TOWN OF CHELSEA, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main Street
Miami, Oklahoma 74354

TOWN OF CHELSEA, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	PAGE
List of Principal Officials	1
Independent Auditor's Report	2 – 3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5 – 6
Fund Financial Statements:	
Balance Sheet – Governmental Funds	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8 – 9
Statement of Net Assets – Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund	12
Notes to the Basic Financial Statements	13 – 33
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	34
Notes to Required Supplementary Information – Budgetary Comparison Schedule	35
Internal Control and Compliance:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	36 – 37

TOWN OF CHELSEA, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	PAGE
Schedule of Findings and Questioned Costs	38
Schedule of Prior Years Findings	39

TOWN OF CHELSEA, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

June 30, 2011

Town Council

Daryl Price	Mayor
Howard Drake	Trustee
George Kelton	Trustee
Jerry Moss	Trustee
Mike Provence	Trustee

OBER & ASSOCIATES INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
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 the Town of Chelsea, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chelsea, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014 on our consideration of the Town of Chelsea, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 and 35 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.

MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The Town of Chelsea, Oklahoma's management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Ober & Associates, Inc., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
February 25, 2014

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 52,837.81	$ 580,137.78	$ 632,975.59
Accounts receivable	-	33,161.00	33,161.00
Internal balances	(13,731.26)	13,731.26	-
Due from other governments	66,403.16	-	66,403.16
Inventory	-	40,375.00	40,375.00
Total Current Assets	105,509.71	667,405.04	772,914.75
Non-Current Assets:			
Cash, restricted	134,696.99	237,384.37	372,081.36
Investments, restricted	1,649,093.25	54,212.00	1,703,305.25
Investments, development land	-	51,970.17	51,970.17
Capital assets, net of accumulated depreciation	480,895.44	3,516,476.12	3,997,371.56
Bond issuance costs, net of accumulated amortization	-	64,856.77	64,856.77
Total Non-Current Assets	2,264,685.68	3,924,899.43	6,189,585.11
Total ASSETS	2,370,195.39	4,592,304.47	6,962,499.86
LIABILITIES			
Current Liabilties:			
Accounts payable	83,706.31	112,803.77	196,510.08
Accrued interest payable	-	37,716.30	37,716.30
Current portion of bonds payable	-	35,000.00	35,000.00
Current portion of capital lease payable	21,402.75	10,630.89	32,033.64
Current portion of notes payable	-	5,099.28	5,099.28
Total current liabilities	105,109.06	201,250.24	306,359.30
Noncurrent Liabilities:			
Payable from restricted assets:			
Meter deposits payable	-	57,715.00	57,715.00
Bonds payable, less current portion	-	2,010,000.00	2,010,000.00
Capital leases payable, less current portion	61,171.78	-	61,171.78
Notes payable, less current portion	-	50,994.20	50,994.20
Total noncurrent liabilities	61,171.78	2,118,709.20	2,179,880.98
Total LIABILITIES	166,280.84	2,319,959.44	2,486,240.28
NET ASSETS			
Invested in capital assets, net of related debt	398,320.91	1,469,608.52	1,867,929.43
Restricted	1,758,800.43	196,165.07	1,954,965.50
Unrestricted	46,793.21	606,571.44	653,364.65
Total NET ASSETS	$ 2,203,914.55	$ 2,272,345.03	$ 4,476,259.58

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary Government:							
Governmental activities:							
General Government							
General government	$ 201,480.00	$ 118,508.60	$ -	$ -	$ (82,971.40)		$ (82,971.40)
Town clerk	56,756.66	-	-	-	(56,756.66)		(56,756.66)
Town treasurer	5,446.41	-	-	-	(5,446.41)		(5,446.41)
Town administrator	26,824.60	-	-	-	(26,824.60)		(26,824.60)
Total General Government	290,507.67	118,508.60	-	-	(171,999.07)		(171,999.07)
Public Safety and Judiciary							
Animal control	2,624.83	-	-	-	(2,624.83)		(2,624.83)
Civil defense	654.52	-	-	-	(654.52)		(654.52)
Fire	92,377.52	1,200.00	-	33,235.32	(57,942.20)		(57,942.20)
Municipal court	19,211.19	-	-	-	(19,211.19)		(19,211.19)
Police	312,376.66	221,189.92	-	-	(91,186.74)		(91,186.74)
Town attorney	7,850.42	-	-	-	(7,850.42)		(7,850.42)
Total Public Safety and Judiciary	435,095.14	222,389.92	-	33,235.32	(179,469.90)		(179,469.90)
Transportation							
Street and alley	44,455.67	-	-	-	(44,455.67)		(44,455.67)
Total Transportation	44,455.67	-	-	-	(44,455.67)		(44,455.67)
Culture, Parks and Recreation							
Cemetery	22,915.06	20,225.01	-	-	(2,690.05)		(2,690.05)
Library	29,195.22	2,119.55	-	4,218.50	(22,857.17)		(22,857.17)
Parks	6,886.41	-	-	-	(6,886.41)		(6,886.41)
Swimming pool	24,148.79	11,692.93	-	-	(12,455.86)		(12,455.86)
Total Culture, Parks and Recreation	83,145.48	34,037.49	-	4,218.50	(44,889.49)		(44,889.49)
Total governmental activities	853,203.96	374,936.01	-	37,453.82	(440,814.13)		(440,814.13)
Business-type activities:							
Chelsea Economic Development Authority	1,150,384.20	1,166,888.94	-	-	-	$ 16,504.74	16,504.74
Total business-type activities	1,150,384.20	1,166,888.94	-	-	-	16,504.74	16,504.74
Total primary government	$ 2,003,588.16	$ 1,541,824.95	$ -	$ 37,453.82	$ (440,814.13)	16,504.74	$ (424,309.39)

(continued)

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
General revenues:						
Taxes:						
Sales tax				$ 384,346.12	$ -	$ 384,346.12
Use tax				33,970.45	-	33,970.45
Alcoholic beverage tax				12,568.29	-	12,568.29
Franchise tax				44,382.46	-	44,382.46
Cigarette tax				5,658.78	-	5,658.78
Resale apportionment				434.91	-	434.91
Taxes restricted for transportation purposes:						
Motor vehicle tax				13,994.88	-	13,994.88
Gasoline tax				4,232.98	-	4,232.98
Interest income				4,328.32	-	4,328.32
Investment gains (losses)				230,626.24	-	230,626.24
Penalties				-	-	-
Reimbursements				-	-	-
Transfers - internal activities				(148,827.20)	148,827.20	-
Total general revenues, special items, and transfers				585,716.23	148,827.20	734,543.43
Change in net assets				144,902.10	165,331.94	310,234.04
Net assets - beginning				2,059,012.45	2,107,013.09	4,166,025.54
Net assets - ending				$ 2,203,914.55	$ 2,272,345.03	$ 4,476,259.58

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Chelsea Improvement Trust	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 52,837.81	$ 6,964.29	$ 127,732.70	$ 187,534.80
Investments	-	1,594,434.42	54,658.83	1,649,093.25
Due from other governments	65,104.67	-	1,298.49	66,403.16
Due from CEDA	5,496.37	-	-	5,496.37
Total Assets	$ 123,438.85	$ 1,601,398.71	$ 183,690.02	$ 1,908,527.58
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 57,418.01	$ -	$ 26,288.30	$ 83,706.31
Due to CEDA	19,227.63	-	-	19,227.63
Total Liabilities	76,645.64	-	26,288.30	102,933.94
Fund Balances:				
Assigned to:				
Capital improvements	-	1,601,398.71	-	1,601,398.71
Other purposes	-	-	157,401.72	157,401.72
Unassigned	46,793.21	-	-	46,793.21
Total Fund Balances	46,793.21	1,601,398.71	157,401.72	1,805,593.64
Total Liabilities and Fund Balances	$ 123,438.85	$ 1,601,398.71	$ 183,690.02	

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of $1,134,133.50 are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of $653,238.06.	480,895.44
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital leases payable	(82,574.53)
Net assets of governmental activities	$ 2,203,914.55

The accompanying notes are an integral part of these financial statements.

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

	General Fund	Chelsea Improvement Trust	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Sales tax	$ 384,346.12	$ -	$ -	$ 384,346.12
Use tax	33,970.45	-	-	33,970.45
Alcoholic beverage tax	12,568.29	-	-	12,568.29
Cigarette tax	5,658.78	-	-	5,658.78
Motor vehicle tax	-	-	13,994.88	13,994.88
Gasoline tax	-	-	4,232.98	4,232.98
Franchise tax	44,382.46	-	-	44,382.46
Resale apportionment	434.91	-	-	434.91
Other:				
Admissions	-	-	11,692.93	11,692.93
Fire runs	1,200.00	-	-	1,200.00
Grants	-	-	37,453.82	37,453.82
Interest income	13.53	17.00	4,297.79	4,328.32
Investment gain (loss)	-	230,626.24	-	230,626.24
Lot sales	-	-	22,344.56	22,344.56
Miscellaneous	40,394.76	-	4,065.00	44,459.76
Police fines	143,014.91	-	78,175.01	221,189.92
Reimbursements	73,296.34	-	-	73,296.34
Licenses and permits	752.50	-	-	752.50
Total Revenues	740,033.05	230,643.24	176,256.97	1,146,933.26
Expenditures:				
General Government:				
Town administrator	26,824.60	-	-	26,824.60
Town clerk	56,756.66	-	-	56,756.66
Town treasurer	5,446.41	-	-	5,446.41
General government	185,074.57	-	15,227.03	200,301.60
Public Safety and Judiciary:				
Animal control	-	-	2,624.83	2,624.83
Civil defense	654.52	-	-	654.52
Fire	46,309.09	-	36,372.86	82,681.95
Municipal court	19,211.19	-	-	19,211.19
Police	284,617.11	-	38,556.60	323,173.71
Town attorney	7,850.42	-	-	7,850.42
Transportation:				
Street and alley	-	-	50,384.42	50,384.42
Culture, Parks and Recreation:				
Cemetery	-	-	21,896.13	21,896.13
Library	-	-	28,360.42	28,360.42
Parks	7,463.26	-	1,034.00	8,497.26
Swimming pool	-	-	24,148.79	24,148.79
Total Expenditures	640,207.83	-	218,605.08	858,812.91
Excess (deficiency) of revenues over expenditures	99,825.22	230,643.24	(42,348.11)	288,120.35
Other Financing Sources (Uses)				
Transfers in	84,000.00	-	156,690.84	240,690.84
Transfers out	(305,518.04)	(84,000.00)	-	(389,518.04)
Total Other Financing Sources (Uses)	(221,518.04)	(84,000.00)	156,690.84	(148,827.20)
Net change in fund balances	(121,692.82)	146,643.24	114,342.73	139,293.15
Fund balances - beginning	168,486.03	1,454,755.47	43,058.99	1,666,300.49
Fund balances - ending	$ 46,793.21	$ 1,601,398.71	$ 157,401.72	$ 1,805,593.64

The accompanying notes are an integral part of these financial statements.

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

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds	$ 139,293.15
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	11,857.50
Depreciation expense	(26,780.82)
	(14,923.32)
Repayment of notes payable is reported as an expenditure in governmental funds and, thus has the effect of reducing fund balance because current financial resources have been used. For the Town as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.	
Principal payments made on notes payable	20,532.27
Change in Net Assets of Governmental Activities	$ 144,902.10

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Economic Development Authority
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 580,137.78
Accounts receivable	33,161.00
Due from City of Chelsea	19,227.63
Inventory	40,375.00
Total Current Assets	672,901.41
Noncurrent Assets:	
Cash, restricted	237,384.37
Investments, restricted	54,212.00
Investments, development land	51,970.17
Capital assets, net of accumulated depreciation	3,516,476.12
Bond issuance cost, net of accumulated amortization	64,856.77
Total Noncurrent Assets	3,924,899.43
Total Assets	4,597,800.84
LIABILITIES	
Current Liabilities:	
Accounts payable	112,803.77
Accrued interest payable	37,716.30
Due to City of Chelsea	5,496.37
Current portion of bonds payable	35,000.00
Current portion of capital leases payable	10,630.89
Current portion of notes payable	5,099.28
Total Current Liabilities	206,746.61
Noncurrent Liabilities:	
Payable from restricted assets:	
Meter deposits payable	57,715.00
Bonds payable, less current portion	2,010,000.00
Notes payable, less current portion	50,994.20
Total Noncurrent Liabilities	2,118,709.20
Total Liabilities	2,325,455.81
NET ASSETS	
Invested in capital assets, net of related debt	1,469,608.52
Restricted	248,135.24
Unrestricted	554,601.27
Total net assets	$2,272,345.03

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Economic Development Authority
Operating Revenues:	
Sales - Water	$ 707,023.29
Sales - Sewer	311,383.00
Sales - Sanitation	99,814.00
Late charges and penalties	24,309.03
Water tap and connection fees	13,882.62
Rental and lease income	6,399.96
Other income	3,825.00
Total Operating Revenues	1,166,636.90
Operating Expenses:	
Personal services	329,409.86
Maintenance and repairs	107,869.61
Operating supplies and expenses	325,387.05
Trash services	88,792.00
Utilities	53,353.35
Amortization	2,674.51
Depreciation	125,037.66
Total Operating Expenses	1,032,524.04
Operating Income (Loss)	134,112.86
Non-operating Revenues (Expenses)	
Interest revenue	252.04
Interest expense	(117,860.16)
Total Non-operating Revenues (Expenses)	(117,608.12)
Net Income (Loss) Before Transfers	16,504.74
Transfers in from Town of Chelsea	148,827.20
Change in net assets	165,331.94
Total net assets - beginning	2,107,013.09
Total net assets - ending	$2,272,345.03

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Economic Development Authority
Cash flows from operating activities:	
Cash received from operations	$ 1,214,806.80
Cash paid to employees for services	(329,409.86)
Cash paid to suppliers for goods and services	(523,259.55)
Net cash provided (used) by operating activities	362,137.39
Cash flows from non-capital financing activities:	
Transfers from Town of Chelsea	129,599.57
Net cash provided (used) in non-capital financing activites	129,599.57
Cash flows from capital and related financing activities:	
Purchases of capital assets	(25,632.00)
Meter deposits received	25,395.00
Return of meter deposits	(28,750.00)
Principal payments on capital debt	(52,385.00)
Interest paid on capital debt	(118,440.88)
Net cash provided (used) by capital and related financing activities	(199,812.88)
Cash flows from investing activities:	
Interest	252.04
Net cash provided (used) by investing activities	252.04
Net increase (decrease) in cash and cash equivalents	292,176.12
Beginning cash and cash equivalents	579,558.03
Ending cash and cash equivalents	$ 871,734.15
Reconciliation of net income to net cash provided (used) by operating activities:	
Operating Income (Loss)	$ 134,112.86
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	127,712.17
Change in assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	48,169.90
Inventory	6,805.91
Increase (Decrease) in:	
Accounts payable	39,840.18
Due to Town of Chelsea	5,496.37
Net cash provided (used) by operating activities	$ 362,137.39

The accompanying notes are an integral part of these financial statements.

TOWN OF CHELSEA, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity
B. Basis of Presentation
C. Measurement Focus and Basis of Accounting
D. Assets, Liabilities and Equity
E. Revenues, Expenditures and Expenses
F. Interfund Transfers
G. Use of Estimates

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Fund Accounting Requirements
B. Deposit and Investment Laws and Regulations
C. Budgetary Accounting and Control
D. Revenue Restrictions
E. Debt Restrictions and Covenants
F. Fund Equity Restriction

NOTE 3. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS

A. Cash and Investments
B. Restricted Assets
C. Accounts Receivable
D. Capital Assets
E. Long-Term Debt

NOTE 4. OTHER NOTES

A. Risk Management
B. Employee Retirement System and Pension Plan
C. Deposits in Insurance Pools
D. Prior Period Adjustments

Note 1. Summary of Significant Accounting Policies

The Town of Chelsea, Oklahoma complies with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principals (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements 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. For business-type activities and enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2011, the Town implemented the new financial reporting requirements of GASB Statement No. 54, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments.*

1.A. Financial Reporting Entity

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

Primary Government:	Town of Chelsea, Oklahoma
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.

Blended Component Units

Component units that are blended into the reporting activity types of the Town's reports are presented below:

Component Unit	Brief Description/Inclusive Criteria	Reporting
Chelsea Economic Development Authority	Created to finance, develop and operate the water, sewer and sanitation services of the Town.	Enterprise Fund

Note 1. Summary of Significant Accounting Policies: continued

1.A. Financial Reporting Entity: continued

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.

1.B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Eliminations have been made to minimize the double-accounting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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 expenditures/expenses. Funds 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 expenditures/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 the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Note 1. Summary of Significant Accounting Policies: continued

1.B. Basis of Presentation: continued

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenues Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town.

Proprietary Funds

Enterprise Funds

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:

Fund	Brief Description
Chelsea Economic Development Authority	Accounts for the activities of the public trust in providing water, sewer and sanitation services to the public.

Major and Non-Major Funds

Major:	General Fund	
	Special Revenue Fund:	
	Chelsea Improvement Trust Fund	Accounts for monies received from the sale of the Town's electrical distribution system.
	Proprietary Fund:	
	Chelsea Economic Development Authority	Accounts for activities of the public trust in providing water, sewer and sanitation services to the public

Note 1. Summary of Significant Accounting Policies: continued

1.B. Basis of Presentation: continued

Major and Non-Major Funds: continued

Non-Major: Special Revenue Funds:
- Cemetery Fund
- Civil Defense Fund
- Firemen's Special Equipment Fund
- Fire Department – Bldg Maint Fund
- Library Fund
- Parks – Playground Special Fund
- Police Canine Unit Fund
- Police Equipment Fund
- Police Special Training Fund
- Special Assessment Fund
- Street Fund
- Street and Alley Equipment Fund
- Swimming Pool Fund
- Tax Trust and Retirement Fund

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" 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

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

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 operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Note 1. Summary of Significant Accounting Policies: continued

1.C. Measurement Focus and Basis of Accounting: continued

c. Agency funds are not involved in the measurement of results or 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 outlays) 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 accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Equity

Cash and Cash Equivalents

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.

Accounts Receivable

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

Note 1. Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Equity

revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Capital Assets

The accounting treatment over property, plant and equipment (capital 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, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital 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:

Asset Class	Estimated Useful Lives
Buildings	20 to 60 years
Improvements	20 to 60 years
Utility System	20 to 80 years
Infrastructure	20 to 80 years
Machinery and Equipment	3 to 20 years

Fund Financial Statements

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

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.

Note 1. Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Equity: continued

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 notes payable and capitalized lease obligations.

Long-term debt arising from cash transactions for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial 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 Classification

Government-Wide and Proprietary 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 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."

Note 1. Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Equity: continued

Equity Classification: continued

Fund Financial Statements:

In the governmental fund financial statements, fund balances are classified as follows:

a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

b. Restricted – Amounts that can be spent only for specific purposes because the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.

c. Committed – Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution.

d. Assigned – Amounts that are designated by the Town's intent to be used for specific purposes,

e. Unassigned – All amounts not included in other spendable classifications.

1.E. 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 the last half of May and the entire month of 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".

Note 1. Summary of Significant Accounting Policies: continued

1.E. Revenues, Expenditures and Expenses

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 reported on the accrual basis and 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 activity) Capital Outlay Debt Service

Proprietary Fund – 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.

1.F. 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.

1.G. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. An analysis of the Town's compliance with significant laws, regulations, grants and contracts and demonstration of its stewardship over Town resources follows:

2.A. Fund Accounting Requirements

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

Fund	Required By
Chelsea Economic Development Authority	Trust Indenture

2.B. Deposit 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 3.A., all deposits were fully insured or collateralized for the fiscal year ended June 30, 2011.

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 1., 2., 3., and 4.

Note 2. Stewardship, Compliance and Accountability: continued

2.B. Deposit and Investment Laws and Regulations: continued

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, 2011, the Town had funds that were invested in an annuity which do not comply with 12 U.S.C.A., Section 1823 (e). The Town's public trusts complied, in all material respects, with these investment restrictions.

2.C. 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 administrator 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 based on previous years revenue at 90%. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted at regular Town meetings to obtain taxpayer comments. Public hearings are held no later than fifteen (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.

Note 2. Stewardship, Compliance and Accountability: continued

2.D. Revenue Restrictions

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

Revenue Source	Legal Restrictions of Use
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2011 the Town complied, in all material respects, with those revenue restrictions.

2.E. 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, 2011, 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, 2011, the Town incurred no such indebtedness.

2.F. 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, 2011.

Note 3. Detail Notes – Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. Cash and Investments

Authorized Investments

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit or 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 Town does not have a deposit policy for custodial credit risk. As of June 30, 2011, none of the Town's investments were exposed to custodial credit risk.

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3.B. Restricted Assets

The amounts reported as restricted assets are comprised of cash and investments held for special revenue funds that are to be used for specific purposes or by Town regulations and, cash and investments held in trust on behalf of the Chelsea 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, 2011 are as follows:

Governmental Activities:	
Chelsea Improvement Trust Fund	$ 1,601,398.71
Special Revenue Funds	157,401.72
	$ 1,758,800.43

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.B. Restricted Assets

Business-type Activities	
Meter Deposits	$ 23,702.24
Loan Reserves	172,462.83
	$ 196,165.07

3.C. 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, 2011 is as follows:

	Governmental Activities	Business-Type Actvities	Totals
Accounts Receivable	$ -	$ 33,161.00	$ 33,161.00
Due from Other Governments	66,403.16	-	66,403.16
	$ 66,403.16	$ 33,161.00	$ 99,564.16

3.D. Capital Assets

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

	Balance July 1	Additions	Retirements	Balance June 30
Governmental Activities:				
Non-depreciable assets				
Land	$ 101,000.00	$ -	$ -	$ 101,000.00
Total Non-depreciable assets	101,000.00	-	-	101,000.00
Depreciable assets				
Buildings and improvements	493,703.00	11,857.50	-	505,560.50
Vehicles	426,286.00	-	-	426,286.00
Machinery, furniture and equipment	101,287.00	-	-	101,287.00
Total capital assets being depreciated	1,021,276.00	11,857.50	-	1,033,133.50
Less: accumulated depreciation for:				
Buildings and improvements	328,193.56	5,846.90	-	334,040.46
Vehicles	267,816.48	12,460.86	-	280,277.34
Machinery, furniture and equipment	30,447.20	8,473.06	-	38,920.26
Total accumulated depreciation	626,457.24	26,780.82	-	653,238.06
Governmental activities capital assets, net	$ 495,818.76	$ (14,923.32)	$ -	$ 480,895.44

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.D. Capital Assets: continued

Depreciation expense was charged to governmental activities as follows:

Primary Government:	
Governmental Activities:	
General governmental	$ 1,178.40
Cemetery	1,018.93
Fire	16,513.19
Library	834.80
Parks	4,317.90
Police	2,917.60
	$ 26,780.82

	Balance July 1	Additions	Retirements	Balance June 30
Business-type Activities:				
Non-depreciable assets				
Land	$ 65,898.00	$ -	$ -	$ 65,898.00
Total Non-depreciable assets	65,898.00	-	-	65,898.00
Depreciable assets				
Utility System	4,170,858.56	21,000.00	-	4,191,858.56
Buildings and improvements	351,424.46	2,950.00	-	354,374.46
Vehicles	99,002.84	-	-	99,002.84
Machinery, furniture and equipment	113,198.04	1,682.00	-	114,880.04
Total capital assets being depreciated	4,734,483.90	25,632.00	-	4,760,115.90
Less: accumulated depreciation:				
Utility System	839,648.38	105,215.73	-	944,864.11
Buildings	180,920.80	7,528.40	-	188,449.20
Vehicles	70,965.51	8,411.20	-	79,376.71
Machinery, furniture and equipment	92,965.43	3,882.33	-	96,847.76
Total accumulated depreciation	1,184,500.12	125,037.66	-	1,309,537.78
Business-type activities capital assets, net	$ 3,549,983.78	$ (99,405.66)	$ -	$ 3,450,578.12

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.E. Long-Term Debt

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

Governmental Activities

As of June 30, 2011, the governmental funds had three capital leases payable as follows:

The Town entered into a capital equipment lease purchase agreement on April 13, 2009 with Oklahoma State Bank for a 1998 International 4700 Tanker Track Fire Apparatus in the amount of $35,300.00. Monthly payments of $650.01 began on May 13, 2009 and include interest of 3.99%. The final lease payment is due on April 13, 2014.

The Town entered into a capital equipment lease purchase agreement on September 30, 2009 with Lakeside State Bank for three (3) Ford Crown Victoria Police Cars in the amount of $27,770.62. Monthly payments of $630.05 began on October 30, 2009 and include interest of 4.24%. The final lease payment is due on September 30, 2013.

The Town entered into a capital equipment lease purchase agreement on February 17, 2010 with Lakeside State Bank for a 1994 International Fire Pumper Truck in the amount of $55,000.00. Monthly payments of $763.22 began on March 17, 2010 and include interest of 4.39%. The final lease payment is due on February 17, 2017.

The leases to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 21,402.75	$ 3,116.61	$ 24,519.36
2013	22,329.21	2,190.15	24,519.36
2014	16,078.07	1,318.70	17,396.77
2015	8,325.14	833.50	9,158.64
2016	8,696.99	461.65	9,158.64
2017	5,742.37	91.88	5,834.25
	$ 82,574.53	$ 8,012.49	$ 90,587.02

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.E. Long-Term Debt: continued

Business-Type Activities

Utility System Revenue Bonds, Series 2010

On April 1, 2010, Chelsea Economic Development Authority issued Utility System Revenue Bonds, Series 2010, in the Amount of $2,175,000.00. 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	$ 2,175,000.00
Date of bonds	April 1, 2010
Interest rate	Variable, currently 5.0%
Semi-annual payments	March 1 and September 1
Maturity date	April 1, 2036

The Bond matures as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 35,000.00	$ 113,767.50	$ 148,767.50
2013	35,000.00	112,017.50	147,017.50
2014	40,000.00	110,267.50	150,267.50
2015	40,000.00	108,267.50	148,267.50
2016	40,000.00	106,267.50	146,267.50
2017 - 2021	255,000.00	496,662.50	751,662.50
2022 - 2026	355,000.00	417,550.00	772,550.00
2027 - 2031	465,000.00	307,470.00	772,470.00
2031- 2036	780,000.00	156,112.50	936,112.50
	$ 2,045,000.00	$ 1,928,382.50	$ 3,973,382.50

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.E. Long-Term Debt: continued

Capital Lease Payable

The Authority entered into a capital lease purchase agreement on October 21, 2008 with Lakeside State Bank for the purchase of two (2) Chevrolet Pickup Trucks in the amount of $42,056.05. Monthly payments of $1,100.30 began on November 21, 2008 and include interest of 5.28%. The final lease payment is due on April 21, 2012.

The lease matures as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 10,630.89	$ 257.67	$ 10,888.56

Loan Award

The Authority received a loan award from the Oklahoma Department of Commerce on September 23, 1997, in the amount of $101,987.00. The loan requires two hundred thirty-nine (239) payments of $424.94 and one (1) payment of $426.34, with a 0% interest. The final payment is due in June 2022.

The loan matures as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 5,099.28	$ -	$ 5,099.28
2013	5,099.28	-	5,099.28
2014	5,099.28	-	5,099.28
2015	5,099.28	-	5,099.28
2016	5,099.28	-	5,099.28
2017 - 2021	25,496.40	-	25,496.40
2022	5,100.68	-	5,100.68
	$ 56,093.48	$ -	$ 56,093.48

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.E. Long-Term Debt: continued

Debt service requirements for all business-type activities are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 50,730.17	$ 114,025.17	$ 164,755.34
2013	40,099.28	112,017.50	152,116.78
2014	45,099.28	110,267.50	155,366.78
2015	45,099.28	108,267.50	153,366.78
2016	45,099.28	106,267.50	151,366.78
2017 - 2021	280,496.40	496,662.50	777,158.90
2022 - 2026	360,100.68	417,550.00	777,650.68
2027 - 2031	465,000.00	307,470.00	772,470.00
2031 - 2036	780,000.00	156,112.50	936,112.50
	$ 2,111,724.37	$ 1,928,640.17	$ 4,040,364.54

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, 2011:

	Amount Outstanding June 30, 2010	Issued	Retired	Amount Outstanding June 30, 2011
Business-Type Activites				
Bonds Payable	$ 2,080,000.00	$ -	$ 35,000.00	$ 2,045,000.00
Lease Obligations	22,916.61	-	12,285.72	10,630.89
Note Payable	61,192.76	-	5,099.28	56,093.48
	$ 2,164,109.37	$ -	$ 52,385.00	$ 2,111,724.37

Note 4. Other Notes

4.A. 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.

Note 4. Other Notes: continued

4.B. Employee Retirement System and Pension Plan

The Town participates in two retirement funds for employees as described below.

Oklahoma Municipal Retirement Fund

The Town of Chelsea, Oklahoma contributes to the Oklahoma Municipal Retirement Fund (OMRF), 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 a 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 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 $60.00 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, 2011 were $1,140.00, equal to the required contributions.

4C. Deposits in Insurance Pools

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

Note 4. Other Notes: continued

4C. Deposits in Insurance Pools: continued

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.

4.D. Prior Period Adjustments.

Government-wide Statements

During the year management discovered that capital assets had been overstated by $5,851.16 and that leases payable totaling $103,106.80 had been omitted from the financial statements. The net effect of these items was to reduce net assets at June 30, 2010 from $2,167,970.41 to $2,059,012.45.

Governmental Funds – General Fund

During the year management discovered that sales and uses taxes for the year ending June 30, 2010 had been under stated by $32,480.60. The effect of this item increased the fund balance at June 30, 2010 from $136,005.43 to $168,486.03.

Business-type Activities

During the year management discovered that an investment had been overstated by $17,323.83 and capital assets had been under stated by $327,614.31. The net effect of these items was to increase retained earnings at June 30, 2010 from $1,796,722.61 to $2,107,013.09.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Notes to RSI – Budgetary Comparison Schedule

TOWN OF CHELSEA, OKLAHOMA
BUDGET AND ACTUAL
BUDGETED GENERAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues:					
Sales tax	$ 343,499.10	$ 343,499.10	$ 388,810.32	$ -	$ 45,311.22
Use tax	22,424.54	22,424.54	38,325.05	-	15,900.51
Tobacco tax	4,761.12	4,761.12	5,704.28	-	943.16
Alcohol beverage tax	10,837.19	10,837.19	12,449.30	-	1,612.11
Court fines	79,929.46	79,929.46	143,014.91	-	63,085.45
Franchise taxes	22,680.83	22,680.83	42,197.23	-	19,516.40
Licenses and permits	1,983.38	1,983.38	752.50	-	(1,230.88)
Fire runs	-	-	1,200.00	-	1,200.00
Reimbursements	71,073.03	71,073.03	75,317.92	-	4,244.89
Interest	7.16	7.16	13.53	-	6.37
Other	70,599.18	70,599.18	40,712.44	-	(29,886.74)
Transfers	90,000.00	90,000.00	84,000.00	-	(6,000.00)
Total Revenues	717,794.99	717,794.99	832,497.48	-	114,702.49
Expenditures:					
Clerk	45,071.16	45,071.16	56,631.56	-	(11,560.40)
Court	18,350.00	18,350.00	16,266.71	-	2,083.29
Treasurer	5,867.10	5,867.10	5,442.84	-	424.26
Attorney	12,000.00	12,000.00	7,850.42	-	4,149.58
General Government	132,878.01	132,878.01	192,719.00	-	(59,840.99)
Police	279,776.01	279,776.01	283,834.74	-	(4,058.73)
Fire	51,956.14	51,956.14	47,533.71	-	4,422.43
Parks	3,360.00	3,360.00	7,048.18	-	(3,688.18)
Transfers	176,536.57	176,536.57	286,290.41	-	(109,753.84)
Total Expenditures	725,794.99	725,794.99	903,617.57	-	(177,822.58)
Excess of Revenues over/(under) expenditures Before Other Sources/(Uses)	(8,000.00)	(8,000.00)	(71,120.09)	-	(63,120.09)
Cash Fund Balance, beginning of year	123,957.90	123,957.90	123,957.90	-	-
Cash Fund Balance, end of year	$ 115,957.90	$ 115,957.90	52,837.81	$ -	$ (63,120.09)
Amounts reported for general fund cash fund in the Balance Sheet for Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:					
Amounts due from other governments			65,104.67		
Amounts due from CEDA			5,496.37		
Accounts payable			(57,418.01)		
Amounts due to CEDA			(19,227.83)		
Fund Balance - General Fund			$ 46,793.01		

TOWN OF CHELSEA, OKLAHOMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Budgetary Accounting

The Town prepares its budget for the General Fund on the cash basis of accounting. This differs from the accrual basis of accounting used in presenting the General Fund in the basic financial statements. All unexpended appropriations lapse at year-end.

INTERNAL CONTROL AND COMPLIANCE SECTION

OBER & ASSOCIATES INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
918-542-4401

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chelsea, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Chelsea, Oklahoma's basic financial statements and have issued our report thereon dated February 25, 2014. In our report we included an explanatory paragraph stating that the Town of Chelsea has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements as required by the Governmental Accounting Standards Board. 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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is 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.

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

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Town of Chelsea, Oklahoma'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

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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 response at item 2011-1.

This report is intended solely for the information and use of management, Town Council, the Oklahoma State Auditor and Examiner and federal and state 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

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
February 25, 2014

TOWN OF CHELSEA, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

2011-1: Investment Activities

Criteria or specific requirement: Municipalities are governed by State Statutes 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.

Condition: The Town currently reports an investment of $1,594,434.42 in the Chelsea Improvement Trust. This investment appears to be in violation of Oklahoma Statutes, local ordinances and voter propositions. The investment, according to local ordinance, was to remain intact at approximately $2.2 million.

Effect: The Town's governmental assets have not been properly safeguarded according to local ordinances and voter propositions.

Cause; The Town did not consult experts involved in municipal management and finance when conducting the investment of the funds.

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

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

TOWN OF CHELSEA, OKLAHOMA
SCHEDULE OF PRIOR YEARS FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

2010-1: Investment Activities

Condition: The Town was reporting an investment of approximately $1.46 in the Chelsea Improvement Trust and this investment appeared to be in violation of Oklahoma Statutes, local ordinances and voter propositions. The investment, according to local ordinance, was to remain intact at approximately $2.2 million.

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

Current Status: This finding has not yet been corrected by management. (Refer to finding 2011-1)

2010-2: Valuation of Municipal Assets

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.

Recommendation: The auditor recommended that the Town consult with its current external accounting regarding proper compilation procedures regarding the Town's fixed assets and financial activities.

Current Status: This finding has been corrected by management.