

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

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

**FOR THE YEAR ENDED  
JUNE 30, 2016**

**CITY OF CHEROKEE, OKLAHOMA**  
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**For the fiscal year ended JUNE 30, 2016**

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## 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, and each major fund of the City of Cherokee, Oklahoma, as of and for the year ended June 30, 2016, 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, and each major fund of the City of Cherokee, Oklahoma, as of June 30, 2016, 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 net pension schedules on pages 3–9, 32, and 33–35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the City of Cherokee, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cherokee, Oklahoma's internal control over financial reporting and compliance.

*FSW&B CPAs-PLLC*

FSW&B CPAs-PLLC  
Woodward, Oklahoma  
December 12, 2016

Within this section, the City of Cherokee's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2016. 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, 2016, the assets of the City exceeded its liabilities by \$6,349,113 (net position). Of this amount \$2,376,707 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compares favorably to the previous year when assets exceeded liabilities by \$5,701,506.
- The City's total net position are comprised of the following:
  - (1) Net investment in capital assets of \$3,639,796 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 \$332,610 consists mainly of the restricted cash held for debt obligations and meter deposits.
  - (3) Unrestricted net position of \$2,376,707 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- After transfers of \$100,430 from business-type activities to governmental activities, net position of governmental activities increased \$525,965 or 23% due to grant funding at the Airport. The net position of business-type activities increased \$121,651 or 4% based upon normal operations. 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, 2016 was \$6,349,113. This is a \$647,607 increase over June 30, 2015 net position. The City reported positive balances in total net position for both governmental and business-type activities, \$2,812,615 and \$3,536,498, respectively. The City's overall financial position improved 11% during fiscal year 2016.

Total assets increased by 42% year over year, which is attributable to capital assets purchased and constructed using grant funding and loan proceeds. Total liabilities increased 177% comparatively due to the issuance of the 2015 Clean Water loan with the Oklahoma Water Resources Board, offset by scheduled 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 Position							
	Governmental Activities		Business-Type Activities		Total		\$	%
	2016	2015	2016	2015	2016	2015		
Current assets	\$ 780,596	\$ 1,139,799	\$ 2,362,443	\$ 2,071,320	\$ 3,143,039	\$ 3,211,119	\$ (68,080)	-2%
Capital assets, net	2,291,897	1,406,240	4,592,650	2,422,045	6,884,547	3,828,285	3,056,262	80%
<b>Total assets</b>	<b>3,072,493</b>	<b>2,546,039</b>	<b>6,955,093</b>	<b>4,493,365</b>	<b>10,027,586</b>	<b>7,039,404</b>	<b>2,988,182</b>	<b>42%</b>
Deferred outflow	15,851	826	-	-	15,851	826	15,025	1819%
Current liabilities	75,050	61,326	366,201	269,918	441,251	331,244	110,007	33%
Non-current liabilities	184,560	189,029	3,052,394	808,600	3,236,954	997,629	2,239,325	224%
<b>Total liabilities</b>	<b>259,610</b>	<b>250,355</b>	<b>3,418,595</b>	<b>1,078,518</b>	<b>3,678,205</b>	<b>1,328,873</b>	<b>2,349,332</b>	<b>177%</b>
Deferred inflow	16,119	9,851	-	-	16,119	9,851	6,268	64%
Net position								
Net investment in capital assets	2,291,897	1,406,240	1,347,899	1,526,721	3,639,796	2,932,961	706,835	24%
Restricted	175,370	148,833	157,240	146,978	332,610	295,811	36,799	12%
Unrestricted	345,348	731,586	2,031,359	1,741,148	2,376,707	2,472,734	(96,027)	-4%
<b>Total net position</b>	<b>\$ 2,812,615</b>	<b>\$ 2,286,659</b>	<b>\$ 3,536,498</b>	<b>\$ 3,414,847</b>	<b>\$ 6,349,113</b>	<b>\$ 5,701,506</b>	<b>\$ 647,607</b>	<b>11%</b>

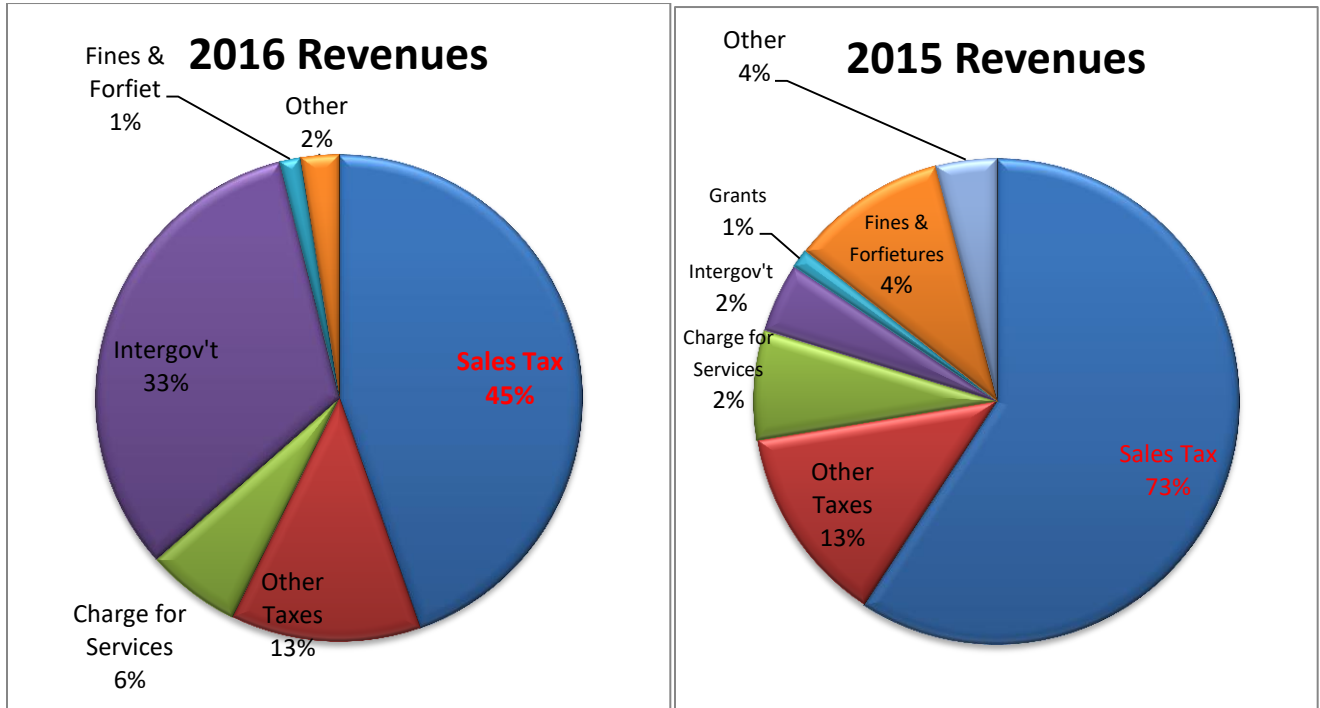
Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Change	
	2016	2015	2016	2015	2016	2015	\$	%
<b>Revenues</b>								
Program revenues	\$ 597,009	\$ 246,775	\$ 1,158,299	\$ 1,130,045	\$ 1,755,308	\$ 1,376,820	\$ 378,488	27%
Taxes and other general revenues	952,931	1,438,566	62,080	29,891	1,015,011	1,468,457	(453,446)	-31%
<b>Total revenues</b>	<b>1,549,940</b>	<b>1,685,341</b>	<b>1,220,379</b>	<b>1,159,936</b>	<b>2,770,319</b>	<b>2,845,277</b>	<b>(74,958)</b>	<b>-3%</b>
<b>Expenses</b>								
General government	351,965	496,752	-	-	351,965	496,752	(144,787)	-29%
Public safety and judiciary	312,539	449,706	-	-	312,539	449,706	(137,167)	-31%
Transportation	188,803	131,622	-	-	188,803	131,622	57,181	43%
Cultural, parks, and rec	271,107	306,662	-	-	271,107	306,662	(35,555)	-12%
Water	-	-	477,342	538,999	477,342	538,999	(61,657)	-11%
Sewer	-	-	50,044	46,809	50,044	46,809	3,235	7%
Sanitation	-	-	194,559	180,770	194,559	180,770	13,789	8%
Customer service	-	-	276,353	255,354	276,353	255,354	20,999	8%
<b>Total expenses</b>	<b>1,124,414</b>	<b>1,384,742</b>	<b>998,298</b>	<b>1,021,932</b>	<b>2,122,712</b>	<b>2,406,674</b>	<b>(283,962)</b>	<b>-12%</b>
Excess (deficiency) before transfers	\$ 425,526	\$ 300,599	\$ 222,081	\$ 138,004	\$ 647,607	\$ 438,603	\$ 209,004	48%
Transfers	100,430	(357,530)	(100,430)	357,530	-	-	-	0%
<b>Increase (decrease) in net position</b>	<b>\$ 525,956</b>	<b>\$ (56,931)</b>	<b>\$ 121,651</b>	<b>\$ 495,534</b>	<b>\$ 647,607</b>	<b>\$ 438,603</b>	<b>\$ 209,004</b>	<b>48%</b>

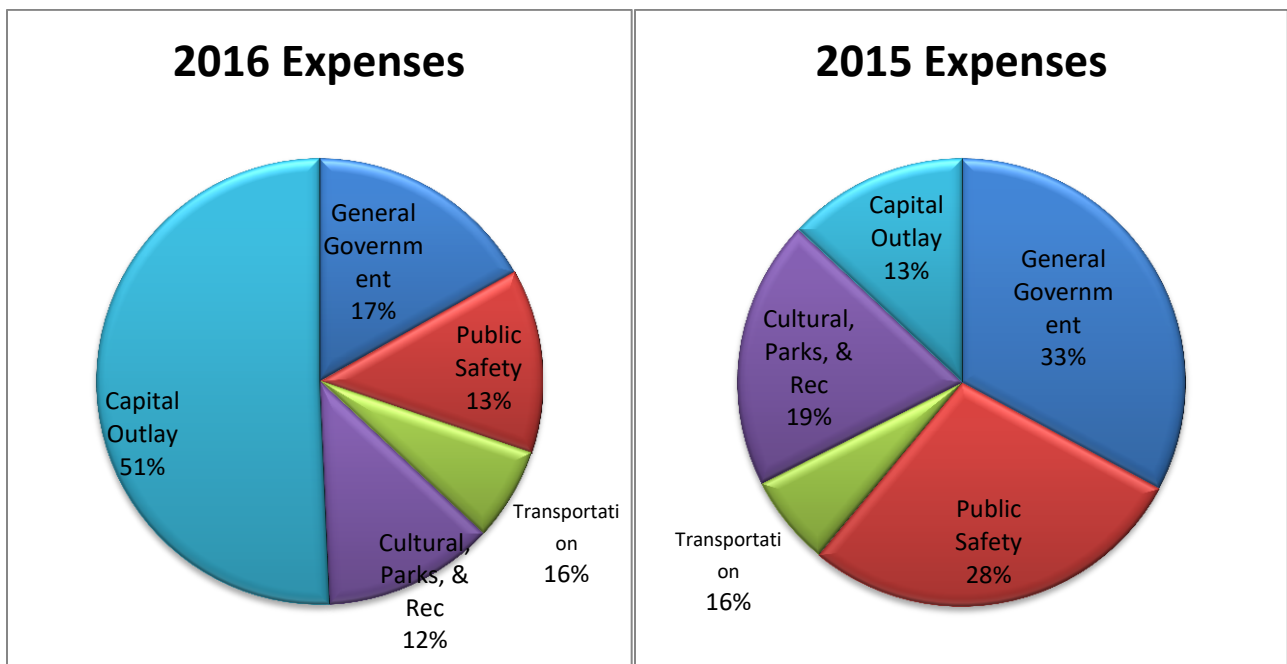
Total revenues for the City remained consistent between years, noting a 3% decrease. Program revenues increased due to grant funding for the airport as well as strong utility usage during the fiscal year. Taxes and general revenues noted a decline due to sales tax collection and oil royalties. Expenses also noted a decrease when compared to prior year due to cost savings implemented by management, savings on repairs, and lower operating costs.



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

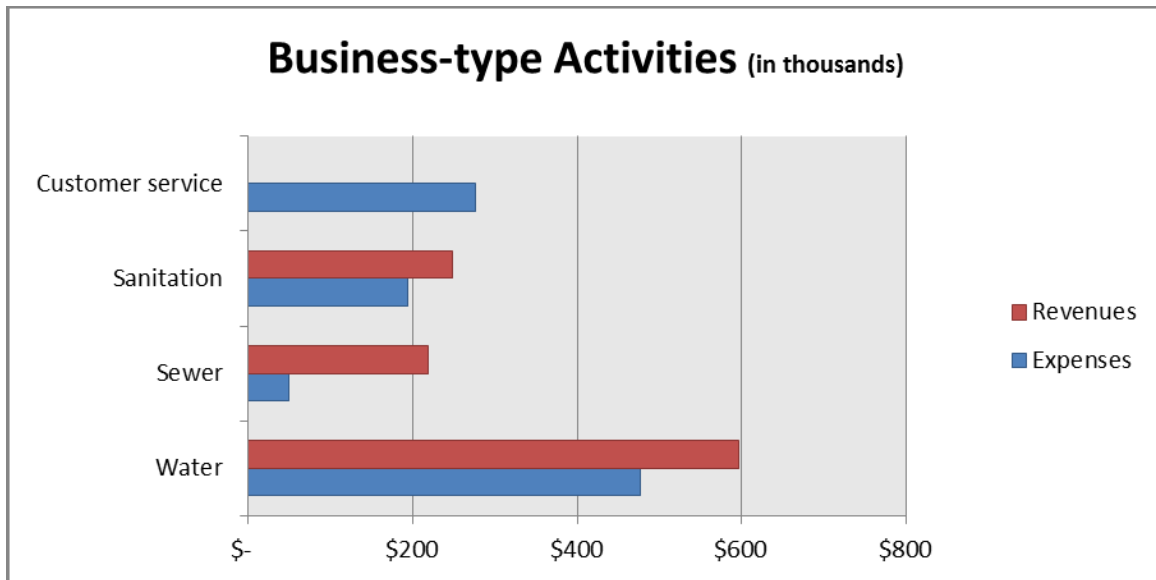


Taxes provided for 45% of the City's governmental revenues in fiscal year 2016 which fell significantly from prior year of 73%. This decrease is not only a function of the decline in collections, but is further impacted by an increase in grant funding. Grant funding is reported as Intergovernmental revenues above, which includes the grant funding for the airport. Other taxes, including use tax, tobacco tax, franchise taxes, and alcohol beverage tax were a source of income at 13% for the fiscal year. All revenue sources remained consistent.



For the year ended June 30, 2016, total expenses for governmental activities were \$2,010,071. Included in this amount is \$1,081,964 in capital improvements purchased or constructed by the City during the fiscal year. These additions were funded with grant proceeds and proceeds from debt obligations. General government at \$33,684 was the largest expense for the City using over 17% 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, 2016, 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 2016 was \$753,335 and was amended during the fiscal year, adding \$280,000 to the budget. The final amended budget was \$1,033,335 which is less than a 1% change over the prior year budget of \$1,023,155. 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, 2016, the City had \$3,639,796 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			
	2016	2015	2016	2015	2016	2015
Land and CIP	\$ 79,239	\$ 35,321	\$ 2,447,755	\$ 212,747	\$ 2,526,994	\$ 248,068
Buildings	336,121	143,962	-	-	336,121	143,962
Machinery & equipment	354,158	339,113	343,289	343,824	697,447	682,937
Infrastructure	1,522,379	887,844	1,801,606	1,865,474	3,323,985	2,753,318
Totals	<u>\$ 2,291,897</u>	<u>\$ 1,406,240</u>	<u>\$ 4,592,650</u>	<u>\$ 2,422,045</u>	<u>\$ 6,884,547</u>	<u>\$ 3,828,285</u>

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

- Airport runway and lighting improvements, including a fuel system
- City hall and police department building improvements
- Building for the Fire department, as well as bunker gear
- Lagoon rehabilitation project
- Water lines and storage tank improvements

**Long-Term Debt**

At year-end, the City had \$3,044,873 in long-term debt outstanding. During the fiscal year, the City received proceeds from the 2016 SRF Clean Water Loan from the Oklahoma Water Resources Board in the amount of \$2,640,000, which accounts for the large increase in notes payable between fiscal years. As noted above, the proceeds from the loan were used in the lagoon rehabilitation and water improvements.

The City's changes in long-term debt by type of debt are as follows:

**Primary Government Long-Term Debt**

	Business-type	
	Activities	
	2015	2015
Notes payable	3,237,230	895,324
less current portion	(192,357)	(86,724)
Totals	<u>\$ 3,044,873</u>	<u>\$ 808,600</u>

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

Economic Environment

According to the Tulsa World newspaper, "gross revenue for the state of Oklahoma continued a downward spiral for the 18th consecutive month in August, as unemployment figures show the state's jobless numbers exceeded the national rate for the first time in almost 26 years." "We keep scouring through the data to find signs of an impending turnaround, but it's just not there," Miller said. "Some aspects of the August report aren't as negative as in prior months. A few revenue streams have ticked back up, but we can't yet point to a positive trend." The economic environment of the state sheds light on the local economy of the City.

Fiscal Year 2017 Budget

The budget includes 3% rate increases for water utility services provided by the City, in order to keep up with the increasing costs of providing such services. These increases will generate an estimated \$18,000.

An increase of \$7/per month base fee for sewer service is included per OWRB loan requirements for the Lagoon Project. This increase is estimated to equate to \$71,400.

The budget includes 10% rate increases for trash services. This increase is in response to the estimated 23% increase from our trash provider and is intended to help offset the costs to the City, while not burdening the citizens with the full impact of the increase in the current fiscal year. This increase will generate an estimated \$20,000. Even with the proposed rate increase to our customers, the City is projected to pay more for trash service than we will receive from our customers.

A 2% cost-of-living pay increase for employees has been budgeted for fiscal year 2016.

Grant Revenues of \$250,000 are budgeted for a CDBG grant for the Sewer Lagoons. A debt issuance from OWRB for \$1.8 million is budgeted at an estimated 3.5% for 45 years. The loan is budgeted to be used for the Sewer Lagoon Project. Estimated payments for the debt are \$83,676 for fiscal year 2016.

The budget includes over \$2.4 million in capital additions for fiscal year 2017.

### **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, 2016**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Current Assets:			
Cash and cash equivalents	\$ 391,113	\$ 2,228,317	\$ 2,619,430
Accounts receivable, net	62,426	99,403	161,829
Grant receivable	48,974	-	48,974
Prepaid assets	24,072	5,955	30,027
Total current assets	<u>526,585</u>	<u>2,333,675</u>	<u>2,860,260</u>
Restricted assets:			
Cash and cash equivalents	125,539	157,240	282,779
Total restricted assets	<u>125,539</u>	<u>157,240</u>	<u>282,779</u>
Noncurrent Assets:			
Land and construction in progress	79,239	2,447,755	2,526,994
Other capital assets (net of accumulated depreciation)	2,212,658	2,144,895	4,357,553
Total noncurrent assets	<u>2,291,897</u>	<u>4,592,650</u>	<u>6,884,547</u>
Total assets	<u>\$ 2,944,021</u>	<u>\$ 7,083,565</u>	<u>\$ 10,027,586</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred charges on pension obligations	<u>15,851</u>	<u>-</u>	<u>15,851</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 19,863	\$ 27,881	\$ 47,744
Wages and benefits payable	55,187	18,589	73,776
Due to other funds	(128,472)	128,472	-
Notes payable, current	-	192,357	192,357
Total current liabilities	<u>(53,422)</u>	<u>367,299</u>	<u>313,877</u>
Liabilities payable from restricted assets:			
Accrued interest payable	-	23,814	23,814
Customer deposits payable	-	103,560	103,560
Total liabilities payable from restricted assets	<u>-</u>	<u>127,374</u>	<u>127,374</u>
Noncurrent liabilities:			
Deferred revenue	-	7,521	7,521
Notes payable, non-current	-	3,044,873	3,044,873
Pension liability	184,560	-	184,560
Total noncurrent liabilities	<u>184,560</u>	<u>3,052,394</u>	<u>3,236,954</u>
Total liabilities	<u>131,138</u>	<u>3,547,067</u>	<u>3,678,205</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred charges on pension obligations	<u>16,119</u>	<u>-</u>	<u>16,119</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,291,897	1,347,899	3,639,796
Restricted	175,370	157,240	332,610
Unrestricted	345,348	2,031,359	2,376,707
Total net position	<u>\$ 2,812,615</u>	<u>\$ 3,536,498</u>	<u>\$ 6,349,113</u>

**City of Cherokee, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 326,965	\$ 876	\$ -	\$ -	\$ (326,089)
Economic development	25,000	-	14,467	-	(10,533)
Total general government	<u>351,965</u>	<u>876</u>	<u>14,467</u>	<u>-</u>	<u>(336,622)</u>
Public safety and judiciary:					
Police	249,978	21,570	3,334	-	(225,074)
Fire	62,561	4,200	4,290	-	(54,071)
Total public safety and judiciary	<u>312,539</u>	<u>25,770</u>	<u>7,624</u>	<u>-</u>	<u>(279,145)</u>
Transportation:					
Street	157,061	-	14,210	-	(142,851)
Airport	31,742	6,720	-	481,966	456,944
Total transportation	<u>188,803</u>	<u>6,720</u>	<u>14,210</u>	<u>481,966</u>	<u>314,093</u>
Cultural, parks and recreation:					
Park	156,811	10,085	-	-	(146,726)
Cemetery	25,471	17,593	-	-	(7,878)
Library	88,825	17,698	-	-	(71,127)
Total cultural, parks and recreation	<u>271,107</u>	<u>45,376</u>	<u>-</u>	<u>-</u>	<u>(225,731)</u>
Total governmental activities	<u>1,124,414</u>	<u>78,742</u>	<u>36,301</u>	<u>481,966</u>	<u>(527,405)</u>
Business-type activities:					
Water	477,342	596,586	-	-	119,244
Sewer	50,044	219,177	-	-	169,133
Sanitation	194,559	248,201	-	-	53,642
Customer service	276,353	-	-	-	(276,353)
Total business-type activities	<u>998,298</u>	<u>1,063,964</u>	<u>-</u>	<u>-</u>	<u>65,666</u>
<b>Total primary government</b>	<u>\$ 2,122,712</u>	<u>\$ 1,142,706</u>	<u>\$ 36,301</u>	<u>\$ 481,966</u>	<u>\$ (461,739)</u>

**City of Cherokee, Oklahoma**  
Statement of Activities (continued)  
Year Ended June 30, 2016

<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	\$ (527,405)	\$ 65,666	\$ (461,739)
General revenues:			
Taxes:			
Sales taxes	685,648	-	685,648
Use taxes	44,877	-	44,877
Franchise taxes	93,928	-	93,928
Alcoholic beverage tax	32,378	-	32,378
Cigarette tax	8,246	-	8,246
Investment income	304	6,786	7,090
Rental income	-	94,335	94,335
Oil/gas lease income	35,935	-	35,935
Penalties	-	24,339	24,339
Change in pension obligation	13,226	-	13,226
Miscellaneous	38,389	30,955	69,344
Transfers - Internal activity, net	100,430	(100,430)	-
Total general revenues and transfers	1,053,361	55,985	1,109,346
<b>Change in net position</b>	525,956	121,651	647,607
<b>Net position - beginning</b>	2,286,659	3,414,847	5,701,506
<b>Net position - ending</b>	\$ 2,812,615	\$ 3,536,498	\$ 6,349,113

**City of Cherokee, Oklahoma  
Balance Sheet  
Governmental Funds  
June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 182,619	\$ 286,583	\$ 47,450	\$ 516,652
Due from other funds	282,807	6,233	-	289,040
Revenue receivable	42,797	19,629	-	62,426
Grant receivable	-	-	48,974	48,974
Prepaid assets	18,048	6,024	-	24,072
Total assets	<u>\$ 526,271</u>	<u>\$ 318,469</u>	<u>\$ 96,424</u>	<u>\$ 941,164</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 10,834	\$ 9,029	\$ -	\$ 19,863
Wages and benefits payable	34,693	20,494	-	55,187
Due to other funds	-	154,335	6,233	160,568
Total liabilities	<u>45,527</u>	<u>183,858</u>	<u>6,233</u>	<u>235,618</u>
<b>FUND BALANCES</b>				
Restricted	-	85,179	90,191	175,370
Committed	90,319	-	-	90,319
Assigned	32,651	41,645	-	74,296
Unassigned	357,774	7,787	-	365,561
Total fund balances	<u>480,744</u>	<u>134,611</u>	<u>90,191</u>	<u>705,546</u>
Total liabilities and fund balances	<u>\$ 526,271</u>	<u>\$ 318,469</u>	<u>\$ 96,424</u>	<u>\$ 941,164</u>
Total fund balance- total governmental funds				\$ 705,546
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	\$ 79,239		
	Depreciable capital assets	3,038,212		
	Less: Accumulated depreciation	<u>(825,554)</u>	2,291,897	
Long-term liabilities are not due and payable in the current period and are not reported in the funds.				
	Deferred outflow/(inflow) of resources		(268)	
	Net pension liability		<u>(184,560)</u>	
Net position of governmental activities				<u>\$ 2,812,615</u>



**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2016**

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Funds
<b>REVENUES</b>				
Sales tax	\$ 421,937	\$ 263,711	\$ -	\$ 685,648
Use tax	44,877	-	-	44,877
Beverage tax	32,378	-	-	32,378
Franchise taxes	93,928	-	-	93,928
Cigarette tax	8,246	-	-	8,246
Hotel tax	14,467	-	-	14,467
Licenses and permits	876	-	-	876
Fines and forfeitures	21,570	-	-	21,570
Lease income	-	-	-	-
Investment income	199	51	54	304
Charges for services	21,898	25,792	5,220	52,910
Rent and royalties	35,935	6,720	-	42,655
Intergovernmental	4,290	14,210	-	18,500
Grants	-	-	481,966	481,966
Miscellaneous	37,075	1,314	-	38,389
Total revenues	<u>737,676</u>	<u>311,798</u>	<u>487,240</u>	<u>1,536,714</u>
<b>EXPENDITURES</b>				
General government:				
General government	313,684	-	-	313,684
Economic development	25,000	-	-	25,000
Total general government	<u>338,684</u>	<u>-</u>	<u>-</u>	<u>338,684</u>
Public safety and judiciary:				
Police	218,364	-	-	218,364
Fire	49,891	-	-	49,891
Total public safety and judiciary	<u>268,255</u>	<u>-</u>	<u>-</u>	<u>268,255</u>
Transportation:				
Street	-	135,378	-	135,378
Total transportation	<u>-</u>	<u>135,378</u>	<u>-</u>	<u>135,378</u>
Cultural, parks and recreation:				
Park	-	135,200	-	135,200
Cemetery	-	24,765	-	24,765
Library	88,825	-	-	88,825
Total cultural, parks and recreation	<u>88,825</u>	<u>159,965</u>	<u>-</u>	<u>248,790</u>
Capital outlay	1,018,964	-	-	1,018,964
Total expenditures	<u>1,714,728</u>	<u>295,343</u>	<u>-</u>	<u>2,010,071</u>
Excess (deficiency) of revenues over expenditures	<u>(977,052)</u>	<u>16,455</u>	<u>487,240</u>	<u>(473,357)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	934,084	615,793	3,780	1,553,657
Transfers out	(169,259)	(837,234)	(446,734)	(1,453,227)
Total other financing sources and uses	<u>764,825</u>	<u>(221,441)</u>	<u>(442,954)</u>	<u>100,430</u>
Net change in fund balances	(212,227)	(204,986)	44,286	(372,927)
Fund balances - beginning	692,971	339,597	45,905	1,078,473
Fund balances - ending	<u>\$ 480,744</u>	<u>\$ 134,611</u>	<u>\$ 90,191</u>	<u>\$ 705,546</u>

**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2016**

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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 \$ (372,927)

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	1,018,964
Depreciation expense	(133,307)

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.

13,226
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Change in Net Position of Governmental Activities	\$ 525,956
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**City of Cherokee, Oklahoma**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,228,317
Accounts receivable (net)	99,403
Prepaid assets	5,955
Total current assets	2,333,675
Restricted assets:	
Cash and cash equivalents	157,240
Total restricted assets	157,240
Noncurrent assets:	
Capital assets (net)	4,592,650
Total noncurrent assets	4,592,650
<b>Total assets</b>	<b>\$ 7,083,565</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 27,881
Wages and benefits payable	18,589
Due to other funds	128,472
Notes payable, current	192,357
Total current liabilities	367,299
Liabilities payable from restricted assets:	
Accrued interest payable	23,814
Customer deposits payable	103,560
Total liabilities payable from restricted assets	127,374
Noncurrent liabilities:	
Deferred revenue	7,521
Notes payable, non-current	3,044,873
Total noncurrent liabilities	3,052,394
<b>Total liabilities</b>	<b>3,547,067</b>
<b>NET POSITION</b>	
Net investment in capital assets	1,347,899
Restricted	157,240
Unrestricted	2,031,359
<b>Total net position</b>	<b>\$ 3,536,498</b>

**City of Cherokee, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2016**

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b><u>Operating revenues:</u></b>	
Charges for services:	
Water charges	\$ 596,586
Sewer charges	219,177
Sanitation charges	248,201
Total charges for services	1,063,964
Rents and royalties	94,335
Penalties	24,339
Miscellaneous	30,957
Total operating revenues	1,213,595
<b><u>Operating expenses:</u></b>	
Personal services	289,610
Materials and supplies	85,100
Other services and charges	428,650
Depreciation and amortization	113,881
Total operating expenses	917,241
Net operating income	\$ 296,354
<b><u>Nonoperating revenue (expense):</u></b>	
Investment income	6,786
Interest expense	(58,761)
Bad debt expense	(22,298)
Total nonoperating revenue/(expense)	(74,273)
<b>Net income before contributions and transfers</b>	222,081
Transfers from other funds	9,590
Transfers to other funds, net	(110,020)
<b>Change in net position</b>	121,651
Net position - beginning of year	3,414,847
Net position-end of year	\$ 3,536,498

City of Cherokee, Oklahoma  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2016

	<b>Business-type Activities</b>
	<b>Cherokee Development Authority</b>
<b><u>Cash flows from operating activities:</u></b>	
Receipts from customers	\$ 1,003,705
Payments to suppliers	(462,555)
Payments to employees	(291,885)
Other operating revenues	149,631
<b>Net cash provided (used) by operating activities</b>	<b>398,896</b>
<b><u>Cash flows from non-capital financing activities:</u></b>	
Transfers from other funds	9,590
Transfers to other funds	(110,020)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>(100,430)</b>
<b><u>Cash flows from capital and related financing activities:</u></b>	
Purchase of capital assets	(2,284,486)
Proceeds on issuance of debt	2,401,585
Principal paid on capital debt	(86,724)
Interest paid on capital debt	(58,761)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(28,386)</b>
<b><u>Cash flows from investing activities:</u></b>	
Change in investments	-
Investment income	6,786
<b>Net cash provided (used) by investing activities</b>	<b>6,786</b>
Net increase (decrease) in cash and cash equivalents	276,866
Cash and cash equivalents, July 1, 2015	2,108,691
Cash & cash equivalents, June 30, 2016	<b>\$ 2,385,557</b>
Cash, including time deposits	\$ 2,228,317
Restricted cash, including time deposits	157,240
Total cash and cash equivalents, end of year	<b>\$ 2,385,557</b>
<b><u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u></b>	
Operating income (loss)	\$ 296,354
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	113,881
<i>Changes in assets and liabilities:</i>	
(Increase) decrease in accounts receivable	(60,259)
(Increase) decrease in prepaid insurance	20,530
Increase (decrease) in accounts payable	35,000
Increase (decrease) in wages and benefits payable	(2,275)
Increase (decrease) in deposits subject to refund	(4,335)
Total adjustments	102,542
<b>Net cash provided (used) by operating activities</b>	<b>\$ 398,896</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, 2016.

**A. Reporting Entity**

***Fund Types and Major Funds***

**Major Governmental Funds**

General Fund

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

**Non-Major Governmental Funds**

Capital Projects Fund

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

Special Revenue Funds

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

**Major Proprietary Funds**

Cherokee Development Authority

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

**B. Basic Financial Statements**

***Government-wide Financial Statements***

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

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

***Fund Financial Statements***

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

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

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

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

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

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

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

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

**C. Budget Policy and Practice**

***Budget Approval***

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

***Basis of Budgeting***

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

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

***Cash and Investments***

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

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

***Accounts Receivable***

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

***Restricted Assets***

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

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

***Interfund Balances***

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

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

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

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

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

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

***Compensated Absences***

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

***Fund Equity***

**Fund Balance**

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

**Net Position**

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

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

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

**Restricted net position**

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

**Governmental Fund Balances**

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

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

**Nonspendable**

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

**Restricted**

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



**Committed**

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

**Assigned**

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

**Unassigned**

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

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

***Use of Estimates***

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

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

***Program Revenues***

**Charges for Services**

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

**Grants and Contributions**

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

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

**General Revenues**

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

**Sales Tax**

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

**(2) ASSETS AND LIABILITIES**

**A. Assets**

***Deposits and Investments***

**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. At June 30, 2016, the City's deposits were fully collateralized.

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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, 2016, the City has estimated an allowance of \$34,886 for business-type activities.

**Capital Assets**

**Changes in Capital Assets**

	<b>Primary Government Capital Assets</b>			
	<b>Balance at July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2016</b>
<i>Governmental Activities</i>				
Land and construction in process	\$ 35,321	\$ 43,918	\$ -	\$ 79,239
Buildings & structures	156,178	271,000	-	427,178
Machinery, furniture, & equipment	957,590	83,294	-	1,040,884
Infrastructure & improvements	949,398	620,752	-	1,570,150
<b>Total</b>	<b>2,098,487</b>	<b>1,018,964</b>	<b>-</b>	<b>3,117,451</b>
Less accumulated depreciation	692,247	133,307	-	825,554
<b>Governmental fixed assets, net</b>	<b>\$ 1,406,240</b>	<b>\$ 885,657</b>	<b>\$ -</b>	<b>\$ 2,291,897</b>
<i>Business-type Activities</i>				
Construction in process	\$ 212,747	\$ 2,235,008	\$ -	\$ 2,447,755
Infrastructure & improvements	2,399,621	9,222	-	2,408,843
Machinery, furniture, & equipment	717,323	40,256	-	757,579
<b>Total</b>	<b>3,329,691</b>	<b>2,284,486</b>	<b>-</b>	<b>5,614,177</b>
Less accumulated depreciation	907,646	113,881	-	1,021,527
<b>Business-type fixed assets, net</b>	<b>\$ 2,422,045</b>	<b>\$ 2,170,605</b>	<b>\$ -</b>	<b>\$ 4,592,650</b>
<b>Total primary government</b>	<b>\$ 3,828,285</b>	<b>\$ 3,056,262</b>	<b>\$ -</b>	<b>\$ 6,884,547</b>

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:

<b>Primary Government</b>			
<b>Governmental Activities</b>		<b>Business-type Activities</b>	
General government	\$ 13,281	Water	\$ 112,225
Public safety & judiciary	44,284	Sewer	424
Transportation	53,425	Customer service	1,232
Cultural, parks & recreation	22,317		
<b>Total depreciation expense</b>	<b>\$ 133,307</b>	<b>Total depreciation expense</b>	<b>\$ 113,881</b>

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**B. Liabilities**

***Long-Term Debt***

The following is a summary of enterprise fund long-term debt for the year ended June 30, 2016:

**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.	\$ 770,436
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.	29,167
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.	8,996
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.	2,640,000
	\$ 3,448,600

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

<b>Type of Debt</b>	<b>Balance at July 1, 2015</b>	<b>Amount Issued</b>	<b>Amount Retired</b>	<b>Balance at June 30, 2016</b>	<b>Due Within One Year</b>
<b>Business-type activities:</b>					
<i>Notes Payable</i>					
OWRB - 2005	\$ 842,294	\$ -	71,857	\$ 770,437	\$ 71,857
Oklahoma Department of Commerce	35,417	-	6,250	29,167	6,250
John Deere - backhoe	17,613	-	8,617	8,996	8,617
OWRB SRF 2015 Clean Water	-	2,640,000	-	2,640,000	105,633
<b>Total primary government</b>	<b>\$ 895,324</b>	<b>\$ 2,640,000</b>	<b>\$ 86,724</b>	<b>\$ 3,448,600</b>	<b>\$ 192,357</b>

**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, 2016 follow:

Year Ending June 30	Notes Payable	
	Principal	Interest
2017	\$ 99,046	\$ 72,184
2018	93,131	69,717
2019	99,112	63,598
2020	104,808	58,133
2021	103,095	58,007
2022-2026	490,714	287,346
2027-2031	495,504	256,183
2032-2036	567,579	200,190
2037-2041	650,427	131,800
2042-2046	745,184	50,059
Totals	<u>\$ 3,448,600</u>	<u>\$ 865,168</u>

**(3) REVENUES AND EXPENSES**

**A. Interfund Transfers**

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

	<u>Due From</u>	<u>Due To</u>
<b>GENERAL FUND</b>		
Cherokee Development Authority	\$ 128,472	\$ -
Special Revenue Fund	154,335	-
Total General Fund	<u>282,807</u>	<u>-</u>
<b>SPECIAL REVENUE FUND</b>		
General Fund	-	154,335
Capital Projects Fund	6,233	-
Total Special Revenue Fund	<u>6,233</u>	<u>154,335</u>
<b>CAPITAL PROJECTS FUND</b>		
Special Revenue Fund	-	6,233
Total Capital Projects Fund	<u>-</u>	<u>6,233</u>
<b>CHEROKEE DEVELOPMENT AUTHORITY</b>		
General Fund	-	128,472
Total Cherokee Development Authority	<u>-</u>	<u>128,472</u>
<b>GRAND TOTAL</b>	<u>\$ 289,040</u>	<u>\$ 289,040</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>GENERAL FUND</b>		
Special Revenue Fund	\$ 824,064	\$ 169,059
Cherokee Development Authority	110,020	200
Total General Fund	<u>934,084</u>	<u>169,259</u>
<b>SPECIAL REVENUE FUND</b>		
General Fund	446,734	824,064
Capital Projects Fund	169,059	3,580
	-	9,590
Total Special Revenue Fund	<u>615,793</u>	<u>837,234</u>
<b>CAPITAL PROJECTS FUND</b>		
Special Revenue Fund	3,780	446,734
Total Capital Projects Fund	<u>3,780</u>	<u>446,734</u>
<b>CHEROKEE DEVELOPMENT AUTHORITY</b>		
General Fund	-	110,020
Special Revenue Fund	9,590	-
Total Cherokee Development Authority	<u>9,590</u>	<u>110,020</u>
<b>GRAND TOTAL</b>	<u>\$ 1,563,247</u>	<u>\$ 1,563,247</u>

**B. Insurance Recovery**

During the fiscal year, the City was hit by lightning which caused damage to electrical components and pumps at the sewer plant and standpipe water tank. The City received \$28,541 in insurance replacement cost for the damage. The recovery funds are recorded in the Statement of Activities.

**(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 6.2% of covered compensation for fiscal year 2016. 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](http://www.okmrf.org/reports.com). Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

The City had 15 active participants and 5 non-active participants as of January 1, 2016.

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"> <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

Actuarial Assumptions

a. Date of last Actuarial Valuation February 2015

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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:

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

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2015 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, 2015 and the City's report ending date of June 30, 2016, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

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

**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	\$ 195,815	\$ 151,262	\$ 114,149

The City reported \$17,548 in pension expense for the year ended June 30, 2016.

At June 30, 2016, 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	\$ -	\$ 1,321
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	14,013	3,452
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	5,399
Total	\$ 14,013	\$ 10,172

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:	
2017	\$ 7,444
2018	2,045
2019	2,046
2020	3,196
2021	(92)

**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](http://www.ok.gov/fprs).

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

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

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

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



**CITY OF CHEROKEE, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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 \$1,200 (fiscal year contributions).

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$33,298 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. 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, 2015. Based upon this information the City's proportion was 0.003137%.

For the year ended June 30, 2016, the City recognized pension expense of \$2,398. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 658	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,180	3,663
Changes in proportion and differences between City contributions and proportionate share of contributions	-	2,284
City contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>\$ 1,838</b>	<b>\$ 5,947</b>

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:	
2017	\$ (1,374)
2018	(1,374)
2019	(1,374)
2020	(51)
2021	62

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2015, 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, 2015, 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, 2015, 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:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
City's proportionate share of the net pension liability/(asset)	43,232	33,298	24,963

**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](http://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, 2016**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>REVENUES</b>					
Sales and use tax	\$ 504,889	\$ (39,000)	\$ 465,889	\$ 466,814	\$ 925
Fines and forfeitures	16,000	1,500	17,500	21,570	4,070
Beverage tax	30,901	-	30,901	32,378	1,477
Tobacco tax	9,181	-	9,181	8,246	(935)
Franchise taxes	97,345	(5,000)	92,345	93,928	1,583
Hotel tax	16,202	(2,500)	13,702	14,467	765
Library	18,000	-	18,000	21,898	3,898
Other revenue	45,199	26,990	72,189	78,375	6,186
Total revenues	<u>737,717</u>	<u>(18,010)</u>	<u>719,707</u>	<u>737,676</u>	<u>17,969</u>
<b>EXPENDITURES</b>					
General government:					
General government	<u>382,600</u>	<u>118,000</u>	<u>500,600</u>	<u>481,284</u>	<u>19,316</u>
Total general government	<u>382,600</u>	<u>118,000</u>	<u>500,600</u>	<u>481,284</u>	<u>19,316</u>
Public safety and judiciary:					
Police	207,000	42,000	249,000	248,463	537
Fire	71,735	95,000	166,735	162,669	4,066
Total public safety and judiciary	<u>278,735</u>	<u>137,000</u>	<u>415,735</u>	<u>411,132</u>	<u>4,603</u>
Cultural, parks and recreation:					
Library	92,000	-	92,000	88,825	3,175
Economic development	-	25,000	25,000	25,000	-
Total cultural, parks and recreation	<u>92,000</u>	<u>25,000</u>	<u>117,000</u>	<u>113,825</u>	<u>3,175</u>
Total expenditures	<u>753,335</u>	<u>280,000</u>	<u>1,033,335</u>	<u>1,006,241</u>	<u>27,094</u>
Revenue over (under) expenditures	(15,618)	(298,010)	(313,628)	(268,565)	45,063
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	<u>59,800</u>	<u>(5,000)</u>	<u>54,800</u>	<u>100,256</u>	<u>45,456</u>
Net other financing sources (uses)	<u>59,800</u>	<u>(5,000)</u>	<u>54,800</u>	<u>100,256</u>	<u>45,456</u>
Revenues and other financing sources over (under) expenditures and other uses	44,182	(303,010)	(258,828)	(168,309)	90,519
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>902,686</u>	<u>902,686</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 734,377	<u>\$ 993,205</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and transfer accruals				(253,633)	
Fund balance at end of year (GAAP basis)				<u>\$ 480,744</u>	

**City of Cherokee, Oklahoma**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Oklahoma Fire Pension Retirement Plan**  
 Year Ended June 30, 2016

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.0034%	0.0031%
City's proportionate share of the net pension liability (asset)	\$ 34,668	\$ 33,298
City's covered-employee payroll	\$ 26,572	\$ 22,395
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	130%	149%
Plan fiduciary net position as a percentage of the total pension liability	73.13%	74.19%

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

Only the current 2 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

	<u>2015*</u>	<u>2016*</u>
<b>Total pension liability</b>		
Service cost	\$ 21,461	\$ 24,053
Interest	26,331	27,072
Changes in benefit terms	-	-
Differences between expected and actual experience	-	(1,628)
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(17,791)	(15,694)
<b>Net change in total pension liability</b>	<b>\$ 30,001</b>	<b>\$ 33,803</b>
<b>Total pension liability - beginning</b>	<b>327,018</b>	<b>357,019</b>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 357,019</u></b>	<b><u>\$ 390,822</u></b>
<b>Plan fiduciary net position</b>		
Contributions - employer	31,811	34,491
Contributions - employee	11,375	12,426
Net investment income	24,121	6,115
Benefit payments, including refunds of employee contributions	(17,791)	(15,694)
Administrative expense	(366)	(435)
Other	-	-
<b>Net change in plan fiduciary net position</b>	<b>49,150</b>	<b>36,903</b>
<b>Plan fiduciary net position - beginning</b>	<b>153,507</b>	<b>202,657</b>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 202,657</u></b>	<b><u>\$ 239,560</u></b>
<b>City's net pension liability - ending (a) - (b)</b>	<b><u>\$ 154,362</u></b>	<b><u>\$ 151,262</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>56.76%</b>	<b>61.30%</b>
<b>Covered-employee payroll</b>	<b>\$ 488,799</b>	<b>\$ 453,557</b>
<b>City's net pension liability as a percentage of covered-employee payroll</b>	<b>31.58%</b>	<b>33.35%</b>

**City of Cherokee, Oklahoma**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Oklahoma Municipal Retirement Plan**  
 Year Ended June 30, 2016

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.0325%	0.0310%
City's proportionate share of the net pension liability (asset)	\$ 154,362	\$ 151,262
City's covered-employee payroll	\$ 488,799	\$ 453,557
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.58%	33.35%
Plan fiduciary net position as a percentage of the total pension liability	81.85%	82.22%

\* 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>
Actuarially determined contribution	\$ 31,811	\$ 34,491
Contributions in relation to the actuarially determined contribution	<u>(31,811)</u>	<u>(39,890)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (5,399)</u>
City's covered-employee payroll	\$ 488,799	\$ 453,557
Contributions as a percentage of covered-employee payroll	6.51%	7.60%

Only the current 2 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, and each major fund of the City of Cherokee, Oklahoma, as of and for the year ended June 30, 2016, 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 December 12, 2016.

**Internal Control over Financial Reporting**

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: Finding 2016-1.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Cherokee, Oklahoma's Response to Findings**

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

### **Purpose of this Report**

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

*FSW&B CPAs-PLLC*

FSW&B CPAs-PLLC  
Woodward, Oklahoma  
December 12, 2016



CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2016

FINDING 2016-1 Adequate Record Keeping

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

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

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

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

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

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

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2016

FINDING 2015-1 Adequate Record Keeping

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

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

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

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

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

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

Current Status: There are still accounts management is working to reconcile. However, the extent of the accounts have decreased since the prior year.

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

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

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

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

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

CITY OF CHEROKEE, OKLAHOMA  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
FOR THE YEAR ENDING JUNE 30, 2016

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

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

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

Current Status: Management has resolved this finding.

FINDING 2015-3 Filing Annual Report

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

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

Cause: Management override of controls and inadequate record keeping.

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

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

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

Current Status: Management has resolved this finding.