

**CITY OF CHEROKEE, OKLAHOMA
CHEROKEE, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2015**

CITY OF CHEROKEE, OKLAHOMA
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CERTIFIED PUBLIC ACCOUNTANTS -PLLC

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Cherokee, 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 City of Cherokee, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Management has not maintained sufficient documentation to audit the fixed assets and related allowance for depreciation in the governmental activities, business-type activities, general fund and Cherokee Development Authority. Accounting principles generally accepted in the United States of America require that an adequate record keeping system to track capital expenditures and related allowance for depreciation be maintained.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental, business-type activities, and each major fund of the City of Cherokee, Oklahoma, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Cherokee, Oklahoma, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

We draw attention to “Note 6 Restatement of Beginning Net Position” in the accompanying notes to the financial statements that describe the impact of the change in accounting method and implementation of GASB No. 68. In the current fiscal year the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB No. 27* and a change in presentation of accrued salary expense and accrued grant funding. The implementation and change in presentation resulted in the restatement of beginning year net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information and net pension liability schedules on pages 3–9, 32 and 33–35 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016, on our consideration of the City of Cherokee, 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* in considering City of Cherokee, Oklahoma’s internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma
April 20, 2016

Within this section, the City of Cherokee's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2015. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2015, the assets of the City exceeded its liabilities by \$5,701,506 (net position). Of this amount \$2,472,734 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compares favorably to the previous year when assets exceeded liabilities by \$5,262,903 as restated for the implementation of GASB No. 68 Accounting and Financial Reporting for Pensions and the conversion to accrual based reporting.
- The City's total net position are comprised of the following:
 - (1) Net investment in capital assets of \$2,932,961 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$295,811 consists mainly of the restricted cash held for debt obligations and meter deposits.
 - (3) Unrestricted net position of \$2,472,734 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- After transfers of \$357,530 to business-type activities from governmental activities, net position of governmental activities decreased \$56,931 or 2%, and net position of business-type activities increased \$495,534 or 17%. Overall the health of the City improved when compared to prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resources available and whether the City can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include an RV Park and utility services, including water, sewer and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Cherokee Development Authority is a separate legal entity which operates independently and provides services directly to the citizens though the City remains accountable for their actions. As such, the Cherokee Development Authority is reported as part of the primary government and included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in footnotes.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sewer and sanitation utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position at June 30, 2015 was \$5,701,506. This is a \$438,603 increase over June 30, 2014 net position after restatement. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$2,286,659 and \$3,414,847, respectively. The City's overall financial position improved 8% during fiscal year 2015.

Total assets increased by 6% year over year, which is attributable to capital assets purchased and constructed using grant funding and loan proceeds. Total liabilities decreased 2% comparatively due to the timing of payment on current liabilities and principle payments on long term debt. Refer to additional information on debt held by the City in the footnotes to the financial statements.

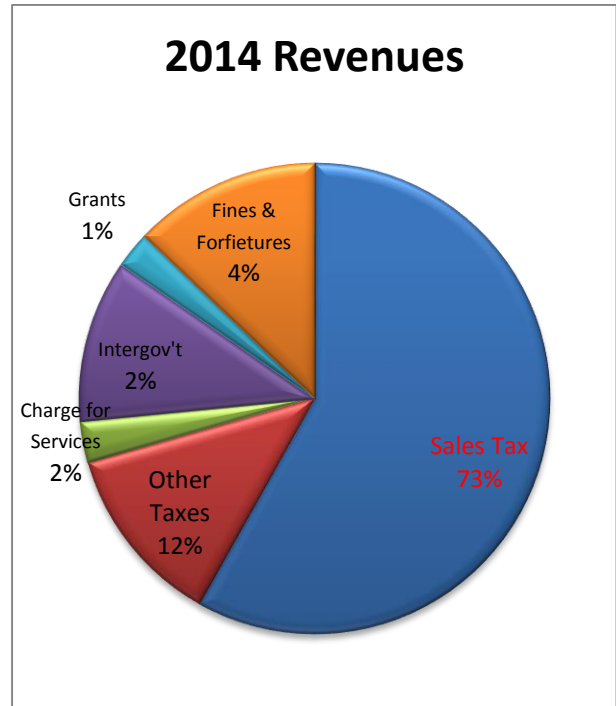
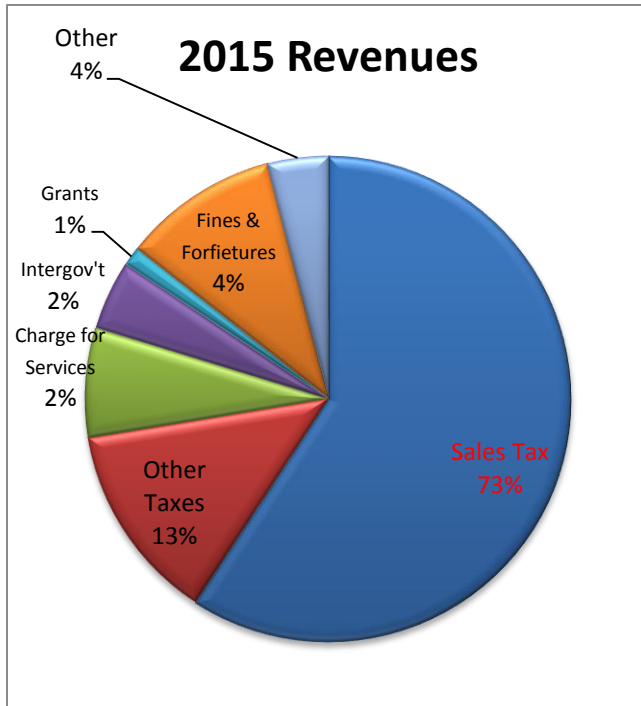
	Summary of Net Assets						\$ Change	% Change
	Governmental Activities		Business-Type Activities		Total			
	2015	2014	2015	2014	2015	2014		
Current assets	\$ 1,139,799	\$ 1,304,207	\$ 2,071,320	\$ 1,957,469	\$ 3,211,119	\$ 3,261,676	\$ (50,557)	-2%
Capital assets, net	1,406,240	1,302,444	2,422,045	2,056,927	3,828,285	3,359,371	468,914	14%
Total assets	2,546,039	2,606,651	4,493,365	4,014,396	7,039,404	6,621,047	418,357	6%
Deferred outflow	826	-	-	-	826	-	826	100%
Current liabilities	61,326	171,301	269,918	199,759	331,244	371,060	(39,816)	-11%
Non-current liabilities	189,029	91,760	808,600	895,324	997,629	987,084	10,545	1%
Total liabilities	250,355	263,061	1,078,518	1,095,083	1,328,873	1,358,144	(29,271)	-2%
Deferred inflow	9,851	-	-	-	9,851	-	9,851	100%
Net assets								
Net investment in capital assets	1,406,240	1,302,444	1,526,721	1,077,325	2,932,961	2,379,769	553,192	23%
Restricted	148,833	124,961	146,978	143,933	295,811	268,894	26,917	10%
Unrestricted	731,586	916,185	1,741,148	1,698,055	2,472,734	2,614,240	(141,506)	-5%
Total net assets	\$ 2,286,659	\$ 2,343,590	\$ 3,414,847	\$ 2,919,313	\$ 5,701,506	\$ 5,262,903	\$ 438,603	8%

Summary of Changes in Net Position

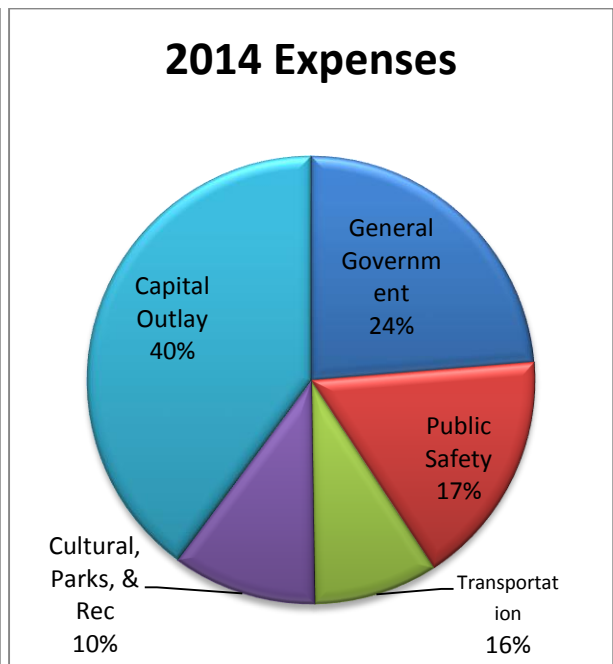
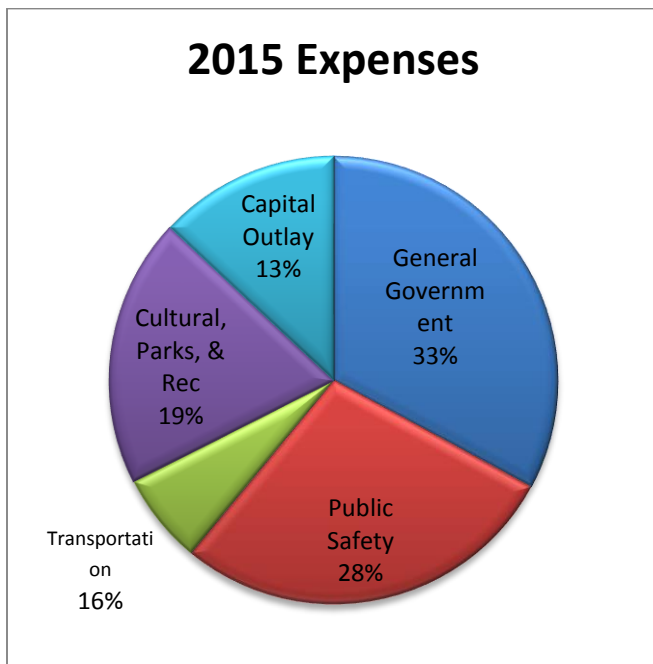
	Governmental Activities		Business-type Activities		Total		Change	
	2015	2014	2015	2014	2015	2014	\$	%
Revenues								
Program revenues	\$ 246,775	\$ 440,684	\$ 1,130,045	\$ 998,406	\$ 1,376,820	\$ 1,439,090	\$ (62,270)	-4%
Taxes and other general revenues	1,438,566	1,584,497	29,891	84,261	1,468,457	1,668,758	(200,301)	-12%
Total revenues	1,685,341	2,025,181	1,159,936	1,082,667	2,845,277	3,107,848	(262,571)	-16%
Expenses								
General government	496,752	554,241	-	-	496,752	554,241	(57,489)	-10%
Public safety and judiciary	449,706	435,453	-	-	449,706	435,453	14,253	3%
Transportation	131,622	228,713	-	-	131,622	228,713	(97,091)	-42%
Cultural, parks, and rec	306,662	256,353	-	-	306,662	256,353	50,309	20%
Water	-	-	538,999	245,899	538,999	245,899	293,100	119%
Sewer	-	-	46,809	94,209	46,809	94,209	(47,400)	-50%
Sanitation	-	-	180,770	174,881	180,770	174,881	5,889	3%
Customer service	-	-	255,354	480,374	255,354	480,374	(225,020)	-47%
Total expenses	1,384,742	1,474,760	1,021,932	995,363	2,406,674	2,470,123	(63,449)	-3%
Excess (deficiency) before transfers	\$ 300,599	\$ 550,421	\$ 138,004	\$ 87,304	\$ 438,603	\$ 637,725	\$ (199,122)	-31%
Transfers	(357,530)	(103,950)	357,530	103,950	-	-	-	0%
Increase (decrease) in net position	\$ (56,931)	\$ 446,471	\$ 495,534	\$ 191,254	\$ 438,603	\$ 637,725	\$ (199,122)	-31%

Total revenues for the City noted a marked decrease when compared year over year of 16%. The majority of this decrease is due to the change in grant funding. In fiscal year 2014, the City received grant proceeds for storm water drainage and airport improvements in excess of \$140,000. Program revenues in business-type activities were strong compared to prior year due to increased billings to customers. Expenses remained consistent when compared to prior year, reporting a 3% decrease. There was a shift in the reporting on expenses between departments based upon management allocation of overhead costs during the fiscal year.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.

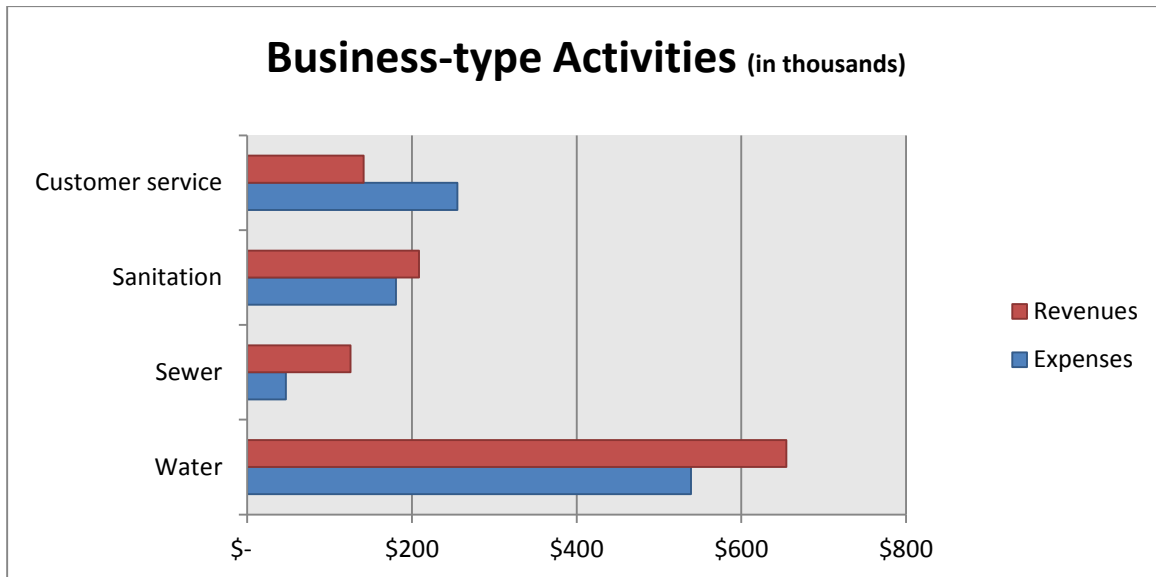


Taxes provided for 73% of the City's governmental revenues in fiscal year 2015 which is consistent with prior year. Other taxes, including use tax, tobacco tax, franchise taxes, and alcohol beverage tax provided the next largest source of income at 13% for the fiscal year. All revenue sources remained consistent.



For the year ended June 30, 2015, total expenses for governmental activities were \$1,488,537. Of this amount, general government at 489,183 was the largest expense for the City using over 33% of the budget. Public safety was the next largest component at 28%. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and grants. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, and Water activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2015, revenues from water, sewer, and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2015 was \$841,000 and was amended during the fiscal year, adding \$182,155 to the budget. The final amended budget was \$1,023,155 which is 12% less than the prior year budget of \$1,173,318. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the City had \$2,932,961 net investment in capital assets, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and water lines and sewer lines in business-type activities. Refer to the following table.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land and CIP	\$ 35,321	\$ 8,000	\$ 212,747	\$ -	\$ 248,068	\$ 8,000
Buildings	143,962	150,070	-	-	143,962	150,070
Machinery & equipment	339,113	277,978	343,824	382,240	682,937	660,218
Infrastructure	887,844	866,389	1,865,474	1,674,687	2,753,318	2,541,076
Totals	<u>\$ 1,406,240</u>	<u>\$ 1,302,437</u>	<u>\$ 2,422,045</u>	<u>\$ 2,056,927</u>	<u>\$ 3,828,285</u>	<u>\$ 3,359,364</u>

The following provides a selection of the most significant additions to the City during the fiscal year:

- Water and sewer expansion project
- Lagoon rehabilitation
- Bobcat loader
- Airport runway and lighting project
- Police Dodge Charger

Long-Term Debt

At year-end, the City had \$808,600 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Business-type	
	Activities	
	2015	2014
Notes payable	895,324	979,602
less current portion	(86,724)	(84,278)
Totals	<u>\$ 808,600</u>	<u>\$ 895,324</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma Economic Report, "revenue growth from the past year has been erased and indications are the situation is going to get worse before it gets better" stated by State Treasurer, Ken Miller in October 2015. The economic environment of the state sheds light on the local economy of the City.

The financial position of the City continues to show a moderate growth pattern. The year-to-year progress of revenue exceeding expenses is leading to financial stability and improvement to the City's cash position.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Cherokee City Hall, 121 N. Grand, Cherokee, Oklahoma, 73728.

City of Cherokee, Oklahoma
Statement of Net Position
June 30, 2015

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 739,983	\$ 1,961,713	\$ 2,701,696
Accounts receivable, net	63,046	39,144	102,190
Grant receivable	2,178	-	2,178
Due from other funds	103,000	(103,000)	-
Prepaid assets	44,379	26,485	70,864
Total current assets	<u>952,586</u>	<u>1,924,342</u>	<u>2,876,928</u>
Restricted assets:			
Cash and cash equivalents	187,213	146,978	334,191
Total restricted assets	<u>187,213</u>	<u>146,978</u>	<u>334,191</u>
Noncurrent Assets:			
Land and construction in progress	35,321	212,747	248,068
Other capital assets (net of accumulated depreciation)	1,370,919	2,209,298	3,580,217
Total noncurrent assets	<u>1,406,240</u>	<u>2,422,045</u>	<u>3,828,285</u>
Total assets	<u>\$ 2,546,039</u>	<u>\$ 4,493,365</u>	<u>\$ 7,039,404</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>826</u>	<u>-</u>	<u>826</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 24,073	\$ 62,881	\$ 86,954
Wages and benefits payable	37,253	16,314	53,567
Notes payable, current	-	86,724	86,724
Total current liabilities	<u>61,326</u>	<u>165,919</u>	<u>227,245</u>
Liabilities payable from restricted assets:			
Accrued interest payable	-	4,774	4,774
Customer deposits payable	-	99,225	99,225
Total liabilities payable from restricted assets	<u>-</u>	<u>103,999</u>	<u>103,999</u>
Noncurrent liabilities:			
Notes payable, non-current	-	808,600	808,600
Pension liability	189,029	-	189,029
Total noncurrent liabilities	<u>189,029</u>	<u>808,600</u>	<u>997,629</u>
Total liabilities	<u>250,355</u>	<u>1,078,518</u>	<u>1,328,873</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>9,851</u>	<u>-</u>	<u>9,851</u>
NET POSITION			
Net investment in capital assets	1,406,240	1,526,721	2,932,961
Restricted	148,833	146,978	295,811
Unrestricted	731,586	1,741,148	2,472,734
Total net position	<u>\$ 2,286,659</u>	<u>\$ 3,414,847</u>	<u>\$ 5,701,506</u>

City of Cherokee, Oklahoma
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 471,752	\$ 9,062	\$ 24,598	\$ -	\$ (438,092)
Economic development	25,000	-	-	-	-
Total general government	<u>496,752</u>	<u>9,062</u>	<u>24,598</u>	<u>-</u>	<u>(463,092)</u>
Public safety and judiciary:					
Police	400,163	21,830	66,687	-	(311,646)
Fire	49,543	-	4,484	-	(45,059)
Emergency Management	-	-	-	-	-
Total public safety and judiciary	<u>449,706</u>	<u>21,830</u>	<u>71,171</u>	<u>-</u>	<u>(356,705)</u>
Transportation:					
Street	111,225	-	14,976	-	(96,249)
Airport	20,397	6,120	-	57,947	43,670
Total transportation	<u>131,622</u>	<u>6,120</u>	<u>14,976</u>	<u>57,947</u>	<u>(52,579)</u>
Cultural, parks and recreation:					
Park	192,529	8,657	-	-	(183,872)
Cemetery	13,731	12,457	-	-	(1,274)
Library	100,402	19,957	-	-	(80,445)
Total cultural, parks and recreation	<u>306,662</u>	<u>41,071</u>	<u>-</u>	<u>-</u>	<u>(265,591)</u>
Total governmental activities	<u>1,384,742</u>	<u>78,083</u>	<u>110,745</u>	<u>57,947</u>	<u>(1,137,967)</u>
Business-type activities:					
Water	538,999	654,810	-	-	115,811
Sewer	46,809	125,247	-	-	78,438
Sanitation	180,770	208,738	-	-	27,968
Customer service	255,354	141,250	-	-	(114,104)
Total business-type activities	<u>1,021,932</u>	<u>1,130,045</u>	<u>-</u>	<u>-</u>	<u>108,113</u>
Total primary government	<u>\$ 2,406,674</u>	<u>\$ 1,208,128</u>	<u>\$ 110,745</u>	<u>\$ 57,947</u>	<u>\$ (1,029,854)</u>

City of Cherokee, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2015

Changes in Net Position:	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (1,137,967)	\$ 108,113	\$ (1,029,854)
General revenues:			
Taxes:			
Sales taxes	997,916	-	997,916
Use taxes	47,549	-	47,549
Franchise taxes	105,282	-	105,282
Alcoholic beverage tax	32,793	-	32,793
Cigarette tax	12,180	-	12,180
Investment income	3,098	7,209	10,307
Oil/gas lease income	174,632	-	174,632
Penalties	-	20,371	20,371
Miscellaneous	65,116	2,311	67,427
Transfers - Internal activity, net	(357,530)	357,530	-
Total general revenues and transfers	1,081,036	387,421	1,468,457
 Change in net position	 (56,931)	 495,534	 438,603
 Net position - beginning, restated	 2,343,590	 2,919,313	 5,262,903
Net position - ending	\$ 2,286,659	\$ 3,414,847	\$ 5,701,506

**City of Cherokee, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 513,409	\$ 363,827	\$ 49,960	\$ 927,196
Due from other funds	166,832	27,065	-	193,897
Revenue receivable	41,065	21,981	-	63,046
Grant receivable	-	-	2,178	2,178
Prepaid assets	32,502	11,877	-	44,379
Total assets	<u>\$ 753,808</u>	<u>\$ 424,750</u>	<u>\$ 52,138</u>	<u>\$ 1,230,696</u>
LIABILITIES				
Accounts payable	\$ 18,145	\$ 5,928	\$ -	\$ 24,073
Wages and benefits payable	21,860	15,393	-	37,253
Due to other funds	20,832	63,832	6,233	90,897
Total liabilities	<u>60,837</u>	<u>85,153</u>	<u>6,233</u>	<u>152,223</u>
FUND BALANCES				
Restricted	-	102,928	45,905	148,833
Committed	90,319	198,637	-	288,956
Assigned	32,651	26,834	-	59,485
Unassigned	570,001	11,198	-	581,199
Total fund balances	<u>692,971</u>	<u>339,597</u>	<u>45,905</u>	<u>1,078,473</u>
Total liabilities and fund balances	<u>\$ 753,808</u>	<u>\$ 424,750</u>	<u>\$ 52,138</u>	<u>\$ 1,230,696</u>

Total fund balance- total governmental funds \$ 1,078,473

Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported

Land and construction in process	\$ 35,321	
Depreciable capital assets	2,063,165	
Less: Accumulated depreciation	<u>(692,246)</u>	<u>1,406,240</u>

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Net pension liability	(189,029)
-----------------------	-----------

Deferred outflows/(inflows) are not receivable/(payable) in the current period and, therefore, are not reported in the funds.

Deferred outflow of resources	826	
Deferred inflow of resources	<u>(9,851)</u>	<u>(9,025)</u>

Net position of governmental activities \$ 2,286,659

City of Cherokee, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2015

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
REVENUES				
Sales tax	\$ 614,102	\$ 383,814	\$ -	\$ 997,916
Use tax	47,549	-	-	47,549
Beverage tax	32,793	-	-	32,793
Franchise taxes	105,282	-	-	105,282
Cigarette tax	12,180	-	-	12,180
Hotel tax	24,598	-	-	24,598
Licenses and permits	1,558	-	-	1,558
Fines and forfeitures	21,830	-	-	21,830
Lease income	174,632	-	-	174,632
Investment income	3,002	48	48	3,098
Charges for services	27,441	86,414	1,387	115,242
Rental income	20	6,120	-	6,140
Intergovernmental	4,484	14,976	-	19,460
Grants	-	-	57,947	57,947
Miscellaneous	65,116	-	-	65,116
Total revenues	<u>1,134,587</u>	<u>491,372</u>	<u>59,382</u>	<u>1,685,341</u>
EXPENDITURES				
General government:				
General government	464,183	-	-	464,183
Economic development	25,000	-	-	25,000
Total general government	<u>489,183</u>	<u>-</u>	<u>-</u>	<u>489,183</u>
Public safety and judiciary:				
Police	332,007	40,562	-	372,569
Fire	46,308	-	-	46,308
Total public safety and judiciary	<u>378,315</u>	<u>40,562</u>	<u>-</u>	<u>418,877</u>
Transportation:				
Street	-	93,278	-	93,278
Airport	-	3,906	-	3,906
Total transportation	<u>-</u>	<u>97,184</u>	<u>-</u>	<u>97,184</u>
Cultural, parks and recreation:				
Park	-	175,206	-	175,206
Cemetery	-	13,731	-	13,731
Library	100,402	-	-	100,402
Total cultural, parks and recreation	<u>100,402</u>	<u>188,937</u>	<u>-</u>	<u>289,339</u>
Capital outlay	193,954	-	-	193,954
Total expenditures	<u>1,161,854</u>	<u>326,683</u>	<u>-</u>	<u>1,488,537</u>
Excess (deficiency) of revenues over expenditures	<u>(27,267)</u>	<u>164,689</u>	<u>59,382</u>	<u>196,804</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	194,766	189,290	-	384,056
Transfers out	<u>(382,050)</u>	<u>(194,766)</u>	<u>(164,770)</u>	<u>(741,586)</u>
Total other financing sources and uses	<u>(187,284)</u>	<u>(5,476)</u>	<u>(164,770)</u>	<u>(357,530)</u>
Net change in fund balances	(214,551)	159,213	(105,388)	(160,726)
Fund balances - beginning, restated	907,522	180,384	151,293	1,239,199
Fund balances - ending	<u>\$ 692,971</u>	<u>\$ 339,597</u>	<u>\$ 45,905</u>	<u>\$ 1,078,473</u>

See accompanying notes to financial statements.

City of Cherokee, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2015

Reconciliation of the change in fund balances - total governmental funds
to the change in net position of governmental activities:

Net change in fund balances - total governmental funds \$ (160,726)

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital asset purchases capitalized	193,954
Depreciation expense	<u>(90,159)</u>

Change in Net Position of Governmental Activities \$ (56,931)

City of Cherokee, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities
	Cherokee Development Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,961,713
Accounts receivable (net)	39,144
Prepaid assets	26,485
Total current assets	2,027,342
Restricted assets:	
Cash and cash equivalents	146,978
Total restricted assets	146,978
Noncurrent assets:	
Capital assets (net)	2,422,045
Total noncurrent assets	2,422,045
Total assets	\$ 4,596,365
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 62,881
Wages and benefits payable	16,314
Due to other funds	103,000
Notes payable, current	86,724
Total current liabilities	268,919
Liabilities payable from restricted assets:	
Accrued interest payable	4,774
Customer deposits payable	99,225
Total liabilities payable from restricted assets	103,999
Noncurrent liabilities:	
Notes payable, non-current	808,600
Total noncurrent liabilities	808,600
Total liabilities	1,181,518
NET POSITION	
Net investment in capital assets	1,526,721
Restricted	146,978
Unrestricted	1,741,148
Total net position	\$ 3,414,847

City of Cherokee, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities
	Cherokee Development Authority
<u>Operating revenues:</u>	
Charges for services:	
Water charges	\$ 654,810
Sewer charges	125,247
Sanitation charges	208,738
Total charges for services	988,795
Rents and royalties	141,250
Penalties	20,371
Miscellaneous	2,311
Total operating revenues	1,152,727
<u>Operating expenses:</u>	
Personal services	209,294
Materials and supplies	196,645
Other services and charges	451,010
Depreciation and amortization	110,022
Total operating expenses	966,971
Net operating income	\$ 185,756
<u>Nonoperating revenue (expense):</u>	
Investment income	7,209
Interest expense	(22,768)
Bad debt expense	(32,193)
Total nonoperating revenue/(expense)	(47,752)
Net income before contributions and transfers	138,004
Transfers from other funds	357,530
Change in net position	495,534
Net position - beginning of year, restated	2,919,313
Net position-end of year	\$ 3,414,847

City of Cherokee, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Business-type Activities
	Cherokee Development Authority
<u>Cash flows from operating activities:</u>	
Receipts from customers	\$ 1,006,669
Payments to suppliers	(613,928)
Payments to employees	(196,661)
Other operating revenues	163,932
Net cash provided (used) by operating activities	360,012
<u>Cash flows from non-capital financing activities:</u>	
Transfers from other funds	357,530
Net cash provided (used) by non-capital financing activities	357,530
<u>Cash flows from capital and related financing activities:</u>	
Purchase of capital assets	(475,140)
Principal paid on capital debt	(84,278)
Interest paid on capital debt	(22,709)
Net cash provided (used) by capital and related financing activities	(582,127)
<u>Cash flows from investing activities:</u>	
Change in investments	(37,384)
Investment income	7,209
Net cash provided (used) by investing activities	(30,175)
Net increase (decrease) in cash and cash equivalents	105,240
Cash and cash equivalents, July 1, 2014	2,003,451
Cash & cash equivalents, June 30, 2015	\$ 2,108,691
Cash, including time deposits	\$ 1,961,713
Restricted cash, including time deposits	146,978
Total cash and cash equivalents, end of year	\$ 2,108,691
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>	
Operating income (loss)	\$ 185,756
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	110,022
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	17,874
(Increase) decrease in prepaid insurance	(26,485)
Increase (decrease) in accounts payable	51,823
Increase (decrease) in wages and benefits payable	12,633
Increase (decrease) in deposits subject to refund	8,389
Total adjustments	174,256
Net cash provided (used) by operating activities	\$ 360,012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Cherokee, Oklahoma ("City") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2015.

A. Reporting Entity

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Non-Major Governmental Funds

Capital Projects Fund

Accounts for the operating activities of the Cemetery Perpetual Care and Airport Grant funds.

Special Revenue Funds

Accounts for the operating activities of the Street & Alley Fund, Parks, Emergency Services, 911 Special, Cemetery, and Airport.

Major Proprietary Funds

Cherokee Development Authority

Accounts for the operating activities of the water, sewer, sanitation utilities, and the economic development of the City.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both 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. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Clerk and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Basis of Budgeting

Each fund's appropriated budget is prepared on a department line basis. Revenues are budgeted by source. Expenditures are budgeted by department. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. There were no revisions to the budget made throughout the year.

D. Policies Related to Assets, Liabilities, and Fund Equity

Cash and Investments

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

Accounts Receivable

Significant receivables include sales and use tax receivables and amounts due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Restricted Assets

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service revenues, and customer meter deposits. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Interfund Balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as due to/due from other funds.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$5,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

- | | |
|------------------------------------|-------------|
| • Buildings | 10-25 years |
| • Other improvements | 10-25 years |
| • Machinery, furniture & equipment | 3-25 years |
| • Infrastructure | 20-40 years |

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Fund Equity

Fund Balance

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

Net Position

Both proprietary fund financial statements and government-wide financial statements report net position. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net position.

Invested in capital assets, net of related debt

The amount restricted 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.

Restricted net position

Amounts reported as restricted consist of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets and liabilities, the statement of financial position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

General Revenues

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

Sales Tax

The City levied a 3.25% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to use. The unrestricted portion (2%) is recorded as sales tax revenue within the General Fund; the remaining 1.25% is restricted and transferred to the Special Revenue fund, allocated 1% for parks and streets and 0.25% for emergency services.

(2) ASSETS AND LIABILITIES

A. Assets

Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Receivables and Uncollectable Amounts

Significant receivables for governmental activities include sales and use tax receivables. Business-type receivables consist mainly of amounts due from customers primarily for utility services. The City reports accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using balances past due greater than 60 days. At June 30, 2015, the City has estimated an allowance of \$30,908 for business-type activities.

Capital Assets

Changes in Capital Assets

	Primary Government Capital Assets			
	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
<i><u>Governmental Activities</u></i>				
Land and construction in process	\$ 8,000	\$ 27,321	\$ -	\$ 35,321
Buildings & structures	156,178	-	-	156,178
Machinery, furniture, & equipment	891,151	113,739	47,300	957,590
Infrastructure & improvements	896,503	52,895	-	949,398
Total	1,951,832	193,955	47,300	2,098,487
Less accumulated depreciation	649,388	90,159	47,300	692,247
Governmental fixed assets, net	\$ 1,302,444	\$ 103,796	\$ -	\$ 1,406,240
<i><u>Business-type Activities</u></i>				
Construction in process	\$ -	\$ 212,747	\$ -	\$ 212,747
Infrastructure & improvements	2,137,228	262,393	-	2,399,621
Machinery, furniture, & equipment	717,323	-	-	717,323
Total	2,854,551	475,140	-	3,329,691
Less accumulated depreciation	797,624	110,022	-	907,646
Business-type fixed assets, net	\$ 2,056,927	\$ 365,118	\$ -	\$ 2,422,045
Total primary government	\$ 3,359,371	\$ 468,914	\$ -	\$ 3,828,285

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against its operations.

Depreciation expense was charged to functions in the statement of activities as follows:

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 7,568	Water	\$ 108,569
Public safety & judiciary	30,829	Customer service	1,453
Transportation	34,439		
Cultural, parks & recreation	17,323		
Total depreciation expense	\$ 90,159	Total depreciation expense	\$ 110,022

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

B. Liabilities

Long-Term Debt

The following is a summary of enterprise fund long-term debt for the year ended June 30, 2015:

Business-Type Activities

Notes Payable:

Note payable to the Oklahoma Water Resources Board in the original amount of \$1,455,000 in September 2005 for a Drinking Water SRF loan. Proceeds were used for the water treatment plant and transmission lines. Principal payments with interest are due each year on March 15 and September 15 with 3.00% interest and an administrative fee of 0.5% each year. Final payment is due September 15, 2026. \$ 842,294

Note payable issued in May 2001 in the original amount of \$125,000 to the Oklahoma Department of Commerce for a 20 year period with monthly principal payments in the amount of \$520.83 with no interest. 35,417

Note payable to John Deere Financial for purchase of a backhoe in the original amount of \$41,353. Principal payments are due annually on the 25th of April for a five year period. Final payment is due April 25, 2017. 17,613

\$ 895,324

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2015:

<u>Type of Debt</u>	<u>Balance at July 1, 2014</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
Business-type activities:					
<i>Notes Payable</i>					
OWRB - 2005	\$ 912,067	\$ -	\$ 69,773	\$ 842,294	\$ 71,857
Oklahoma Department of Commerce	41,667	-	6,250	35,417	6,250
John Deere - backhoe	25,868	-	8,255	17,613	8,617
Total primary government	<u>\$ 979,602</u>	<u>\$ -</u>	<u>\$ 84,278</u>	<u>\$ 895,324</u>	<u>\$ 86,724</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt held by business-type activities as of June 30, 2015 follow:

Year Ending June 30	Notes Payable	
	Principal	Interest
2016	\$ 86,724	\$ 30,755
2017	89,425	28,094
2018	82,752	25,415
2019	89,112	23,049
2020	94,808	20,653
2021-2025	407,553	63,097
2026	44,950	4,743
Totals	<u>\$ 895,324</u>	<u>\$ 195,806</u>

(3) REVENUES AND EXPENSES

Interfund Transfers

	Due From	Due To
GENERAL FUND		
Cherokee Development Authority	\$ 103,000	\$ -
Special Revenue Fund	63,832	20,832
Total General Fund	166,832	20,832
SPECIAL REVENUE FUND		
General Fund	20,832	63,832
Capital Projects Fund	6,233	-
Total Special Revenue Fund	27,065	63,832
CAPITAL PROJECTS FUND		
Special Revenue Fund	-	6,233
Total Capital Projects Fund	-	6,233
CHEROKEE DEVELOPMENT AUTHORITY		
General Fund	-	103,000
Total Cherokee Development Authority	-	103,000
GRAND TOTAL	\$ 193,897	\$ 193,897
	Transfers In	Transfers Out
GENERAL FUND		
Special Revenue Fund	\$ 194,766	\$ 24,520
Cherokee Development Authority	-	357,530
Total General Fund	194,766	382,050
SPECIAL REVENUE FUND		
General Fund	24,520	194,766
Capital Projects Fund	164,770	-
Total Special Revenue Fund	189,290	194,766
CAPITAL PROJECTS FUND		
Special Revenue Fund	-	164,770
Total Capital Projects Fund	-	164,770
CHEROKEE DEVELOPMENT AUTHORITY		
General Fund	357,530	-
Total Cherokee Development Authority	357,530	-
GRAND TOTAL	\$ 741,586	\$ 741,586

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

Name of Plan	Type of Plan
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Contribution Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

A. Oklahoma Municipal Retirement Fund

Plan Description

Substantially all of the City's regular, full time employees, with the exception of police, firefighters and other employees who are covered under an approved system, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 2.25% of their covered compensation. The City contributed 5.04% of covered compensation for fiscal year 2015. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRF. All gains and/or losses are credited directly to each participant. Benefits vest after 7 years of service with normal retirement at age 65 and early retirement at age 55 with 7 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.com. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

The City had 15 active participants and 5 non-active participants as of January 1, 2015.

Summary of Significant Accounting Policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by OkMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OkMRF plans' fiduciary net position is available in the separately issued OkMRF financial report.

The following is a summary of eligibility, contribution methods and benefits provisions:

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 7 years of service. - Early Retirement after age 55 with 7 years or more of service. - Disability retirement upon disability with 7 years of service. - Termination before retirement age return of employee contributions with interest - Termination after vesting accrued benefit at normal retirement age
b. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 1.125% of final average compensation multiplied by the number of year of credited service
c. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage
- Prior to 7 Years Service	Return of employee contributions with accrued interest.
d. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Actuarial Assumptions

a. Date of last Actuarial Valuation	March 2015
b. Significant Actuarial Assumptions Used:	
1. Rate of Return on Investments	7.5%
2. Projected Salary Increase	4.0% - 7.42%
3. Retirement Age	Normal and Early Rates
4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial cost method
c. Actuarial cost method	Entry age normal cost method
d. Date of last experience study	Sept 2012 for fiscal years 2007 thru 2011

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2014 are summarized in the following table:

	Target Allocation	Real Return	Weighted Return
Large cap stocks - S&P 500	25%	5.40%	1.35%
Small/mid cap stocks - Russell 2500	10%	7.50%	0.75%
Long/short equity - MSCI ACWI	10%	6.10%	0.61%
International stocks - MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds - Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate - NCREIF	5%	4.80%	0.24%
Cash equivalents - 3 month Treasury	0%	0.00%	0.00%
	100%		
		Average Real Return	4.75%
		Inflation	3.00%
		Long term expected return	7.75%

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2014 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2014 and the City's report ending date of June 30, 2015, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	\$ 195,450	\$ 154,361	\$ 120,151

The City reported \$17,264 in pension expense for the year ended June 30, 2015.

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -
Changes of assumptions	-
Net difference between projected and actual earnings on pension plan investments	4,603
Changes in proportion and differences between City contributions and proportionate share of contributions	-
City contributions subsequent to the measurement date	-
Total	\$ 4,603

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (1,151)
2017	(1,151)
2018	(1,151)
2019	(1,151)

B. Oklahoma Firefighter's Pension and Retirement Systems

Plan Description – The City of Cherokee, as the employer, participates in the Firefighters Pension & Retirement – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per years of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$1,260 (fiscal year contributions).

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported a liability of \$34,668 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information the City's proportion was 0.0034%.

For the year ended June 30, 2015, the City recognized pension expense of \$3,114. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 826	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	5,248
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Total	\$ 826	\$ 5,248

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (884)
2017	(884)
2018	(884)
2019	(884)
2020	(884)

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.48%
Domestic equity	37%	9.61%
International equity	20%	9.24%
Real Estate	10%	7.76%
Other assets	13%	6.88%

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability/(asset)	38,941	34,668	22,176

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs.

(5) COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

B. Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

(6) RESTATEMENT OF BEGINNING NET POSITION

Effective July 1, 2014, the City implemented GASB No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27. GASB No. 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. The Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plans and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost sharing plans, and recognition and disclosure requirements are addressed for each classification. Implementation of GASB No. 68 resulted in the restatement of beginning year net position to recognize the net pension obligation of the City.

The City adopted a change in presentation of accrued salary expense and accrued grant funding. The impact of the change in method resulted as follows:

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

	Governmental Activities	Business-type Activities
Beginning Net Position	\$ 2,458,402	\$ 2,924,384
Change in basis of reporting of salary/grant accruals	83,242	(5,071)
Net pension obligations	(391,687)	-
Net deferred outflows/(inflows) on pension charges	(9,025)	-
Restated Beginning Net Position	\$ 2,140,932	\$ 2,919,313

City of Cherokee, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Revisions</u>	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 762,000	\$ (133,000)	\$ 629,000	\$ 661,651	\$ 32,651
Fines and forfeitures	42,000	(20,000)	22,000	21,830	(170)
Beverage tax	-	28,000	28,000	32,793	4,793
Tobacco tax	-	11,750	11,750	12,180	430
Franchise taxes	-	110,000	110,000	105,282	(4,718)
Hotel tax	-	28,000	28,000	22,180	(5,820)
Library	-	19,000	19,000	11,006	(7,994)
Other revenue	60,000	189,619	249,619	95,559	(154,060)
Total revenues	<u>864,000</u>	<u>233,369</u>	<u>1,097,369</u>	<u>962,481</u>	<u>(134,888)</u>
EXPENDITURES					
General government:					
General government	<u>305,000</u>	<u>166,000</u>	<u>471,000</u>	<u>470,463</u>	<u>537</u>
Total general government	<u>305,000</u>	<u>166,000</u>	<u>471,000</u>	<u>470,463</u>	<u>537</u>
Public safety and judiciary:					
Police	405,000	(46,700)	358,300	350,119	8,181
Fire	42,000	25,855	67,855	59,692	8,163
Total public safety and judiciary	<u>447,000</u>	<u>(20,845)</u>	<u>426,155</u>	<u>409,811</u>	<u>16,344</u>
Cultural, parks and recreation:					
Library	69,000	32,000	101,000	100,402	598
Economic development	20,000	5,000	25,000	25,000	-
Total cultural, parks and recreation	<u>89,000</u>	<u>37,000</u>	<u>126,000</u>	<u>125,402</u>	<u>598</u>
Total expenditures	<u>841,000</u>	<u>182,155</u>	<u>1,023,155</u>	<u>1,005,676</u>	<u>17,479</u>
Revenue over (under) expenditures	23,000	51,214	74,214	(43,195)	(117,409)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	-	(255,250)	(255,250)	(187,284)	67,966
Net other financing sources (uses)	<u>-</u>	<u>(255,250)</u>	<u>(255,250)</u>	<u>(187,284)</u>	<u>67,966</u>
Revenues and other financing sources over (under) expenditures and other uses	23,000	(204,036)	(181,036)	(230,479)	(49,443)
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>1,133,165</u>	<u>1,133,165</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 902,686	<u>\$ 1,083,722</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				6,692	
Expenditure and transfer accruals				(216,407)	
Fund balance at end of year (GAAP basis)				<u>\$ 692,971</u>	

City of Cherokee, Oklahoma

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Fire Pension Retirement Plan
Year Ended June 30, 2015**

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.0034%
City's proportionate share of the net pension liability (asset)	\$ 34,668
City's covered-employee payroll	\$ 26,572
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	130%
Plan fiduciary net position as a percentage of the total pension liability	73.13%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

**SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Fire Pension Retirement Plan**

	<u>2015*</u>
Contractually required contribution	\$ 1,200
Contributions in relation to the contractually required contribution	<u>(1,200)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 26,572
Contributions as a percentage of covered-employee payroll	4.52%

City of Cherokee, Oklahoma

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Oklahoma Municipal Retirement Plan
SINCE INITIAL APPLICATION**

	<u>2015*</u>
Total pension liability	
Service cost	\$ 21,461
Interest	26,331
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(17,791)</u>
Net change in total pension liability	\$ 30,001
Total pension liability - beginning	<u>327,018</u>
Total pension liability - ending (a)	<u><u>\$ 357,019</u></u>
 Plan fiduciary net position	
Contributions - employer	31,811
Contributions - employee	11,375
Net investment income	24,121
Benefit payments, including refunds of employee contributions	(17,791)
Administrative expense	(366)
Other	-
Net change in plan fiduciary net position	<u>49,150</u>
 Plan fiduciary net position - beginning	<u>153,507</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 202,657</u></u>
 City's net pension liability - ending (a) - (b)	<u><u>\$ 154,362</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	56.76%
Covered-employee payroll	\$ 488,799
City's net pension liability as a percentage of covered-employee payroll	31.58%

City of Cherokee, Oklahoma

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Municipal Retirement Plan
Year Ended June 30, 2015**

	<u>2015*</u>
City's portion of the net pension liability (asset)	3.2519%
City's proportionate share of the net pension liability (asset)	\$ 154,362
City's covered-employee payroll	\$ 488,799
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.58%
Plan fiduciary net position as a percentage of the total pension liability	81.85%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

**SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Municipal Retirement Plan**

	<u>2015*</u>
Actuarially determined contribution	\$ 31,811
Contributions in relation to the actuarially determined contribution	<u>(31,811)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 488,799
Contributions as a percentage of covered-employee payroll	6.51%



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

To the City Council
City of Cherokee, Oklahoma

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Cherokee, Oklahoma's basic financial statements and have issued our report thereon dated April 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cherokee, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cherokee, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cherokee, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2015-1 and 2015-2.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies: Finding 2015-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items Finding 2015-3.

City of Cherokee, Oklahoma's Response to Findings

City of Cherokee, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Cherokee, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma
April 20, 2016

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2015-1 Adequate Record Keeping

Condition: Several account general ledger balances did not agree with their respective subsidiary ledger. The following accounts did not reconcile with subsidiary accounts at year end: accounts receivable, accounts payable, customer meter deposits, and municipal court fines.

Criteria: All transactions should be posted and processed timely, which includes the timely performance of reconciliations.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls. Additionally, the financial reporting system design and/or poor training and procedures of accounting system personnel contributed to this finding.

Effect or Potential Effect The effect of not maintaining effective internal control over these accounts could result in material errors or fraud occurring and not be detected on a timely basis, uncollectible receivables, inaccurate payment of liabilities to the respective vendor, and/or losing the opportunity to claim and use in its operations forfeited customer deposits.

Recommendation: Reconcile accounts with applicable subsidiary ledgers, deposit lists, and/or detailed billing registers at the end of each month. The reconciliations should be performed timely to ensure the accounting systems are synchronized and performing properly. Explain all reconciling items and make adjustments, if necessary.

Response: Management is aware of differences between subsidiary ledgers and has hired outside accounting consultants to aid in performing timely and proper reconciliations.

FINDING 2015-2 Improper or non-existent records on fixed assets and depreciation

Condition: No evidence to support prior year fixed asset carrying amounts or correct depreciation amounts for prior or current years.

Criteria: For proprietary funds, generally accepted accounting principles in the United States requires that assets are carried on the balance sheet at the lower of historical cost less accumulated depreciation or their impaired value.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls.

Effect or Potential Effect: The effect of not maintaining adequate records on fixed assets and depreciation results in material misstatements of the financial statements.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2015-2 Improper or non-existent records on fixed assets and depreciation (continued):

Recommendation: Additional controls and procedures should be implemented to ensure that consistent and accurate classification of fixed assets is done in order to ensure a complete asset listing is available.

Response: Management has hired outside municipal accounting consultants to aid in maintaining sufficient document evidence and maintains fixed asset schedules.

FINDING 2015-3 Filing Annual Report

Condition: The Town and Authority is out of compliance with state statute by not having filed an annual report in a timely manner.

Criteria: Oklahoma Statutes requires that a municipality submit a copy of their financial audit or agreed upon procedures as applicable prior to six months after the end of the fiscal year.

Cause: Management override of controls and inadequate record keeping.

Effect or Potential Effect: The gasoline excise tax has been withheld by the Oklahoma Tax Commission. If this is not completed within two years the amounts due to the municipality are lapsed and remitted to the county.

Recommendation: Maintain adequate records throughout the year in ensure the ability to complete an annual audit in a timely manner.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level. They have also hired outside accounting consultants to aid in the ability to perform the annual audit in a timely manner.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-1 Lack of Segregation of Duties

Condition: The City and Authority does not have adequate segregation of duties for internal control over financial reporting purposes due to a limited amount of personnel. To the extent they do have personnel to segregate responsibilities, individuals are not performing their duties at all or inadequately.

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

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect These conditions could result in material errors or fraud occurring and not be detected on a timely basis.

Recommendation: Recommend that duties be segregated to the extent possible should new employees be hired or services outsourced.

Response: The Council members are aware of lack of segregation of duties and duties being performed. Since year end the City has hired outside accounting consultants and has outsourced certain procedures to further segregate duties.

Current Status: Given available resources and size of the City they have segregated duties to the best of their abilities. They have further hired outside accounting consultants to perform additional task such as payroll functions and bank account reconciliations to accomplish proper segregation of duties. This finding has been cleared for the current year.

FINDING 2014-2 Adequate Record Keeping

Condition: Several account general ledger balances did not agree with their respective subsidiary ledger. The following accounts did not reconcile with subsidiary accounts at year end: accounts receivable, accounts payable, and customer meter deposits.

Criteria: All transactions should be posted and processed timely, which includes the timely performance of reconciliations.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls. Additionally, the financial reporting system design and/or poor training and procedures of accounting system personnel contributed to this finding.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-2 Adequate Record Keeping (continued)

Effect or Potential Effect The effect of not maintaining effective internal control over these accounts could result in material errors or fraud occurring and not be detected on a timely basis, uncollectible receivables, inaccurate payment of liabilities to the respective vendor, and/or losing the opportunity to claim and use in its operations forfeited customer deposits.

Recommendation: Reconcile accounts with applicable subsidiary ledgers, deposit lists, and/or detailed billing registers at the end of each month. The reconciliations should be performed timely to ensure the accounting systems are synchronized and performing properly. Explain all reconciling items and make adjustments, if necessary.

Response: Management is aware of differences between subsidiary ledgers and has hired outside accounting consultants to aid in performing timely and proper reconciliations.

Current Status: This condition is still present and has been reported on the schedule of current year findings and responses.

FINDING 2014-3 Improper or non-existent records on fixed assets and depreciation

Condition: No evidence to support prior year fixed asset carrying amounts or correct depreciation amounts for prior or current years.

Criteria: For proprietary funds, generally accepted accounting principles in the United States requires that assets are carried on the balance sheet at the lower of historical cost less accumulated depreciation or their impaired value.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls.

Effect or Potential Effect: The effect of not maintaining adequate records on fixed assets and depreciation results in material misstatements of the financial statements.

Recommendation: Additional controls and procedures should be implemented to ensure that consistent and accurate classification of fixed assets is done in order to ensure a complete asset listing is available.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate the risk to an acceptable level.

Current Status: This condition is still present and has been reported on the schedule of current year findings and responses.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-4 Lack of Proper Reconciliations

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

Criteria: Reconciliations should be performed in a timely manner at the end of each month. Any differences that are found on reconciliations should be investigated immediately and reported to management.

Cause: The lack of formal policies and procedures being performed and/or followed on a timely basis, which is a result of management override of controls.

Effect or Potential Effect: If reconciliations are not performed properly this could potentially under/overstate cash accounts.

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

Response: Management will evaluate their procedures and develop additional procedures that will mitigate the risk to an acceptable level

Current Status: We did not find any instances of improper reconciliations in the current year. This finding has been cleared for the current year.

FINDING 2014-6 Proper Authorization of Funds

Condition: Checks cleared the bank with only one authorized signature in addition to incorrect dates used on checks and payroll periods.

Criteria: Each check from accounts are required to have two authorized signatures. Checks should also have the correct date corresponding from the bank statements to reconciliations and general ledger. .

Cause: The lack of formal policies and procedures being followed, which is a result of management override of controls.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-6 Proper Authorization of Funds (continued)

Effect or Potential Effect: The effect of not maintaining effective internal control over cash expenditures could result in material errors or fraud occurring and not being detected on a timely basis, or inaccurate payment of liabilities to the respective vendor.

Recommendation: Management should follow already established policies and procedures put in place. This should include two different authorized individuals responsible for the disbursement of funds.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level. They have also hired outside accounting consultants to perform monthly reconciliation processes with respect to cash.

Current Status: We did not find any instances of the use of unauthorized funds in the current year. This finding has been cleared for the current year.

FINDING 2014-6 Lack of Controls for Restricted Revenues

Condition: No controls exist to ensure that restricted revenues are only used for intended purposes.

Criteria: Revenues that are restricted for a specific purpose should have adequate safeguards imposed so assets are not misappropriated.

Cause: Management override of controls.

Effect or Potential Effect: The financial statements could be misclassified and resources used that should not be available from those sources.

Recommendation: Management should implement procedures and controls which ensure that restricted revenues are used in accordance with applicable statute, city ordinance or the intent of the person who contributed money.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level.

Current Status: We did not find any instances of the use of restricted revenues for unrestricted purposes in the current year. This finding has been cleared for the current year.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-7 Filing Annual Report

Condition: The Town and Authority is out of compliance with state statute by not having filed an annual report in a timely manner.

Criteria: Oklahoma Statutes requires that a municipality submit a copy of their financial audit or agreed upon procedures as applicable prior to six months after the end of the fiscal year.

Cause: Management override of controls and inadequate record keeping.

Effect or Potential Effect: The gasoline excise tax has been withheld by the Oklahoma Tax Commission. If this is not completed within two years the amounts due to the municipality are lapsed and remitted to the county.

Recommendation: Maintain adequate records throughout the year in ensure the ability to complete an annual audit in a timely manner.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level. They have also hired outside accounting consultants to aid in the ability to perform the annual audit in a timely manner.

Current Status: The City was not able to provide audit information in a timely manner in order to complete the annual audit timely. This finding is still present for the current year.

FINDING 2014-8 Debt Covenant Violation

Condition: The Authority has a debt covenant violation.

Criteria: The Authority must complete a timely audit and maintain debt coverage levels as required by the debt instrument.

Cause: Management override of controls, inadequate record keeping and inconsistency of classification of expenses.

Effect or Potential Effect: Could result in an effective default of long term debt issuance.

Recommendation: Maintain adequate records throughout the year in ensure the ability to complete an annual audit in a timely manner.

Response: Management will evaluate their procedures and develop additional procedures that will mitigate their risk to an acceptable level. They have also hired outside accounting consultants to aid in the ability to perform the annual audit in a timely manner.

CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2015

FINDING 2014-8 Debt Covenant Violation (continued)

Current Status: We did not find any instances of a debt covenant violation in the current year. This finding has been cleared for the current year.