

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

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

**FOR THE YEAR ENDED  
JUNE 30, 2014**

**CITY OF CHEROKEE, OKLAHOMA**  
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**For the fiscal year ended JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Cherokee, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Basis for Qualified Opinion**

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

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental, business-type activities, and each major fund of the City of Cherokee, Oklahoma, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Cherokee, Oklahoma, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

We draw attention to the Schedule of Findings and Responses on pages 34-38 which describes the findings and management's response to the findings that in the aggregate has had, and continues to have a significant effect on the City of Cherokee's financial position presentation and the risks associated with effective maintenance and operation of the financial reporting system. Our opinion is not qualified in respect of this matter except to the extent that the scope limitations were created as a result of these findings.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015, on our consideration of the City of Cherokee, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cherokee, Oklahoma's internal control over financial reporting and compliance.

FSW&B CPA's-PLLC

FSW&B CPA's-PLLC  
Woodward, Oklahoma  
April 28, 2015

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, 2014. 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, 2014, the assets of the City exceeded its liabilities by \$5,382,786 (net position). Of this amount \$2,734,123 (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 \$4,745,061.
- The City's total net position are comprised of the following:
  - (1) Invested in capital assets, net of related debt of \$2,379,769 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 \$268,894.
  - (3) Unrestricted net position of \$2,734,123 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- After transfers of \$103,950 from business-type activities to governmental activities, net position of governmental activities increased \$446,471 or 22%, and net position of business-type activities increased \$191,254 or 7%. 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, 2014 was \$5,382,786. This is a \$637,725 increase over June 30, 2013 net position after restatement. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$2,458,402 and \$2,924,384, respectively. The City's overall financial position improved 13% during fiscal year 2014.

Total assets increased by 8% year over year, which is attributable to capital assets purchased and constructed using grant funding and loan proceeds. Total liabilities decreased 27% comparatively due to the timing of payment on current liabilities and principle payments on long term debt. Refer to additional information on debt held by the City in the footnotes to the financial statements.

	Summary of Net Assets							
	Governmental Activities		Business-Type Activities		Total		\$	%
	2014	2013	2014	2013	2014	2013		
Current assets	\$ 1,302,029	\$ 1,636,173	\$ 1,957,469	\$ 2,197,169	\$ 3,259,498	\$ 3,833,342	\$ (573,844)	-15%
Capital assets, net	1,302,444	461,078	2,056,927	1,822,450	3,359,371	2,283,528	1,075,843	47%
<b>Total assets</b>	<b>2,604,473</b>	<b>2,097,251</b>	<b>4,014,396</b>	<b>4,019,619</b>	<b>6,618,869</b>	<b>6,116,870</b>	<b>501,999</b>	<b>8%</b>
Current liabilities	146,071	222,786	194,688	248,485	340,759	471,271	(130,512)	-28%
Non-current liabilities	-	-	895,324	1,253,540	895,324	1,253,540	(358,216)	-29%
<b>Total liabilities</b>	<b>146,071</b>	<b>222,786</b>	<b>1,090,012</b>	<b>1,502,025</b>	<b>1,236,083</b>	<b>1,724,811</b>	<b>(488,728)</b>	<b>-28%</b>
Net assets								
Invested in capital assets, net of related debt	1,302,444	461,078	1,077,325	1,822,450	2,379,769	2,283,528	96,241	4%
Restricted	124,961	293,900	143,933	150,066	268,894	443,966	(175,072)	-39%
Unrestricted	1,030,997	1,119,487	1,703,126	545,078	2,734,123	1,664,565	1,069,558	64%
<b>Total net assets</b>	<b>\$ 2,458,402</b>	<b>\$ 1,874,465</b>	<b>\$ 2,924,384</b>	<b>\$ 2,517,594</b>	<b>\$ 5,382,786</b>	<b>\$ 4,392,059</b>	<b>\$ 990,727</b>	<b>23%</b>

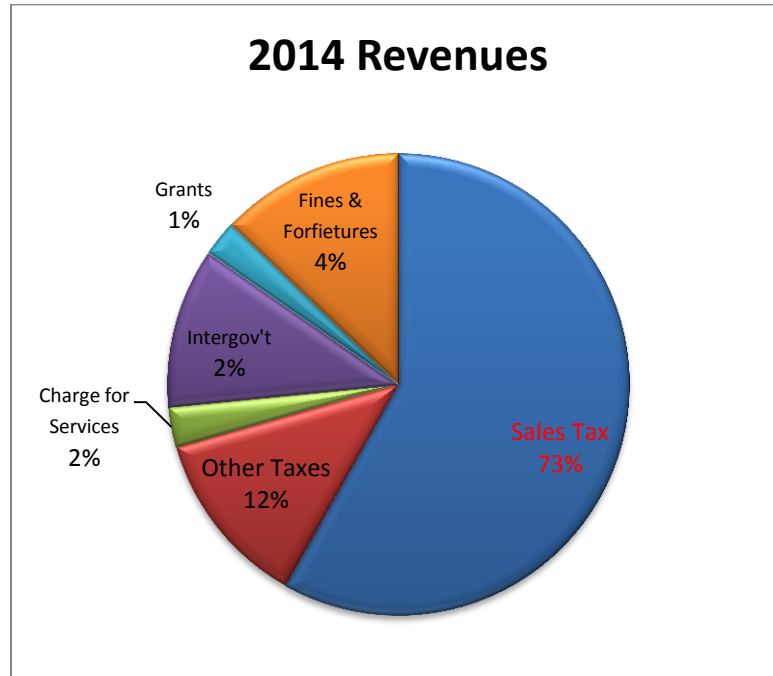
Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Change	
	2014	2013	2014	2013	2014	2013	\$	%
<b>Revenues</b>								
Program revenues	\$ 440,684	\$ 264,563	\$ 998,406	\$ 926,418	\$ 1,439,090	\$ 1,190,981	\$ 248,109	21%
Taxes and other general revenues	1,584,497	1,825,792	84,261	255,581	1,668,758	2,081,373	(412,615)	-20%
<b>Total revenues</b>	<b>2,025,181</b>	<b>2,090,355</b>	<b>1,082,667</b>	<b>1,181,999</b>	<b>3,107,848</b>	<b>3,272,354</b>	<b>(164,506)</b>	<b>1%</b>
<b>Expenses</b>								
General government	554,241	323,148	-	-	554,241	323,148	231,093	72%
Public safety and judiciary	435,453	609,750	-	-	435,453	609,750	(174,297)	-29%
Transportation	228,713	392,829	-	-	228,713	392,829	(164,116)	-42%
Cultural, parks, and rec	256,353	216,369	-	-	256,353	216,369	39,984	18%
Water	-	-	245,899	259,052	245,899	259,052	(13,153)	-5%
Sewer	-	-	94,209	82,933	94,209	82,933	11,276	14%
Sanitation	-	-	174,881	156,466	174,881	156,466	18,415	12%
Customer service	-	-	480,374	549,800	480,374	549,800	(69,426)	-13%
<b>Total expenses</b>	<b>1,474,760</b>	<b>1,542,096</b>	<b>995,363</b>	<b>1,048,251</b>	<b>2,470,123</b>	<b>2,590,347</b>	<b>(120,224)</b>	<b>-5%</b>
Excess (deficiency) before transfers	\$ 550,421	\$ 548,259	\$ 87,304	\$ 133,748	\$ 637,725	\$ 682,007	\$ (44,282)	-6%
Transfers	(103,950)	(9,983)	103,950	9,983	-	-	-	0%
<b>Increase (decrease) in net position</b>	<b>\$ 446,471</b>	<b>\$ 538,276</b>	<b>\$ 191,254</b>	<b>\$ 143,731</b>	<b>\$ 637,725</b>	<b>\$ 682,007</b>	<b>\$ (44,282)</b>	<b>-6%</b>

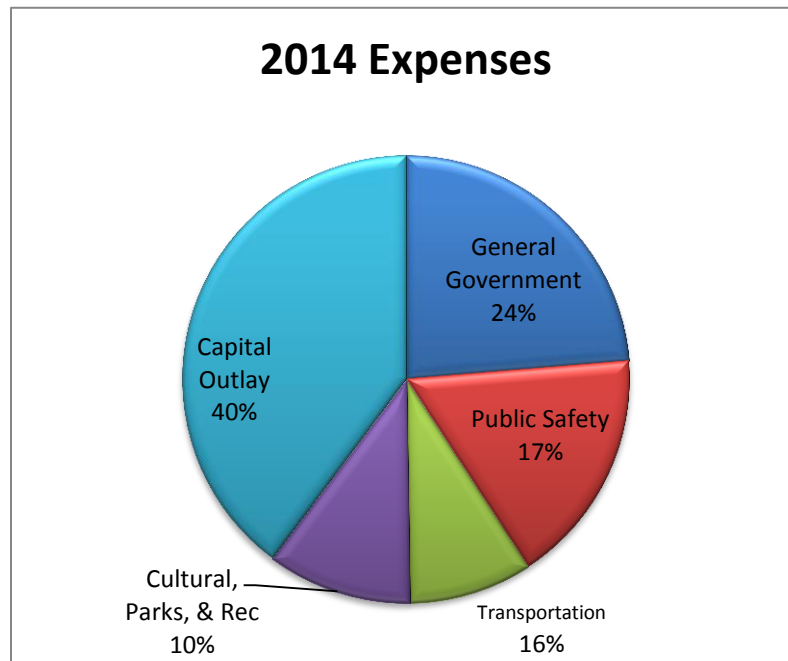
Total revenues for the City remained consistent when compared year over year, noting a 1% increase. Correspondingly, expenses also remained consistent when compared to prior year, reporting a 5% decrease. There was a shift in the reporting on expenses between departments based upon management allocation of overhead costs during the fiscal year.



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



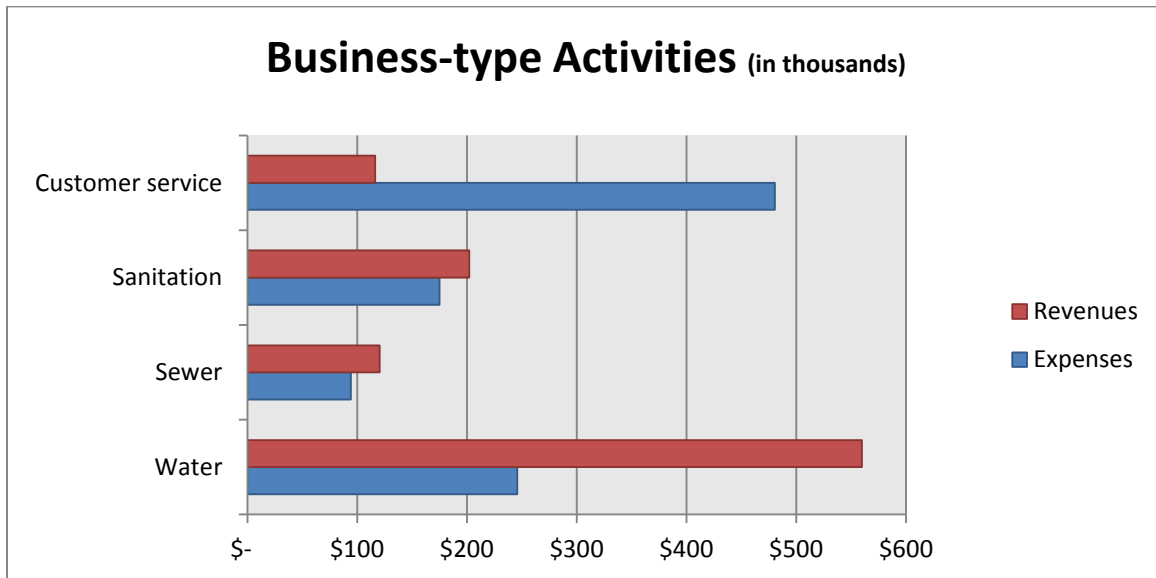
Taxes provided for 76% of the City's governmental revenues in fiscal year 2014. Other taxes, including use tax, tobacco tax, franchise taxes, and alcohol beverage tax provided the next largest source of income at 12% for the fiscal year.



For the year ended June 30, 2014, total expenses for governmental activities were \$2,316,126. Of this amount, capital outlay with \$922,341 was the largest expense for the City using over 40% of the budget. 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, 2014, revenues from water, sewer, and sanitation services covered the cost of operating their respective departments.

**General Fund Budgetary Highlights**

The original adopted General Fund budget for fiscal year 2014 was \$1,173,318. The General Fund budget complied with financial policies approved by the City.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2014, the City had \$2,379,769 invested in capital assets, net of related debt, 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			
	2014	2013	2014	2013	2014	2013
Land	\$ 8,000	\$ 5,000	\$ -	\$ -	\$ 8,000	\$ 5,000
Buildings	150,070	110,102	-	-	150,070	110,102
Machinery & equipment	277,978	211,947	382,240	146,310	660,218	358,257
Infrastructure	866,389	134,029	1,674,687	1,676,140	2,541,076	1,810,169
Totals	<u>\$ 1,302,437</u>	<u>\$ 461,078</u>	<u>\$ 2,056,927</u>	<u>\$ 1,822,450</u>	<u>\$ 3,359,364</u>	<u>\$ 2,283,528</u>

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

- Storm Drainage Reconstruction
- Airport Improvements
- Swimming Pool and Park Improvements
- Storm Sirens
- E911 upgrade
- Police vehicle
- Water tower improvements
- Water & Sewer line extensions

**Long-Term Debt**

At year-end, the City had \$895,324 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

**Primary Government Long-Term Debt**

	Business-type	
	Activities	
	2014	2013
Notes payable	979,602	1,253,538
less current portion	(84,278)	(273,936)
Totals	<u>\$ 895,324</u>	<u>\$ 979,602</u>

**ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES**

Economic Environment

According to the Oklahoma Economic Report, the state's gross receipts are higher than ever before. State Treasurer, Ken Miller, stated when talking about July 2014 sales tax "collections have been higher than the same month of the prior year in 45 of the past 51 months, which indicates a steady economic expansion". Unemployment numbers from June 2014 reflect Oklahoma's relative economic strength compared to the nation as a whole, reporting 4.5% statewide compared to 6.1% nationally. The economic environment of the state sheds light on the local economy.

Next Year's Budget

Sales tax was budgeted at 90% of prior year collections. As noted above, the City expects to see improvement in the economy; however, a conservative approach was used for budgeting purposes. Management continues to monitor the cost of operations for the City. Capital projects will be funded from current operating revenues and grant proceeds as awarded.

**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, 2014**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Current Assets:			
Cash and cash equivalents	\$ 831,913	\$ 1,062,685	\$ 1,894,598
Investments, including time deposits	-	796,833	796,833
Accounts receivable, net	113,465	57,018	170,483
Due from other funds	103,000	(103,000)	-
Prepaid assets	5,600	-	5,600
Total current assets	<u>1,053,978</u>	<u>1,813,536</u>	<u>2,867,514</u>
Restricted assets:			
Cash and cash equivalents	248,051	143,933	391,984
Total restricted assets	<u>248,051</u>	<u>143,933</u>	<u>391,984</u>
Noncurrent Assets:			
Land and construction in progress	8,000	4,730	12,730
Other capital assets (net of accumulated depreciation)	1,294,444	2,052,197	3,346,641
Total noncurrent assets	<u>1,302,444</u>	<u>2,056,927</u>	<u>3,359,371</u>
Total assets	<u>\$ 2,604,473</u>	<u>\$ 4,014,396</u>	<u>\$ 6,618,869</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 133,651	\$ 11,058	\$ 144,709
Accrued expenses payable	12,420	-	12,420
Wages and benefits payable	-	3,681	3,681
Notes payable, current	-	84,278	84,278
Total current liabilities	<u>146,071</u>	<u>99,017</u>	<u>245,088</u>
Liabilities payable from restricted assets:			
Accrued interest payable	-	4,833	4,833
Customer deposits payable	-	90,838	90,838
Total liabilities payable from restricted assets	<u>-</u>	<u>95,671</u>	<u>95,671</u>
Noncurrent liabilities:			
Notes payable, non-current	-	895,324	895,324
Total noncurrent liabilities	<u>-</u>	<u>895,324</u>	<u>895,324</u>
Total liabilities	<u>146,071</u>	<u>1,090,012</u>	<u>1,236,083</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,302,444	1,077,325	2,379,769
Restricted	124,961	143,933	268,894
Unrestricted	1,030,997	1,703,126	2,734,123
Total net position	<u>\$ 2,458,402</u>	<u>\$ 2,924,384</u>	<u>\$ 5,382,786</u>

**City of Cherokee, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 554,241	\$ 1,998	\$ 28,076	\$ 26,290	\$ (497,877)
Total general government	<u>554,241</u>	<u>1,998</u>	<u>28,076</u>	<u>26,290</u>	<u>(497,877)</u>
Public safety and judiciary:					
Police	375,988	50,849	-	94,340	(230,799)
Fire	49,938	-	-	-	(49,938)
Emergency Management	9,527	-	-	-	(9,527)
Total public safety and judiciary	<u>435,453</u>	<u>50,849</u>	<u>-</u>	<u>94,340</u>	<u>(290,264)</u>
Transportation:					
Street	212,043	-	64,978	141,000	(6,065)
Airport	16,670	5,940	-	-	(10,730)
Total transportation	<u>228,713</u>	<u>5,940</u>	<u>64,978</u>	<u>141,000</u>	<u>(16,795)</u>
Cultural, parks and recreation:					
Park	162,231	6,269	-	-	(155,962)
Cemetery	4,888	9,938	-	-	5,050
Library	89,234	-	11,006	-	(78,228)
Total cultural, parks and recreation	<u>256,353</u>	<u>16,207</u>	<u>11,006</u>	<u>-</u>	<u>(229,140)</u>
Total governmental activities	<u>1,474,760</u>	<u>74,994</u>	<u>104,060</u>	<u>261,630</u>	<u>(1,034,076)</u>
Business-type activities:					
Water	245,899	559,595	-	-	313,696
Sewer	94,209	120,444	-	-	26,235
Sanitation	174,881	202,120	-	-	27,239
Customer service	480,374	116,247	-	-	(364,127)
Total business-type activities	<u>995,363</u>	<u>998,406</u>	<u>-</u>	<u>-</u>	<u>3,043</u>
<b>Total primary government</b>	<u><u>\$ 2,470,123</u></u>	<u><u>\$ 1,073,400</u></u>	<u><u>\$ 104,060</u></u>	<u><u>\$ 261,630</u></u>	<u><u>\$ (1,031,033)</u></u>

**City of Cherokee, Oklahoma**  
Statement of Activities (continued)  
Year Ended June 30, 2014

<b>Changes in Net Position:</b>	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Net (expense)/revenue	\$ (1,034,076)	\$ 3,043	\$ (1,031,033)
General revenues:			
Taxes:			
Sales taxes	1,177,477	-	1,177,477
Use taxes	101,687	-	101,687
Franchise taxes	104,064	-	104,064
Alcoholic beverage tax	32,045	-	32,045
Cigarette tax	14,907	-	14,907
Investment income	7,828	7,455	15,283
Oil/gas lease income	-	13,825	13,825
Penalties	-	16,430	16,430
Miscellaneous	146,489	46,551	193,040
Transfers - Internal activity, net	(103,950)	103,950	-
Total general revenues and transfers	1,480,547	188,211	1,668,758
 <b>Change in net position</b>	 446,471	 191,254	 637,725
 <b>Net position - beginning, restated</b>	 2,011,931	 2,733,130	 4,745,061
<b>Net position - ending</b>	<b>\$ 2,458,402</b>	<b>\$ 2,924,384</b>	<b>\$ 5,382,786</b>

**City of Cherokee, Oklahoma  
Balance Sheet  
Governmental Funds  
June 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 673,247	\$ 373,873	\$ 32,844	\$ 1,079,964
Investments, including time deposits	-	-	-	-
Due from other funds	164,792	3,840	-	168,632
Revenue receivable	112,332	1,133	-	113,465
Prepaid assets	5,600	-	-	5,600
Total assets	<u>\$ 955,971</u>	<u>\$ 378,846</u>	<u>\$ 32,844</u>	<u>\$ 1,367,661</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 10,734	\$ 122,917	\$ -	\$ 133,651
Wages and benefits payable	8,764	3,656	-	12,420
Due to other funds	3,720	61,792	120	65,632
Total liabilities	<u>23,218</u>	<u>188,365</u>	<u>120</u>	<u>211,703</u>
<b>FUND BALANCES</b>				
Restricted	-	92,237	32,724	124,961
Committed	90,319	82,303	-	172,622
Assigned	32,651	2,058	-	34,709
Unassigned	809,783	13,883	-	823,666
Total fund balances	<u>932,753</u>	<u>190,481</u>	<u>32,724</u>	<u>1,155,958</u>
Total liabilities and fund balances	<u>\$ 955,971</u>	<u>\$ 378,846</u>	<u>\$ 32,844</u>	<u>\$ 1,367,661</u>

Total fund balance- total governmental funds \$ 1,155,958

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	\$ 8,000	
Depreciable capital assets	1,943,832	
Less: Accumulated depreciation	<u>(649,388)</u>	<u>1,302,444</u>

Net position of governmental activities \$ 2,458,402



**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2014**

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
<b>REVENUES</b>				
Sales tax	\$ 724,601	\$ 452,876	\$ -	\$ 1,177,477
Use tax	101,687	-	-	101,687
Beverage tax	32,045	-	-	32,045
Franchise taxes	104,064	-	-	104,064
Cigarette tax	14,907	-	-	14,907
Licenses and permits	1,998	-	-	1,998
Fines and forfeitures	50,849	-	-	50,849
Investment income	7,743	39	46	7,828
Charges for services	33,186	14,522	1,685	49,393
Rental income	-	5,940	-	5,940
Intergovernmental	-	79,217	-	79,217
Grants	5,896	-	141,000	146,896
Miscellaneous	172,780	80,100	-	252,880
Total revenues	<u>1,249,756</u>	<u>632,694</u>	<u>142,731</u>	<u>2,025,181</u>
<b>EXPENDITURES</b>				
General government:				
General government	531,556	17,210	-	548,766
Total general government	<u>531,556</u>	<u>17,210</u>	<u>-</u>	<u>548,766</u>
Public safety and judiciary:				
Police	334,355	17,661	-	352,016
Fire	34,622	-	-	34,622
Ambulance	117	9,410	-	9,527
Total public safety and judiciary	<u>369,094</u>	<u>27,071</u>	<u>-</u>	<u>396,165</u>
Transportation:				
Street	-	206,102	-	206,102
Airport	-	1,501	-	1,501
Total transportation	<u>-</u>	<u>207,603</u>	<u>-</u>	<u>207,603</u>
Cultural, parks and recreation:				
Park	-	147,129	-	147,129
Cemetery	-	4,884	4	4,888
Library	89,234	-	-	89,234
Total cultural, parks and recreation	<u>89,234</u>	<u>152,013</u>	<u>4</u>	<u>241,251</u>
Capital outlay	922,341	-	-	922,341
Total expenditures	<u>1,912,225</u>	<u>403,897</u>	<u>4</u>	<u>2,316,126</u>
Excess (deficiency) of revenues over expenditures	<u>(662,469)</u>	<u>228,797</u>	<u>142,727</u>	<u>(290,945)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,287,990	123,150	-	1,411,140
Transfers out	(150,000)	(907,157)	(457,933)	(1,515,090)
Total other financing sources and uses	<u>1,137,990</u>	<u>(784,007)</u>	<u>(457,933)</u>	<u>(103,950)</u>
Net change in fund balances	475,521	(555,210)	(315,206)	(394,895)
Fund balances - beginning, restated	1,161,545	157,011	38,426	1,356,982
Prior period adjustment	(704,313)	588,680	309,504	193,871
Fund balances - ending	<u>\$ 932,753</u>	<u>\$ 190,481</u>	<u>\$ 32,724</u>	<u>\$ 1,155,958</u>

**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2014**

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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 \$ (394,895)

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	922,341
Depreciation expense	<u>(80,975)</u>

Change in Net Position of Governmental Activities	<u>\$ 446,471</u>
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**City of Cherokee, Oklahoma**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,062,685
Investments	796,833
Accounts receivable (net)	57,018
Total current assets	1,916,536
Restricted assets:	
Cash and cash equivalents	143,933
Total restricted assets	143,933
Noncurrent assets:	
Capital assets (net)	2,056,927
Total noncurrent assets	2,056,927
<b>Total assets</b>	<b>\$ 4,117,396</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 11,058
Wages and benefits payable	3,681
Due to other funds	103,000
Notes payable, current	84,278
Total current liabilities	202,017
Liabilities payable from restricted assets:	
Accrued interest payable	4,833
Customer deposits payable	90,838
Total liabilities payable from restricted assets	95,671
Noncurrent liabilities:	
Notes payable, non-current	895,324
Total noncurrent liabilities	895,324
<b>Total liabilities</b>	<b>1,193,012</b>
<b>NET POSITION</b>	
Net investment in capital assets	1,077,325
Restricted	143,933
Unrestricted	1,703,126
<b>Total net position</b>	<b>\$ 2,924,384</b>

**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b><u>Operating revenues:</u></b>	
Charges for services:	
Water charges	\$ 559,595
Sewer charges	120,444
Sanitation charges	202,120
Total charges for services	882,159
Rents and royalties	130,072
Penalties	16,430
Miscellaneous	46,551
Total operating revenues	1,075,212
 <b><u>Operating expenses:</u></b>	
Personal services	263,837
Materials and supplies	229,933
Other services and charges	375,267
Depreciation and amortization	103,149
Total operating expenses	972,186
Net operating income	\$ 103,026
 <b><u>Nonoperating revenue (expense):</u></b>	
Investment income	7,455
Interest expense	(23,177)
Total nonoperating revenue (expense)	(15,722)
<b>Net income before contributions and transfers</b>	87,304
Transfers from other funds	150,000
Transfers to other funds, net	(46,050)
<b>Change in net position</b>	191,254
Net position - beginning of year	2,026,452
Prior period adjustment	706,678
Net position-end of year	\$ 2,924,384

City of Cherokee, Oklahoma  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2014

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b><u>Cash flows from operating activities:</u></b>	
Receipts from customers	\$ 840,917
Payments to suppliers	(596,089)
Payments to employees	(298,500)
Other operating revenues	193,053
<b>Net cash provided (used) by operating activities</b>	<b>139,381</b>
<b><u>Cash flows from non-capital financing activities:</u></b>	
Transfers from other funds	150,000
Transfers to other funds	(46,050)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>103,950</b>
<b><u>Cash flows from capital and related financing activities:</u></b>	
Purchase of capital assets	(441,291)
Principal paid on capital debt	(245,617)
Proceeds from intercompany debt	103,000
Interest paid on capital debt	(13,577)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(597,485)</b>
<b><u>Cash flows from investing activities:</u></b>	
Change in investments	135,123
Investment income	7,455
<b>Net cash provided (used) by investing activities</b>	<b>142,578</b>
Net increase (decrease) in cash and cash equivalents	(211,576)
Cash and cash equivalents, July 1, 2013	2,215,027
Cash & cash equivalents, June 30, 2014	<b>\$ 2,003,451</b>
Cash, including time deposits	\$ 1,859,518
Restricted cash, including time deposits	143,933
Total cash and cash equivalents, end of year	<b>\$ 2,003,451</b>
<b><u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u></b>	
Operating income (loss)	\$ 103,026
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	103,149
Other revenue (expense)	63,094
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	(41,242)
(Increase) decrease in prepaid insurance	36,792
Increase (decrease) in accounts payable	(31,547)
Increase (decrease) in wages and benefits payable	(34,663)
Increase (decrease) in deposits subject to refund	(59,228)
Total adjustments	36,355
<b>Net cash provided (used) by operating activities</b>	<b>\$ 139,381</b>

**(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, 2014.

**A. Reporting Entity**

***Fund Types and Major Funds***

**Major Governmental Funds**

General Fund

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

**Non-Major Governmental Funds**

Capital Projects Fund

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

Special Revenue Funds

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

**Major Proprietary Funds**

Cherokee Development Authority

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

**B. Basic Financial Statements**

***Government-wide Financial Statements***

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

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

***Fund Financial Statements***

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

***Measurement Focus and Basis of Accounting***

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

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

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough

thereafter to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

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

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

**C. Budget Policy and Practice**

***Budget Approval***

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

***Basis of Budgeting***

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

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

***Cash and Investments***

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

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

***Accounts Receivable***

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

***Restricted Assets***

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

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

***Interfund Balances***

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

***Capital Assets, Depreciation, and Amortization***

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

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

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

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

***Compensated Absences***

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

***Fund Equity***

**Fund Balance**

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

**Net Position**

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

***Invested in capital assets, net of related debt***

The amount restricted consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted net position***

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

**Governmental Fund Balances**

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

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

***Nonspendable***

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

***Restricted***

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



**Committed**

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

**Assigned**

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

**Unassigned**

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

***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.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

**E. Policies Related to Revenues and Expenses**

***Program Revenues***

**Charges for Services**

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

**Grants and Contributions**

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

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

**General Revenues**

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

**Sales Tax**

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

**(2) ASSETS AND LIABILITIES**

**A. Assets**

***Deposits and Investments***

**Deposits**

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

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.

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Investments**

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

<u>Types of Investments</u>	<b>Primary Government</b>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
<b>Business-type activities</b>				
<b><u>INVESTMENTS:</u></b>				
Certificates of deposit	\$ 796,833	\$ 796,833	N/A	237
Total investments	<u>796,833</u>	<u>796,833</u>		
 Total business-type activities investments	 <u>\$ 796,833</u>	 <u>\$ 796,833</u>		

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

***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, 2014, the City has estimated an allowance of \$26,955 for business-type activities.

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Capital Assets**

**Changes in Capital Assets**

	<b>Primary Government Capital Assets</b>			
	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2014</b>
<i>Governmental Activities</i>				
Land	\$ 5,000	\$ 3,000	\$ -	\$ 8,000
Buildings & structures	133,140	23,038	-	156,178
Machinery, furniture, & equipment	679,855	211,296	-	891,151
Infrastructure & improvements	211,496	685,007	-	896,503
	1,029,491	922,341	-	1,951,832
Less accumulated depreciation	568,413	80,975	-	649,388
	\$ 461,078	\$ 841,366	\$ -	\$ 1,302,444
<i>Business-type Activities</i>				
Infrastructure & improvements	\$ 1,815,079	\$ 322,149	\$ -	\$ 2,137,228
Machinery, furniture, & equipment	701,846	15,477	-	717,323
	2,516,925	337,626	-	2,854,551
Less accumulated depreciation	694,475	103,149	-	797,624
	\$ 1,822,450	\$ 234,477	\$ -	\$ 2,056,927
<b>Total primary government</b>	<b>\$ 2,283,528</b>	<b>\$ 1,075,843</b>	<b>\$ -</b>	<b>\$ 3,359,371</b>

**Depreciation Expense**

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 5,475	Water	\$ 101,696
Public safety & judiciary	39,288	Customer service	1,453
Transportation	21,110		
Cultural, parks & recreation	15,102		
	\$ 80,975	Total depreciation expense	\$ 103,149
Total depreciation expense	\$ 80,975	Total depreciation expense	\$ 103,149

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**B. Liabilities**

**Notes Payable**

**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. 912,067

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. 41,667

Note payable to John Deere Financial for purchase of a backhoe in the original amount of \$41,353. Principal payments are due annually on the 25<sup>th</sup> of April for a five year period. Final payment is due April 25, 2017. 25,868

\$ 979,602

**Changes in Long-Term Debt**

<u>Type of Debt</u>	<u>Balance at July 1, 2013</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
<i>Notes Payable</i>					
OWRB - Water Meters	\$ 195,671	\$ -	\$ 195,671	\$ -	\$ -
OWRB - 2005	974,626	-	62,559	912,067	69,773
Oklahoma Department of Commerce	49,479	-	7,812	41,667	6,250
John Deere - backhoe	33,762	-	7,894	25,868	8,255
<b>Total primary government</b>	<b>\$ 1,253,538</b>	<b>\$ -</b>	<b>\$ 273,936</b>	<b>\$ 979,602</b>	<b>\$ 84,278</b>

**Annual Debt Service Requirements**

<u>Year Ending June 30</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 84,278	\$ 33,167
2016	86,724	30,755
2017	89,425	28,094
2018	82,752	25,415
2019	89,112	23,049
2020-2024	412,791	76,766
2025	89,570	10,905
2026	44,950	804
<b>Totals</b>	<b>\$ 979,602</b>	<b>\$ 228,955</b>

**(3) REVENUES AND EXPENSES**

*Interfund Transfers*

	<u>Due From</u>	<u>Due To</u>
<b>GENERAL FUND</b>		
Cherokee Development Authority	\$ 103,000	\$ -
Special Revenue Fund	61,792	3,720
Total General Fund	<u>164,792</u>	<u>3,720</u>
<b>SPECIAL REVENUE FUND</b>		
General Fund	3,720	61,792
Capital Projects Fund	120	-
Total Special Revenue Fund	<u>3,840</u>	<u>61,792</u>
<b>CAPITAL PROJECTS FUND</b>		
Special Revenue Fund	-	120
Total Capital Projects Fund	<u>-</u>	<u>120</u>
<b>CHEROKEE DEVELOPMENT AUTHORITY</b>		
General Fund	-	103,000
Total Cherokee Development Authority	<u>-</u>	<u>103,000</u>
<b>GRAND TOTAL</b>	<b><u>\$ 168,632</u></b>	<b><u>\$ 168,632</u></b>

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>GENERAL FUND</b>		
Special Revenue Fund	\$ 907,157	\$ -
Capital Projects Fund	334,783	-
Cherokee Development Authority	46,050	150,000
Total General Fund	<u>1,287,990</u>	<u>150,000</u>
<b>SPECIAL REVENUE FUND</b>		
General Fund	-	907,157
Capital Projects Fund	123,150	-
Total Special Revenue Fund	<u>123,150</u>	<u>907,157</u>
<b>CAPITAL PROJECTS FUND</b>		
General Fund	-	334,783
Special Revenue Fund	-	123,150
Total Capital Projects Fund	<u>-</u>	<u>457,933</u>
<b>CHEROKEE DEVELOPMENT AUTHORITY</b>		
General Fund	103,000	46,050
Total Cherokee Development Authority	<u>103,000</u>	<u>46,050</u>
<b>GRAND TOTAL</b>	<b><u>\$ 1,514,140</u></b>	<b><u>\$ 1,561,140</u></b>

**(4) PRIOR PERIOD ADJUSTMENT**

The City recorded a prior period adjustment to reflect the change in presentation of the financial statements to a different basis of accounting. The adjustment is shown as a restatement to the net position of the Governmental activities and the Business-type activities in the Statement of Net Position. In the fund financial statements, the change is shown as a prior period adjustment.

**(5) PENSION AND POST-EMPLOYMENT PLANS**

The City participates in three employee pension systems as follows:

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

**A. Oklahoma Municipal Retirement Fund**

**Plan Description**

Substantially all of the City's regular, full time employees, with the exception of police, firefighters and other employees who are covered under an approved system, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 2.25% of their covered compensation. The City contributed 6.2% of covered compensation for fiscal year 2014. 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 City had 17 active participants and 5 non-active participants as of January 1, 2014.

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"> <li>- Normal retirement at age 65 with 7 years of service.</li> <li>- Early Retirement after age 55 with 7 years or more of service.</li> <li>- Disability retirement upon disability with 7 years of service.</li> <li>- Termination before retirement age return of employee contributions with interest</li> <li>- Termination after vesting accrued benefit at normal retirement age</li> </ul>
b. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 1.125% of final average compensation multiplied by the number of year of credited service
c. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage
- Prior to 7 Years Service	Return of employee contributions with accrued interest.
d. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

**Funding Status and Progress**

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/14	169,854	347,810	177,965	48.8%	505,633	35.2%

a. Date of last Actuarial Valuation	March 2014
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. Amortization method	Level % of payroll
e. Fiscal Year 2014 Contributions Made	
Total Contributions	\$47,234
Employee Contributions	\$11,126
Employer Contributions	\$36,108

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

**B. Oklahoma Firefighter's Pension and Retirement Systems**

**Plan Description**

The City participates in a statewide, cost-sharing, multiple-employer defined benefit plans on behalf of firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	<u>Oklahoma Firefighter's Pension and Retirement System</u>
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Plan member's contribution rate	8% of covered payroll
City's contribution rate	13% per year, per firefighter
Period required to vest	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered.

Deferred retirement option Yes, 20 years credited service with continued service for 30 or more years.

*Annual Required Contributions*

Provision for:

Cost of living adjustment	Yes, if vested by 5/83
Death (duty, non-duty, post retirement)	Yes
Disability (duty, non-duty)	Yes
Cost of living allowances	Yes

Contributions are required by Oklahoma State Statute. Funding status information is presented in the annual financial report of the plans. Copies of the report may be obtained from: Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105.

**(6) 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.

**C. Date of Management's Review**

Subsequent events were evaluated through April 28, 2015, which is the date the financial statements were available to be issued.



**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, 2014**

	<b>Approved Budget</b>	<b>Actual</b>	<b>Variance - Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Sales and use tax	\$ 953,500	\$ 826,288	\$ (127,212)
Fines and forfeitures	65,000	50,849	(14,151)
Beverage tax	33,000	32,045	(955)
Tobacco tax	23,000	14,907	(8,093)
Franchise taxes	84,000	104,064	20,064
Hotel tax	22,000	22,180	180
Library	45,000	11,006	(33,994)
Other revenue	60,000	219,605	159,605
Total revenues	1,285,500	1,280,944	(4,556)
<b>EXPENDITURES</b>			
General government:			
General government	617,318	531,556	85,762
Total general government	617,318	531,556	85,762
Public safety and judiciary:			
Police	405,000	334,355	70,645
Fire	45,000	34,739	10,261
Total public safety and judiciary	450,000	369,094	80,906
Cultural, parks and recreation:			
Library	81,000	89,234	(8,234)
Economic development	25,000	-	25,000
Total cultural, parks and recreation	106,000	89,234	16,766
Total expenditures	1,173,318	989,884	183,434
Revenue over (under) expenditures	112,182	291,060	178,878
Fund balance at beginning of year (Non-GAAP budgetary basis)		842,105	842,105
Fund balance at end of year (Non-GAAP budgetary basis)		\$ 1,133,165	\$ 1,020,983
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>			
Revenue and transfer accruals		77,192	
Expenditure and transfer accruals		(277,604)	
Fund balance at end of year (GAAP basis)		\$ 932,753	

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 City of Cherokee, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Cherokee, Oklahoma's basic financial statements and have issued our report thereon dated April 28, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 City of Cherokee, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Cherokee, Oklahoma's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Finding 2014-2 and 2014-3.

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 2014-1, 2014-4, 2014-5 and 2014-6.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Cherokee, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: Finding 2014-7 and Finding 2014-8.

## **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 questioned costs. City of Cherokee, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

FSW&B CPA's-PLLC

FSW&B CPA's-PLLC  
Woodward, Oklahoma  
April 28, 2015

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2014

FINDING 2014-1 Lack of Segregation of Duties

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

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

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

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

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

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

FINDING 2014-2 Adequate Record Keeping

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

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

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

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, 2014

FINDING 2014-2 Adequate Record Keeping (continued)

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

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

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

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

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

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

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

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

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

FINDING 2014-4 Lack of Proper Reconciliations

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

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

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2014

FINDING 2014-4 Lack of Proper Reconciliations (continued)

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

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

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

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

FINDING 2014-6 Proper Authorization of Funds

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

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

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

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

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

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

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2014

FINDING 2014-6 Lack of Controls for Restricted Revenues

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

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

Cause: Management override of controls.

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

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

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

FINDING 2014-7 Filing Annual Report

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

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

Cause: Management override of controls and inadequate record keeping.

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

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

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

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2014

FINDING 2014-8 Debt Covenant Violation

Condition: The Authority has a debt covenant violation.

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

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

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

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

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