

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

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

**FOR THE YEAR ENDED
JUNE 30, 2018**

CITY OF CHEROKEE, OKLAHOMA
TABLE OF CONTENTS
For the fiscal year ended JUNE 30, 2018

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	11
Statement of Activities	12-13
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Notes to Basic Financial Statements	20-32
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	33
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Special Revenue Fund	34
Schedule of the City's Proportionate Share of the Net Pension Liability - Oklahoma Fire Pension Retirement Plan	35
Schedule of the City's Net Pension Liability and Related Ratios - Oklahoma Municipal Retirement System	36
Schedule of the City's Proportionate Share of the Net Pension Liability - Oklahoma Municipal Retirement System	37
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38-39
SCHEDULE OF FINDINGS AND RESPONSES	40-43

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Cherokee, Oklahoma

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the City of Cherokee, Oklahoma'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Oklahoma, as of June 30, 2018, 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.

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 pension liability schedules on pages 3–10, 32–33 and 34–36 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 January 22, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Cherokee, Oklahoma's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cherokee, Oklahoma's internal control over financial reporting and compliance.



Jana A. Walker, CPA, PLLC
Woodward, Oklahoma
January 22, 2019

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, 2018. 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, 2018, the assets of the City exceeded its liabilities by \$6,830,975 (net position). Of this amount \$2,954,755 (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 \$6,550,634.
- The City's total net position are comprised of the following:
 - (1) Net investment in capital assets of \$3,648,965 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 \$227,255 consists mainly of the restricted cash held for meter deposits and capital improvements.
 - (3) Unrestricted net position of \$2,954,755 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Net position of governmental activities increased \$105,041 or 4% whereas the net position of business-type activities increased \$175,300 or 5%. 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, 2018 was \$6,830,975. This is a \$280,341 increase over June 30, 2017 net position. The City reported positive balances in total net position for both governmental and business-type activities, \$3,055,793 and \$3,775,182, respectively. The City's overall financial position improved 4% during fiscal year 2018.

Total assets increased by 2% year over year, which is attributable to an increase in restricted assets held by the City as of June 30. Total liabilities decreased 1% due to payments on existing debt obligations. Refer to additional information on debt held by the City in the footnotes to the financial statements.

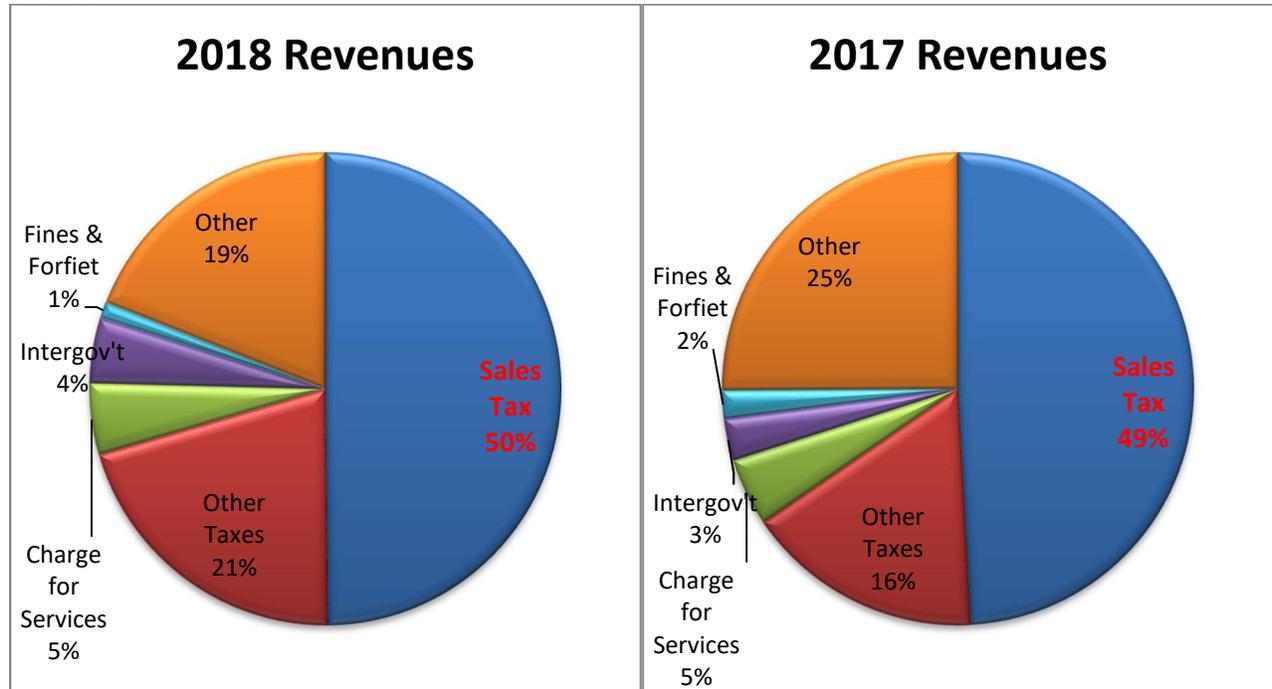
	Governmental Activities		Business-Type Activities		Total		\$ Change	% Change
	2018	2017	2018	2017	2018	2017		
	Summary of Net Position							
Current assets	\$ 1,111,910	\$ 980,581	\$ 2,579,986	\$ 2,486,364	\$ 3,691,896	\$ 3,466,945	\$ 224,951	6%
Capital assets, net	2,134,799	2,202,777	4,763,720	4,721,969	6,898,519	6,924,746	(26,227)	0%
Total assets	3,246,709	3,183,358	7,343,706	7,208,333	10,590,415	10,391,691	198,724	2%
Deferred outflow	86,804	29,363	-	-	86,804	29,363	57,441	196%
Current liabilities	52,929	52,179	418,082	359,896	471,011	412,075	58,936	14%
Non-current liabilities	206,821	203,851	3,150,442	3,248,555	3,357,263	3,452,406	(95,143)	-3%
Total liabilities	259,750	256,030	3,568,524	3,608,451	3,828,274	3,864,481	(36,207)	-1%
Deferred inflow	17,970	5,939	-	-	17,970	5,939	12,031	203%
Net position								
Net investment in capital assets	2,134,799	2,202,777	1,514,166	1,380,662	3,648,965	3,583,439	65,526	2%
Restricted	83,627	74,444	143,628	145,649	227,255	220,093	7,162	3%
Unrestricted	837,367	673,531	2,117,388	2,073,571	2,954,755	2,747,102	207,653	8%
Total net position	\$ 3,055,793	\$ 2,950,752	\$ 3,775,182	\$ 3,599,882	\$ 6,830,975	\$ 6,550,634	\$ 280,341	4%

	Summary of Changes in Net Position							
	Governmental		Business-type		Total		Change	
	2018	2017	2018	2017	2018	2017	\$	%
Revenues								
Program revenues	\$ 129,516	\$ 125,389	\$ 1,160,803	\$ 994,202	\$ 1,290,319	\$ 1,119,591	\$ 170,728	15%
Taxes and other general revenues	1,040,345	1,040,864	50,883	88,351	1,091,228	1,129,215	(37,987)	-3%
Total revenues	1,169,861	1,166,253	1,211,686	1,082,553	2,381,547	2,248,806	132,741	6%
Expenses								
General government	353,113	370,176	-	-	353,113	370,176	(17,063)	-5%
Public safety and judiciary	283,412	284,401	-	-	283,412	284,401	(989)	0%
Transportation	186,631	199,207	-	-	186,631	199,207	(12,576)	-6%
Cultural, parks, and rec	233,758	238,090	-	-	233,758	238,090	(4,332)	-2%
Water	-	-	428,197	397,585	428,197	397,585	30,612	8%
Sewer	-	-	204,865	165,873	204,865	165,873	38,992	24%
Sanitation	-	-	202,716	204,321	202,716	204,321	(1,605)	-1%
Customer service	-	-	208,514	251,390	208,514	251,390	(42,876)	-17%
Total expenses	1,056,914	1,091,874	1,044,292	1,019,169	2,101,206	2,111,043	(9,837)	0%
Excess (deficiency) before transfers	\$ 112,947	\$ 74,379	\$ 167,394	\$ 63,384	\$ 280,341	\$ 137,763	\$ 142,578	103%
Transfers	(7,906)	-	7,906	-	-	-	-	0%
Increase (decrease) in net position	\$ 105,041	\$ 74,379	\$ 175,300	\$ 63,384	\$ 280,341	\$ 137,763	\$ 142,578	103%

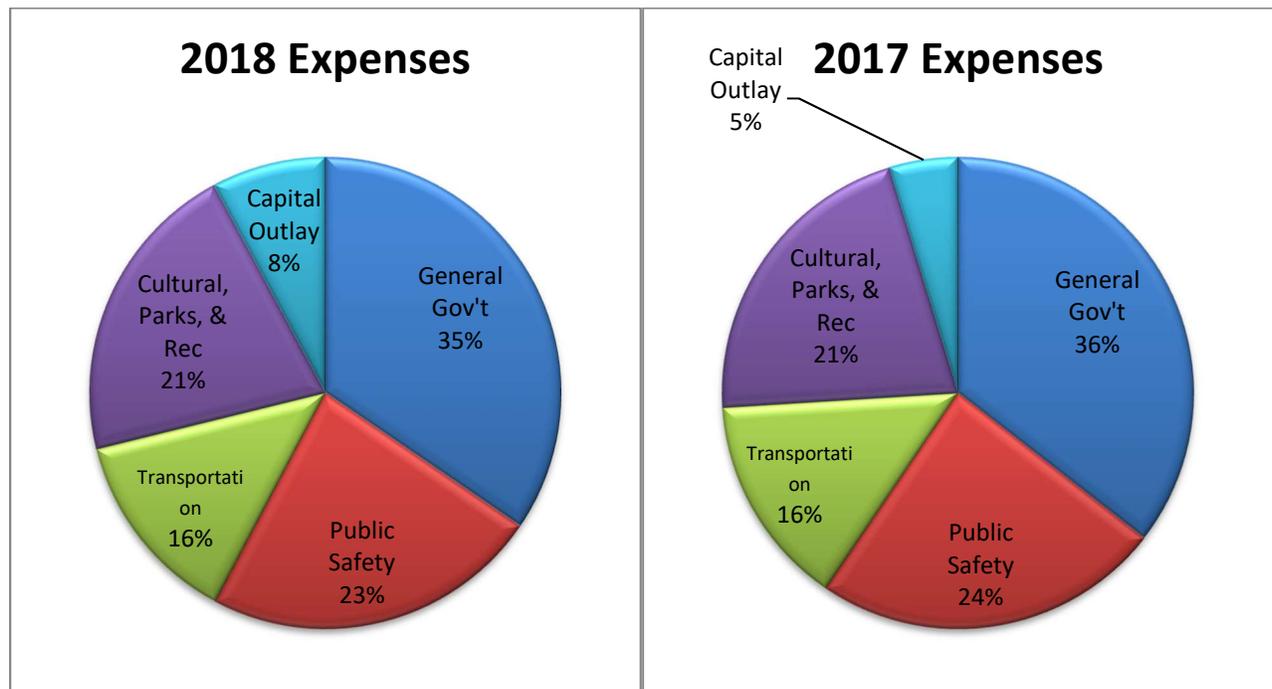
Total revenues for the City increased by 6% over the fiscal year. Program revenues increased by 15% primarily due to a Community Block Development Grant (CDBG) in the amount of \$157,100. The grant was used to fund water improvements to the south water tower and standpipe renovation.

Expenses remained consistent year over year with a 0%, overall reporting a savings of almost \$10,000 when compared to prior year. The allocation of expenses shifted marginally between departments due to workforce distribution and depreciation expense.

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



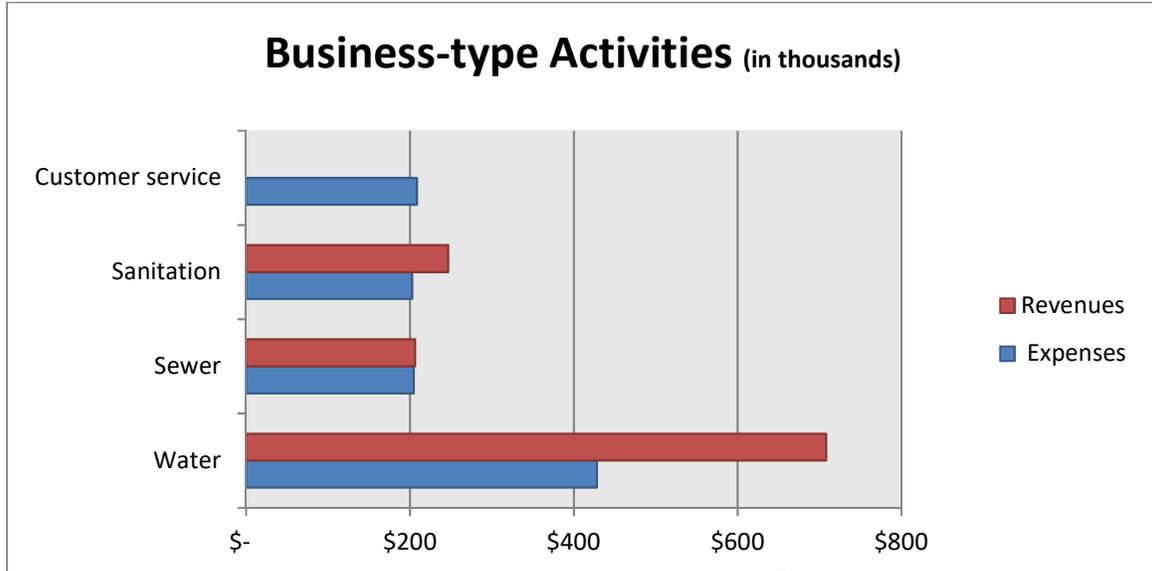
Taxes provided for 50% of the City's governmental revenues in fiscal year 2018 which is consistent with prior year. Other taxes, including use tax, tobacco tax, franchise taxes, and alcohol beverage tax were a consistent source of income at 21% for the fiscal year. Other income at 19% includes oil and gas royalties in the amount of \$154,203.



For the year ended June 30, 2018, total expenses for governmental activities were \$988,937 compared to prior year of \$1,002,754. General government at \$341,486 or 35% was the largest expense for the City,

which compares with prior year at \$356,456 or 36%. 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, 2018, 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 total expenditures for fiscal year 2018 was \$700,030 and was amended during the fiscal year, increasing the budget by \$9,848. The final amended budget was \$709,878. 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, 2018, the City had \$3,648,965 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			
	2018	2017	2018	2017	2018	2017
Land and CIP	\$ 117,393	\$ 105,393	\$ 237,225	\$ 43,275	\$ 354,618	\$ 148,668
Buildings	270,031	296,434	-	-	270,031	296,434
Machinery & equipment	276,482	296,505	312,510	316,649	588,992	613,154
Infrastructure	1,470,893	1,504,445	4,213,985	4,362,045	5,684,878	5,866,490
Totals	<u>\$ 2,134,799</u>	<u>\$ 2,202,777</u>	<u>\$ 4,763,720</u>	<u>\$ 4,721,969</u>	<u>\$ 6,898,519</u>	<u>\$ 6,924,746</u>

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

- Infrared Heaters
- Fire Department lights
- Airport fuel system and runway overlay
- Standpipe renovation
- South Water Tower renovation

Long-Term Debt

At year-end, the City had \$3,357,263 in long-term debt outstanding. The City's long-term debt by type are as follows:

	Primary Government Long-Term Debt					
	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Notes payable	\$ -	\$ -	\$ 3,244,333	\$ 3,337,085	3,244,333	\$ 3,337,085
Pension liability	196,821	203,851	-	-	196,821	203,851
Deferred revenue	10,000	-	5,221	4,222	15,221	4,222
less current portion	-	-	(99,112)	(92,752)	(99,112)	(92,752)
Totals	<u>\$ 206,821</u>	<u>\$ 203,851</u>	<u>\$ 3,150,442</u>	<u>\$ 3,248,555</u>	<u>\$ 3,357,263</u>	<u>\$ 3,452,406</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the William S. Spears School of Business, Center for Applied Economic Research, noted in July 2018 "The recovery of the energy sector has breathed new life into the Oklahoma economy. After declining for almost two years, Oklahoma total nonfarm employment began growing in 2017 and reached a new high by the end of the year. The rebound in oil prices led to increased drilling and oil sector employment. At the same time, the U.S. economy has continued to produce robust employment growth, though it has slowed slightly as the economy approaches full employment. Energy prices are forecast to remain stable the remainder of 2018, while U.S. employment is expected to continue at current pace of growth."

The economic environment of the state sheds light on the local economy of the Authority.

Fiscal Year 2019 Budget

The budget includes 5% rate increases for trash services. This increase is in response to the estimated 23% increase from the Authority's trash provider three years ago and is intended to help offset the costs to the City, while not burdening the citizens with the full impact of the increase in one fiscal year. In addition, the Authority's trash provider is increasing rates another 3% in the upcoming fiscal year. The utility rate increase will generate an estimated \$12,250 in additional revenues. Even with the proposed rate increase to our customers, the City is projected to have a gross profit of 20% in the trash department, compared to a typical gross profit of 35%.

A 2% cost-of-living pay increase for employees has been budgeted for fiscal year 2019 at an estimated additional cost of \$10,607 in the General Fund and \$4,718 in the Authority.

The budget includes over \$580,000 in capital additions for fiscal year 2019 including continued lift station improvements, city hall renovations, upgraded doors on the fire department, pocket park improvements, and cemetery software.

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, 2018

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 352,678	\$ 2,341,914	\$ 2,694,592
Accounts receivable, net	28,376	94,444	122,820
Due from other governments	49,930	-	49,930
Prepaid assets	68,271	-	68,271
Total current assets	<u>499,255</u>	<u>2,436,358</u>	<u>2,935,613</u>
Restricted assets:			
Cash and cash equivalents	507,142	143,628	650,770
Total restricted assets	<u>507,142</u>	<u>143,628</u>	<u>650,770</u>
Noncurrent Assets:			
Land and construction in progress	117,393	237,225	354,618
Other capital assets (net of accumulated depreciation)	2,017,406	4,526,495	6,543,901
Total noncurrent assets	<u>2,134,799</u>	<u>4,763,720</u>	<u>6,898,519</u>
Total assets	<u>\$ 3,141,196</u>	<u>\$ 7,343,706</u>	<u>\$ 10,484,902</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>86,804</u>	<u>-</u>	<u>86,804</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 19,755	\$ 76,943	\$ 96,698
Wages and benefits payable	33,174	7,141	40,315
Due to other funds	(105,513)	105,513	-
Notes payable, current	-	99,112	99,112
Total current liabilities	<u>(52,584)</u>	<u>288,709</u>	<u>236,125</u>
Liabilities payable from restricted assets:			
Accrued interest payable	-	25,279	25,279
Customer deposits payable	-	104,094	104,094
Total liabilities payable from restricted assets	<u>-</u>	<u>129,373</u>	<u>129,373</u>
Noncurrent liabilities:			
Deferred revenue	10,000	5,221	15,221
Notes payable, non-current	-	3,145,221	3,145,221
Pension liability	196,821	-	196,821
Total noncurrent liabilities	<u>206,821</u>	<u>3,150,442</u>	<u>3,357,263</u>
Total liabilities	<u>154,237</u>	<u>3,568,524</u>	<u>3,722,761</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>17,970</u>	<u>-</u>	<u>17,970</u>
NET POSITION			
Net investment in capital assets	2,134,799	1,514,166	3,648,965
Restricted	83,627	143,628	227,255
Unrestricted	837,367	2,117,388	2,954,755
Total net position	<u>\$ 3,055,793</u>	<u>\$ 3,775,182</u>	<u>\$ 6,830,975</u>

City of Cherokee, Oklahoma
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 328,113	\$ 524	\$ 32,543	\$ -	\$ (295,046)
Economic development	25,000	-	5,414	-	(19,586)
Total general government	<u>353,113</u>	<u>524</u>	<u>37,957</u>	<u>-</u>	<u>(314,632)</u>
Public safety and judiciary:					
Police	223,182	12,447	-	-	(210,735)
Fire	60,230	-	3,744	-	(56,486)
Total public safety and judiciary	<u>283,412</u>	<u>12,447</u>	<u>3,744</u>	<u>-</u>	<u>(267,221)</u>
Transportation:					
Street	144,469	-	13,623	-	(130,846)
Airport	42,162	7,020	-	-	(35,142)
Total transportation	<u>186,631</u>	<u>7,020</u>	<u>13,623</u>	<u>-</u>	<u>(165,988)</u>
Cultural, parks and recreation:					
Park	137,519	19,192	-	-	(118,327)
Cemetery	7,440	17,918	-	-	10,478
Library	88,799	17,091	-	-	(71,708)
Total cultural, parks and recreation	<u>233,758</u>	<u>54,201</u>	<u>-</u>	<u>-</u>	<u>(179,557)</u>
Total governmental activities	<u>1,056,914</u>	<u>74,192</u>	<u>55,324</u>	<u>-</u>	<u>(927,398)</u>
Business-type activities:					
Water	428,197	550,857	-	157,100	279,760
Sewer	204,865	206,180	-	-	1,315
Sanitation	202,716	246,666	-	-	43,950
Customer service	208,514	-	-	-	(208,514)
Total business-type activities	<u>1,044,292</u>	<u>1,003,703</u>	<u>-</u>	<u>157,100</u>	<u>116,511</u>
Total primary government	<u>\$ 2,101,206</u>	<u>\$ 1,077,895</u>	<u>\$ 55,324</u>	<u>\$ 157,100</u>	<u>\$ (810,887)</u>

City of Cherokee, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2018

Changes in Net Position:	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (927,398)	\$ 116,511	\$ (810,887)
General revenues:			
Taxes:			
Sales taxes	556,813	-	556,813
Use taxes	69,101	-	69,101
Franchise taxes	115,049	-	115,049
Alcoholic beverage tax	34,845	-	34,845
Cigarette tax	6,543	-	6,543
Investment income	2,290	15,806	18,096
Rental income	-	13,838	13,838
Oil/gas lease income	147,183	-	147,183
Penalties	-	21,745	21,745
Change in pension obligation	52,440	-	52,440
Miscellaneous	56,081	(506)	55,575
Transfers - Internal activity, net	(7,906)	7,906	-
Total general revenues and transfers	1,032,439	58,789	1,091,228
 Change in net position	 105,041	 175,300	 280,341
 Net position - beginning	 2,950,752	 3,599,882	 6,550,634
Net position - ending	\$ 3,055,793	\$ 3,775,182	\$ 6,830,975

**City of Cherokee, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2018**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 352,678	\$ -	\$ -	\$ 352,678
Restricted cash	104,581	345,468	57,093	507,142
Due from other funds	256,604	13,661	-	270,265
Due from other governments	49,930	-	-	49,930
Revenue receivable	10,396	17,980	-	28,376
Prepaid assets	68,271	-	-	68,271
Total assets	<u>\$ 842,460</u>	<u>\$ 377,109</u>	<u>\$ 57,093</u>	<u>\$ 1,276,662</u>
LIABILITIES				
Accounts payable	\$ 13,383	\$ 6,372	\$ -	\$ 19,755
Wages and benefits payable	22,614	10,560	-	33,174
Due to other funds	21,511	125,348	17,893	164,752
Deferred revenue	10,000	-	-	10,000
Total liabilities	<u>67,508</u>	<u>142,280</u>	<u>17,893</u>	<u>227,681</u>
FUND BALANCES				
Restricted	-	44,427	39,200	83,627
Committed	85,694	-	-	85,694
Assigned	31,647	301,041	-	332,688
Unassigned	657,611	(110,639)	-	546,972
Total fund balances	<u>774,952</u>	<u>234,829</u>	<u>39,200</u>	<u>1,048,981</u>
Total liabilities and fund balances	<u>\$ 842,460</u>	<u>\$ 377,109</u>	<u>\$ 57,093</u>	<u>\$ 1,276,662</u>

Total fund balance- total governmental funds \$ 1,048,981

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	\$ 117,393	
Depreciable capital assets	3,125,115	
Less: Accumulated depreciation	<u>(1,107,709)</u>	2,134,799

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

Deferred outflow/(inflow) of resources	68,834	
Net pension liability	<u>(196,821)</u>	(127,987)

Net position of governmental activities \$ 3,055,793

City of Cherokee, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	(Major) General Fund	(Major) Special Revenue Fund	(Non-Major) Capital Project Fund	Total Governmental Funds
REVENUES				
Sales tax	\$ 342,654	\$ 214,159	\$ -	\$ 556,813
Use tax	69,101	-	-	69,101
Beverage tax	34,845	-	-	34,845
Franchise taxes	115,049	-	-	115,049
Cigarette tax	6,543	-	-	6,543
Hotel tax	5,414	-	-	5,414
Licenses and permits	509	15	-	524
Fines and forfeitures	12,447	-	-	12,447
Investment income	1,992	114	184	2,290
Charges for services	27,991	23,660	2,550	54,201
Rent and royalties	147,183	7,020	-	154,203
Intergovernmental	-	13,623	-	13,623
Grants	36,287	-	-	36,287
Miscellaneous	35,416	20,666	-	56,082
Total revenues	<u>835,431</u>	<u>279,257</u>	<u>2,734</u>	<u>1,117,422</u>
EXPENDITURES				
General government:				
General government	316,486	-	-	316,486
Economic development	25,000	-	-	25,000
Total general government	<u>341,486</u>	<u>-</u>	<u>-</u>	<u>341,486</u>
Public safety and judiciary:				
Police	189,283	-	-	189,283
Fire	40,252	-	-	40,252
Total public safety and judiciary	<u>229,535</u>	<u>-</u>	<u>-</u>	<u>229,535</u>
Transportation:				
Street	-	122,371	-	122,371
Airport	-	10,348	-	10,348
Total transportation	<u>-</u>	<u>132,719</u>	<u>-</u>	<u>132,719</u>
Cultural, parks and recreation:				
Park	-	114,218	-	114,218
Cemetery	-	6,734	-	6,734
Library	86,632	-	-	86,632
Total cultural, parks and recreation	<u>86,632</u>	<u>120,952</u>	<u>-</u>	<u>207,584</u>
Capital outlay	77,613	-	-	77,613
Total expenditures	<u>735,266</u>	<u>253,671</u>	<u>-</u>	<u>988,937</u>
Excess (deficiency) of revenues over expenditures	<u>100,165</u>	<u>25,586</u>	<u>2,734</u>	<u>128,485</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	55,957	42,000	-	97,957
Transfers out	(42,000)	(55,957)	(7,906)	(105,863)
Total other financing sources and uses	<u>13,957</u>	<u>(13,957)</u>	<u>(7,906)</u>	<u>(7,906)</u>
Net change in fund balances	114,122	11,629	(5,172)	120,579
Fund balances - beginning	660,830	223,200	44,372	928,402
Fund balances - ending	<u>\$ 774,952</u>	<u>\$ 234,829</u>	<u>\$ 39,200</u>	<u>\$ 1,048,981</u>

See accompanying notes to financial statements.

City of Cherokee, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

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	\$ 120,579
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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	77,613
Depreciation expense	(145,591)

In the statement of activities, the cost of pension benefits earned net of
employee contributions are reported as a component of pension expense.

The fund financial statements report pension contributions as expenditures.	<u>52,440</u>
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Change in Net Position of Governmental Activities	<u><u>\$ 105,041</u></u>
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City of Cherokee, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-type Activities
	Cherokee Development Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,341,914
Accounts receivable (net)	94,444
Due from	16,364
Prepaid assets	-
Total current assets	2,452,722
Restricted assets:	
Cash and cash equivalents	143,628
Total restricted assets	143,628
Noncurrent assets:	
Capital assets (net)	4,763,720
Total noncurrent assets	4,763,720
Total assets	\$ 7,360,070
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 76,943
Wages and benefits payable	7,141
Due to other funds	121,877
Notes payable, current	99,112
Total current liabilities	305,073
Liabilities payable from restricted assets:	
Accrued interest payable	25,279
Customer deposits payable	104,094
Total liabilities payable from restricted assets	129,373
Noncurrent liabilities:	
Deferred revenue	5,221
Notes payable, non-current	3,145,221
Total noncurrent liabilities	3,150,442
Total liabilities	3,584,888
NET POSITION	
Net investment in capital assets	1,514,166
Restricted	143,628
Unrestricted	2,117,388
Total net position	\$ 3,775,182

City of Cherokee, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities
	Cherokee Development Authority
<u>Operating revenues:</u>	
Charges for services:	
Water charges	\$ 550,857
Sewer charges	206,180
Sanitation charges	246,666
Total charges for services	1,003,703
Rents and royalties	13,838
Penalties	21,745
Miscellaneous	(506)
Total operating revenues	1,038,780
<u>Operating expenses:</u>	
Personal services	224,892
Materials and supplies	70,702
Other services and charges	408,265
Depreciation and amortization	209,179
Total operating expenses	913,038
Net operating income	\$ 125,742
<u>Nonoperating revenue (expense):</u>	
Investment income	15,806
Grant proceeds	157,100
Interest expense	(125,186)
Bad debt expense	(6,068)
Total nonoperating revenue/(expense)	41,652
Net income before contributions and transfers	167,394
Transfers from other funds	7,906
Change in net position	175,300
Net position - beginning of year	3,599,882
Net position-end of year	\$ 3,775,182

City of Cherokee, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

	Business-type Activities
	Cherokee Development Authority
<u>Cash flows from operating activities:</u>	
Receipts from customers	\$ 999,187
Payments to suppliers	(545,150)
Payments to employees	(222,651)
Other operating revenues	35,077
Net cash provided (used) by operating activities	266,463
<u>Cash flows from non-capital financing activities:</u>	
Transfers from other funds	7,906
Net cash provided (used) by non-capital financing activities	7,906
<u>Cash flows from capital and related financing activities:</u>	
Purchase of capital assets	(250,930)
Principal paid on capital debt	(92,752)
Interest paid on capital debt	(123,152)
Proceeds from capital grant funding	267,550
Net cash provided (used) by capital and related financing activities	(199,284)
<u>Cash flows from investing activities:</u>	
Investment income	15,806
Net cash provided (used) by investing activities	15,806
Net increase (decrease) in cash and cash equivalents	90,891
Cash and cash equivalents, July 1, 2017	2,394,651
Cash & cash equivalents, June 30, 2018	\$ 2,485,542
Cash, including time deposits	\$ 2,341,914
Restricted cash, including time deposits	143,628
Total cash and cash equivalents, end of year	\$ 2,485,542
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 125,742
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	209,179
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	(5,515)
(Increase) decrease in prepaid insurance	2,784
Increase (decrease) in accounts payable	(69,018)
Increase (decrease) in wages and benefits payable	2,241
Increase (decrease) in deposits subject to refund	51
Increase (decrease) in deferred revenue	999
Total adjustments	140,721
Net cash provided (used) by operating activities	\$ 266,463

(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, 2018.

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.

Special Revenue Funds

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

Non-Major Governmental Funds

Capital Projects Fund

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

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.

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 \$1,000 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 Council, 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. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process, 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. The City's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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. At June 30, 2018, the City's deposits were fully collateralized.

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, 2018, the City has estimated an allowance of \$50,215 for business-type activities.

Capital Assets

Changes in Capital Assets

	Primary Government Capital Assets			
	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
<i><u>Governmental Activities</u></i>				
Land and construction in process	\$ 81,309	\$ 12,000	\$ -	\$ 93,309
Buildings & structures	427,178	-	-	427,178
Machinery, furniture, & equipment	1,066,271	48,687	-	1,114,958
Infrastructure & improvements	1,590,137	16,926	-	1,607,063
Total	3,164,895	77,613	-	3,242,508
Less accumulated depreciation	962,118	145,591	-	1,107,709
Governmental fixed assets, net	\$ 2,202,777	\$ (67,978)	\$ -	\$ 2,134,799
<i><u>Business-type Activities</u></i>				
Construction in process	\$ 43,275	\$ 193,950	\$ -	\$ 237,225
Infrastructure & improvements	5,146,726	11,624	-	5,158,350
Machinery, furniture, & equipment	757,579	45,356	-	802,935
Total	5,947,580	250,930	-	6,198,510
Less accumulated depreciation	1,225,611	209,179	-	1,434,790
Business-type fixed assets, net	\$ 4,721,969	\$ 41,751	\$ -	\$ 4,763,720
Total primary government	\$ 6,924,746	\$ (26,227)	\$ -	\$ 6,898,519

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:

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Primary Government			
Governmental Activities	Business-type Activities		
General government	\$ 11,628	Water	\$ 116,776
Public safety & judiciary	53,877	Sewer	91,392
Transportation	53,912	Customer service	1,011
Cultural, parks & recreation	26,174		
Total depreciation expense	\$ 145,591	Total depreciation expense	\$ 209,179

B. Liabilities

Long-Term Debt

The following is a summary of enterprise fund long-term debt for the year ended June 30, 2018:

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.	\$ 619,756
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.	16,667
Series 2015 Clean Water SRF promissory note to Oklahoma Water Resource Board for water improvements in the original amount of \$2,640,000. The note carries a rate of 2.27% annually plus an administrative fee of .5% per annum. Principal payments are due annually; interest is due semiannually. The loan matures September 2030.	2,607,910
	\$ 3,244,333

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

Type of Debt	Balance at July 1, 2017	Amount Issued	Amount Retired	Balance at June 30, 2018	Due Within One Year
Business-type activities:					
<i>Notes Payable</i>					
OWRB - 2005	\$ 696,258	\$ -	76,502	\$ 619,756	\$ 82,862
Oklahoma Department of Commerce	22,917	-	6,250	16,667	6,250
OWRB SRF 2015 Clean Water	2,617,910	-	10,000	2,607,910	10,000
Total primary government	\$ 3,337,085	\$ -	\$ 92,752	\$ 3,244,333	\$ 99,112

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, 2018 follow:

Year Ending June 30	Notes Payable	
	Principal	Interest
2019	\$ 99,112	\$ 78,527
2020	104,808	73,091
2021	103,095	72,611
2022	99,304	72,330
2023	99,693	72,049
2024-2028	568,318	347,082
2029-2033	535,783	285,252
2034-2038	615,990	207,251
2039-2043	708,175	117,572
2044-2046	310,055	21,998
Totals	\$ 3,244,333	\$ 1,347,763

(3) REVENUES AND EXPENSES

A. Interfund Transfers

	<u>Due From</u>	<u>Due To</u>
GENERAL FUND		
Cherokee Development Authority	\$ 131,257	\$ 4,764
Special Revenue Fund	125,348	16,747
Total General Fund	<u>256,605</u>	<u>21,511</u>
SPECIAL REVENUE FUND		
General Fund	16,747	125,348
Capital Projects Fund	6,293	-
Cherokee Development Authority	-	9,380
Total Special Revenue Fund	<u>23,040</u>	<u>134,728</u>
CAPITAL PROJECTS FUND		
Special Revenue Fund	-	6,293
Cherokee Development Authority	-	11,600
Total Capital Projects Fund	<u>-</u>	<u>6,293</u>
CHEROKEE DEVELOPMENT AUTHORITY		
General Fund	4,764	131,257
Capital Projects Fund	11,600	-
Special Revenue Fund	9,380	-
Total Cherokee Development Authority	<u>25,744</u>	<u>131,257</u>
GRAND TOTAL	<u>\$ 305,389</u>	<u>\$ 305,389</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
GENERAL FUND		
Special Revenue Fund	\$ 55,957	\$ 42,000
Cherokee Development Authority	-	-
Total General Fund	<u>55,957</u>	<u>42,000</u>
SPECIAL REVENUE FUND		
General Fund	42,000	55,957
Capital Projects Fund	-	-
Total Special Revenue Fund	<u>42,000</u>	<u>55,957</u>
CAPITAL PROJECTS FUND		
Special Revenue Fund	-	7,906
Cherokee Development Authority	-	-
Total Capital Projects Fund	<u>-</u>	<u>7,906</u>
CHEROKEE DEVELOPMENT AUTHORITY		
General Fund	-	-
Special Revenue Fund	7,906	-
Total Cherokee Development Authority	<u>7,906</u>	<u>-</u>
GRAND TOTAL	<u>\$ 105,863</u>	<u>\$ 105,863</u>

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in two employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Benefit 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 benefit plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined benefit plan is funded through contributions as elected by each municipality. Participants are required to participate 2.25% of their covered compensation. The City contributed 5.69% of covered compensation for fiscal year 2018. 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 12 active participants and 7 non-active participants as of July 1, 2017.

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

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

- 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

Actuarial Assumptions

- a. Date of last Actuarial Valuation March 2018
- 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, 2015 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
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	<u>7.75%</u>

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2017 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, 2017 and the City's report ending date of June 30, 2018, 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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	\$ 203,353	\$ 147,515	\$ 101,175

The City reported \$29,038 in pension expense for the year ended June 30, 2018.

At June 30, 2018, 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	\$ 1,791	\$ 708
Changes of assumptions	11,198	-
Net difference between projected and actual earnings on pension plan investments	16,406	11,494
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	45,169	-
Total	\$ 74,564	\$ 12,202

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:	
2019	\$ 50,991
2020	6,970
2021	3,678
2022	627
2023	96

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,

CITY OF CHEROKEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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, 2018, the City reported a liability of \$49,306 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2017. Based upon this information the City's proportion was 0.00382%.

For the year ended June 30, 2018, the City recognized pension expense of \$5,449. At June 30, 2018, 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	\$ 6,586	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	4,394	5,768
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	1,260	-
Total	\$ 12,240	\$ 5,768

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:		
2019	\$	1,644
2020		1,910
2021		1,428
2022		138
2023		1,352

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2017, 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, 2017, 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, 2017, 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)	64,678	49,306	36,273

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.

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, 2018

	<u>Original Budget</u>	<u>Revisions</u>	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales and use tax	\$ 355,356	\$ 43,261	\$ 398,617	\$ 411,755	\$ 13,138
Fines and forfeitures	12,000	(6,000)	6,000	12,447	6,447
Beverage tax	30,674	-	30,674	34,845	4,171
Tobacco tax	6,100	-	6,100	6,543	443
Franchise taxes	86,237	19,167	105,404	115,049	9,645
Hotel tax	7,285	(2,285)	5,000	5,414	414
Library	17,000	-	17,000	27,991	10,991
Other revenue	46,601	155,743	202,344	221,387	19,043
Total revenues	<u>561,253</u>	<u>209,886</u>	<u>771,139</u>	<u>835,431</u>	<u>64,292</u>
EXPENDITURES					
General government:					
General government	<u>352,443</u>	<u>(21,100)</u>	<u>331,343</u>	<u>327,912</u>	<u>3,431</u>
Total general government	<u>352,443</u>	<u>(21,100)</u>	<u>331,343</u>	<u>327,912</u>	<u>3,431</u>
Public safety and judiciary:					
Police	178,745	10,548	189,293	189,283	10
Fire	51,280	19,800	71,080	65,373	5,707
Total public safety and judiciary	<u>230,025</u>	<u>30,348</u>	<u>260,373</u>	<u>254,656</u>	<u>5,717</u>
Cultural, parks and recreation:					
Library	92,562	600	93,162	93,132	30
Economic development	25,000	-	25,000	25,000	-
Total cultural, parks and recreation	<u>117,562</u>	<u>600</u>	<u>118,162</u>	<u>118,132</u>	<u>30</u>
Total expenditures	<u>700,030</u>	<u>9,848</u>	<u>709,878</u>	<u>700,700</u>	<u>9,178</u>
Revenue over (under) expenditures	(138,777)	200,038	61,261	134,731	73,470
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	<u>50,000</u>	<u>(80,400)</u>	<u>(30,400)</u>	<u>(13,957)</u>	<u>16,443</u>
Net other financing sources (uses)	<u>50,000</u>	<u>(80,400)</u>	<u>(30,400)</u>	<u>(13,957)</u>	<u>16,443</u>
Revenues and other financing sources over (under) expenditures and other uses	(88,777)	119,638	30,861	120,774	89,913
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>1,000,705</u>	<u>1,000,705</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 1,121,479	<u>\$ 1,090,618</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(346,527)	
Fund balance at end of year (GAAP basis)				<u>\$ 774,952</u>	

Budget Schedule Footnotes:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Appropriations that increase total expenditures require City Council's approval.

City of Cherokee, Oklahoma
Special Revenue Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Revisions</u>	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales Tax	\$ 196,988	\$ 14,648	\$ 211,636	\$ 214,159	\$ 2,523
Intergovernmental	12,177	-	12,177	13,623	1,446
Charges for services	22,750	1,625	24,375	23,660	(715)
Interest Income	90	10	100	114	14
Other income	-	19,300	19,300	27,701	8,401
Total revenues	<u>232,005</u>	<u>35,583</u>	<u>267,588</u>	<u>279,257</u>	<u>11,669</u>
EXPENDITURES					
Streets	142,088	6,470	148,558	122,371	26,187
Parks	232,329	(75,000)	157,329	114,218	43,111
Airport	5,000	30,000	35,000	10,348	24,652
Emergency services	-	14,000	14,000	-	14,000
Cemetery	10,000	-	10,000	6,734	3,266
Total expenditures	<u>389,417</u>	<u>(24,530)</u>	<u>364,887</u>	<u>253,671</u>	<u>111,216</u>
Revenue over (under) expenditures	(157,412)	60,113	(97,299)	25,586	122,885
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	175,000	(152,600)	22,400	13,957	(8,443)
Net other financing sources (uses)	<u>175,000</u>	<u>(152,600)</u>	<u>22,400</u>	<u>13,957</u>	<u>(8,443)</u>
Revenues and other financing sources over (under) expenditures and other uses	17,588	(92,487)	(74,899)	39,543	114,442
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>84,193</u>	<u>84,193</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 123,736	<u>\$ 198,635</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				111,093	
Fund balance at end of year (GAAP basis)				<u>\$ 234,829</u>	

Budget Schedule Footnotes:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Appropriations that increase total expenditures require City Council's approval.

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, 2018

	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>
City's portion of the net pension liability (asset)	0.0034%	0.0031%	0.0034%	0.0039%
City's proportionate share of the net pension liability (asset)	\$ 34,668	\$ 33,298	\$ 41,180	\$ 49,306
City's covered-employee payroll	\$ 26,572	\$ 22,395	\$ 29,006	\$ 26,313
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	130%	149%	142%	187%
Plan fiduciary net position as a percentage of the total pension liability	73.13%	74.19%	96.63%	100.00%

* 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>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>
Contractually required contribution	\$ 1,200	\$ 1,200	\$ 1,320	\$ 1,260
Contributions in relation to the contractually required contribution	<u>(1,200)</u>	<u>(1,200)</u>	<u>(1,320)</u>	<u>(1,260)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 26,572	\$ 22,395	\$ 29,006	\$ 26,313
Contributions as a percentage of covered-employee payroll	4.52%	5.36%	4.55%	4.79%

Only the current 4 fiscal years are presented because 10 year data is not yet available.

City of Cherokee, Oklahoma

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

	2015*	2016*	2017*	2018*
Total pension liability				
Service cost	\$ 21,461	\$ 24,053	\$ 22,332	\$ 22,305
Interest	26,331	27,072	29,584	32,043
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	-	(1,628)	91	2,165
Changes in assumptions	-	-	-	13,977
Benefit payments, including refunds of employee contributions	(17,791)	(15,694)	(18,540)	(22,069)
Net change in total pension liability	\$ 30,001	\$ 33,803	\$ 33,467	\$ 48,421
Total pension liability - beginning	327,018	357,019	390,822	424,289
Total pension liability - ending (a)	\$ 357,019	\$ 390,822	\$ 424,289	\$ 472,710
Plan fiduciary net position				
Contributions - employer	31,811	34,491	28,221	41,287
Contributions - employee	11,375	12,426	10,143	10,322
Net investment income	24,121	6,115	3,014	34,329
Benefit payments, including refunds of employee contributions	(17,791)	(15,694)	(18,540)	(22,069)
Administrative expense	(366)	(435)	(480)	(592)
Other	-	-	-	-
Net change in plan fiduciary net position	49,150	36,903	22,358	63,277
Plan fiduciary net position - beginning	153,507	202,657	239,560	261,918
Plan fiduciary net position - ending (b)	\$ 202,657	\$ 239,560	\$ 261,918	\$ 325,195
City's net pension liability - ending (a) - (b)	\$ 154,362	\$ 151,262	\$ 162,371	\$ 147,515
Plan fiduciary net position as a percentage of the total pension liability	56.76%	61.30%	61.73%	68.79%
Covered-employee payroll	\$ 488,799	\$ 453,557	\$ 449,092	\$ 440,159
City's net pension liability as a percentage of covered-employee payroll	31.58%	33.35%	36.16%	33.51%

City of Cherokee, Oklahoma

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Municipal Retirement Plan
 Year Ended June 30, 2018

	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>
City's portion of the net pension liability (asset)	0.0325%	0.0310%	0.0333%	0.0302%
City's proportionate share of the net pension liability (asset)	\$ 154,362	\$ 151,262	\$ 162,371	\$ 147,515
City's covered-employee payroll	\$ 488,799	\$ 453,557	\$ 449,092	\$ 440,159
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.58%	33.35%	36.16%	33.51%
Plan fiduciary net position as a percentage of the total pension liability	81.85%	82.22%	80.91%	82.66%

* 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>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>
Actuarially determined contribution	\$ 31,811	\$ 34,491	\$ 28,221	\$ 41,287
Contributions in relation to the actuarially determined contribution	<u>(31,811)</u>	<u>(39,890)</u>	<u>(43,980)</u>	<u>(45,169)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (5,399)</u>	<u>\$ (15,759)</u>	<u>\$ (3,882)</u>
City's covered-employee payroll	\$ 488,799	\$ 453,557	\$ 449,092	\$ 440,159
Contributions as a percentage of covered-employee payroll	6.51%	7.60%	6.28%	9.38%

Only the current 4 fiscal years are presented because 10 year data is not yet available.

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, 2018, 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 January 22, 2019.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, 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 2018-1, 2018-3 2018-4 and 2018-5

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 2018-2.

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 Findings 2018-3, 2018-4, and 2018-5.

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.

A handwritten signature in blue ink that reads "Jana A. Walker, CPA, PLLC".

Jana A. Walker, CPA, PLLC
Woodward, Oklahoma
January 22, 2019

**CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2018**

FINDING 2018-1 Lack of Segregation of Duties

Condition: The City and Authority do not have adequate segregation of duties for internal control over financial reporting purposes due to a limited amount of personnel.

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 City'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 City has new administration and has outsourced its financial reporting, payroll procedures, and account reconciliations on a monthly basis to outside accounting consultants.

FINDING 2018-2 Adequate Record Keeping

Condition: Account general ledger balances did not agree with their respective subsidiary ledger. The following accounts did not reconcile with subsidiary accounts at year end: meter deposit list and municipal court revenue.

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.

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.

**CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2018**

FINDING 2018-2 Adequate Record Keeping (continued)

Recommendation: Reconcile accounts with applicable subsidiary ledgers, deposit lists, and/or detailed citation 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: The City has a new administration and has outsourced its account reconciliations and financial reporting to outside accounting consultants.

FINDING 2018-3 Petty Cash

Condition: During our audit we discovered through inquiries and other procedures that reimbursements made to former employees from petty cash funds were for unauthorized amounts. The amount of alleged misappropriation identified was \$200. The total amount of alleged misappropriation is estimated to range up to \$2,000.

Criteria: Adequate receipts and documentation must be maintained to support all transactions made from the petty cash fund.

Cause: Lack of segregation of duties. The employee that incurred the expenses was also responsible for reimbursing themselves. The lack of formal policies and procedures being followed, which is a result of management override of controls.

Effect or Potential Effect: The effect of not maintaining effective internal control cash could result in material errors or fraud occurring and not be detected on a timely basis.

Recommendation: Recommend following already established internal control policies and procedures put in place. The City should also consider whether or not to pursue further investigation and/or prosecution and the cost/benefit of doing it.

Response: The City is considering further investigation and has limited the handling of cash and deposits to newly hired administration and employees after year end.

**CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2018**

FINDING 2018-4 Cash Receipts

Condition: Daily receipts could not be reconciled to bank deposits. Deposits are not being made within one business day and the City was missing daily receipts from the register. The same individual was involved in cashier duties, making utility adjustments, preparing and depositing cash.

Criteria: Accounting policies and procedures should specify the appropriate segregation of duties over cash receipts. There should be adequate segregation of duties among those who: open mail and collect cash, prepare deposits, deposit cash receipts, post cash receipts to customer accounts, authorize adjustments and process customer complaints. Individual cashiers should be assigned their own cash drawers and should close out and balance their drawer daily. Cash receipts should be deposited intact promptly and reconciled to daily receipt summary report as to cash and checks received.

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

Effect or Potential Effect: The effect of not maintaining effective internal control cash could result in material errors or fraud occurring and not be detected on a timely basis.

Recommendation: Recommend following already established internal control policies and procedures put in place. Each cashier needs to issue pre-numbered receipts for each transaction and maintain documentation of the receipt sequence issued, accounting for any voided receipts with the daily deposit. Daily cash receipts need to be reconciled to general ledger postings daily by a non-cashier. The City should also consider whether or not to pursue further investigation and/or prosecution and the cost/benefit of doing it.

Response: The City is considering further investigation and has limited the handling of cash and deposits to newly hired administration and employees.

FINDING 2018-5 Misappropriation of Funds

Condition: A method often used to misappropriate funds was identified while the former City Clerk was employed during the fiscal year. The first method identified is usually referred to as a check-for-cash substitution scheme. The first method includes depositing the incorrect composition of funds, where the amount of cash deposited is understated and the amount of checks deposited is overstated. The second method of misappropriation identified was a cash larceny scheme. The second method includes taking cash, which had been receipted, but not deposited. The amount of alleged misappropriation identified was \$3,068. The total amount of alleged misappropriation is estimated to range up to \$20,000.

Criteria: When handling cash the duties of collecting, recording and depositing should be segregated appropriately to reduce the likelihood of theft.

**CITY OF CHEROKEE, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING JUNE 30, 2018**

FINDING 2018-5 Misappropriation of Funds (continued)

Cause: A lack of proper segregation of duties allowed the clerk to circumvent the limited controls in place, which is a result of management override of controls.

Effect or Potential Effect: The effect of not maintaining effective internal control cash could result in material errors or fraud occurring and not be detected on a timely basis.

Recommendation: We recommend the duties be segregated and monitored to ensure the continued adherence to the proper policy. This includes issuing a sequentially numbered receipt record for every payment and using a second person to make the deposit timely while reconciling the deposit to the receipt records.

Response: The City is considering further investigation and has limited the handling of cash and deposits to newly hired administration and employees after year end.