track Fire Apparatus in the amount of \$35,300, with monthly payments of \$650.01 – which include interest rate of 3.99% for 60 months.

*Lakeside State Bank*

The Town entered into a capital equipment lease purchase agreement on September 30, 2009 with Lakeside State Bank for 3 Ford Crown Victoria Police Cars in the amount of \$27,770.62, with monthly payments of \$630.05 – which include interest rate of 4.24% for 48 months..

*Lakeside State Bank*

The Town entered into a capital equipment lease purchase agreement on February 17, 2010 with Lakeside State Bank for 1994 International Fire Pumper truck in the amount of \$55,000, with monthly payments of \$763.22 – which include interest rate of 4.39% for 84 months..