CITY OF CHEROKEE, KANSAS

Independent Auditor's Report
and Financial Statement
with Supplementary Information

For the Year Ended December 31, 2025

CITY OF CHEROKEE, KANSAS

December 31, 2025

TABLE OF CONTENTS

	PAGE NUMBER
Independent Auditor's Report	1-3
Statement 1	
Summary Statement of Receipts, Expenditures, and Unencumbered Cash - Regulatory Basis	4
Notes to the Financial Statement	5-12
SUPPLEMENTARY INFORMATION:	
Schedule 1	
Summary of Expenditures – Actual and Budget Regulatory Basis - (Budgeted Funds Only)	13
Schedule 2	
Schedule of Receipts and Expenditures – Actual and Budget Regulatory Basis - (with Comparative Actual Amounts for the Prior Year)	
General Fund	14-15
Special Parks and Recreation Fund	16
Special Highway Fund	17
Capital Improvement Fund	18
Sewer Project Fund	19
Water Utility Fund	20
Sewer Utility Fund	21
Meter Deposit Fund	22

JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Cherokee, Kansas

Adverse and Unmodified Opinions
We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Cherokee, Kansas, as of and for the year ended December 31, 2025, and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Cherokee, Kansas as of December 31, 2025, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting
In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Cherokee, Kansas as of December 31, 2025, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Basis for Adverse and Unmodified Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the City of Cherokee, Kansas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Matter Giving Rise to Adverse Opinion on U.S. Generally Accepted Accounting Principles
As discussed in Note 1 of the financial statement, the financial statement is prepared by the City of Cherokee, Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statement
Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Cherokee, Kansas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures - actual and budget and the schedule of receipts and expenditures – actual and budget regulatory basis, for each individual fund (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the City of Cherokee, Kansas as of and for the year ended December 31, 2024 (not presented herein), and have issued our report thereon dated June 19, 2025, which contained an unmodified opinion on the basic financial statement. The 2024 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link https://admin.ks.gov/offices/accounts-reports/local-government/municipal-services. The 2024 actual column (2024 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures—actual and budget for the year ended December 31, 2025 (Schedule 2 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2024 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2024 basic financial statement. The 2024 comparative information was subjected to the auditing procedures applied in the audit of the 2024 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2024 basic financial statement or to the 2024 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2024 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2024, on the basis of accounting described in Note 1.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

June 30, 2026
Chanute, Kansas

CITY OF CHEROKEE, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2025

Funds	Beginning Unencumbered Cash Balances	Receipts	Expenditures	Ending Unencumbered Cash Balances	Encumbrances and Accounts Payable	Cash Balances December 31, 2025
General	$ 12,117.80	$ 492,777.29	$ 496,579.49	$ 8,315.60	$ 22,165.83	$ 30,481.43
Special Purpose Funds:						
Special Parks and Recreation	15,772.84	415.76	-	16,188.60	-	16,188.60
Special Highway	-	18,213.06	-	18,213.06	-	18,213.06
Capital Improvement	172,680.01	-	-	172,680.01	-	172,680.01
Business Funds:						
Water Utility	187,705.19	316,694.48	282,142.71	222,256.96	7,916.65	230,173.61
Sewer Utility	18,927.10	111,575.20	130,502.30	-	909.90	909.90
Meter Deposit	-	-	-	-	743.63	743.63
Total Reporting Entity	$ 407,202.94	$ 939,675.79	$ 909,224.50	$ 437,654.23	$ 31,736.01	$ 469,390.24

Composition of Cash:	
Cash on Hand	$ 500.00
Checking Accounts	
General	214,909.41
Sewer Lagoon	50,908.46
Certificates of Deposit	203,072.37
Total Cash	$ 469,390.24

The notes to the financial statement are
an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement and schedules of the City of Cherokee, Kansas, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies follow. Note 1 describes how the City's accounting policies differ from accounting principles generally accepted in the United States of America.

Financial Reporting Entity
The City of Cherokee, Kansas is a third class City that was incorporated March 2, 1874. The City is governed by a Mayor-Council form of government, of which consists of an elected five-member council.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the City exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the City. Related municipal entities are not required to be included in the City's audit by the KMAAG.

The City has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in this financial statement.

Regulatory Basis Fund Types
A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the City of Cherokee, Kansas, for the year 2025:

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose funds – used to account for the proceeds of specific tax levies and other specific receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Business funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation – Regulatory Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a regulatory receipt source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for receipt recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31st, such taxes are a lien on the property.

Reimbursed Expenses

The City records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under the KMAAG regulatory basis accounting.

Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statement in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data in the statement has not been presented since its inclusion would make the statement unduly complex and difficult to read.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information (Continued)

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in a local newspaper on or before August 5th of the proposed budget and notice of the public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

If the City is holding a revenue neutral rate hearing, the public hearing shall be no sooner than August 20th and no later than September 20th, but at least ten days after all statutory notification and publication requirements have been met. Municipal budgets requiring a hearing to exceed the revenue neutral rate should be adopted on or before October 1st but may not be adopted prior to the revenue neutral rate hearing. The City did hold a revenue neutral rate hearing for this year.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, fiduciary funds and permanent funds. In addition, an operating budget is not required for business bond and interest funds and business reserve funds, and the following special purpose funds:

- Capital Improvement Fund

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Statement 1 has been prepared in order to show compliance with the cash basis laws of Kansas. As shown in Statement 1 the City was in compliance with the cash basis laws of Kansas.

Schedule 1 has been prepared in order to show compliance with the budget laws of Kansas. As shown in Schedule 1, expenditures in the Sewer Utility Fund exceeded the adopted budget for the year ended December 31, 2025, which is a violation of K.S.A. 79-2935.

Management is not aware of any other statute violations.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main branch or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the bank provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk: State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2025.

Deposits: At December 31, 2025, the City's carrying amount of deposits was $468,890.24 and the bank balance was $490,414.45. The bank balance was held at two bank resulting in a concentration of credit risk. Of the bank balance, $487,686.60 was covered by federal depository insurance and $2,727.85 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

4. SIMPLE IRA

The City has a Simple IRA available for its employees. An employee is eligible if they are reasonably expected to receive at least $5,000.00 in compensation for the calendar year or have received at least $5,000.00 in the preceding year. The City will provide a 3% matching contribution in accordance with plan provisions. Total contributions made by the City into the plan on behalf of the employees for the year ended December 31, 2025, were $4,958.43.

5. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2025, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Revolving Loans									
Paid by Utility Receipts:									
KWPCRL C20-1470-01	2.06%	March 2, 2016	$ 280,900.00	March 1, 2037	$ 162,563.34	$ -	$ 11,528.02	$ 151,035.32	$ 3,289.74
Finance Leases									
Sewer Lagoon Project	2.95%	December 6, 2021	225,000.00	December 15, 2031	165,517.32	-	21,470.80	144,046.52	4,559.00
Police Station	3.97%	May 25, 2017	125,000.00	May 25, 2027	35,322.90	-	14,035.34	21,287.56	1,133.02
Police Tahoe	5.25%	July 16, 2024	65,225.00	July 16, 2029	59,459.10	-	12,029.16	47,429.94	2,828.88
Total Contractual Indebtedness					$ 422,862.66	$ -	$ 59,063.32	$ 363,799.34	$ 11,810.64

Current maturities of long-term liabilities and interest for the next five years and in five year increments through maturity is as follows:

Issue	2026	2027	2028	2029	2030	2031-2035	2036-2037	Total
Principal								
Revolving Loans								
KWPCRL C20-1470-01	$ 11,766.72	$ 12,010.36	$ 12,259.05	$ 12,512.89	$ 12,771.98	$ 67,938.01	$ 21,776.31	$ 151,035.32
Finance Leases								
Sewer Lagoon Project	22,113.15	22,774.67	23,456.01	24,157.73	24,880.44	26,664.52	-	144,046.52
Police Station	14,603.38	6,684.18	-	-	-	-	-	21,287.56
Police Tahoe	12,676.12	13,357.85	14,073.21	7,322.76	-	-	-	47,429.94
Total Principal Payments	61,159.37	54,827.06	49,788.27	43,993.38	37,652.42	94,602.53	21,776.31	363,799.34
Interest								
Revolving Loans								
KWPCRL C20-1470-01	3,051.04	2,807.40	2,558.71	2,304.87	1,055.61	5,518.73	2,072.56	19,368.92
Finance Leases								
Sewer Lagoon Project	3,916.65	3,255.13	2,573.79	1,872.07	1,149.36	405.00	-	13,172.00
Police Station	564.98	62.31	-	-	-	-	-	627.29
Police Tahoe	2,186.12	1,504.39	789.03	110.46	-	-	-	4,590.00
Total Interest Payments	9,718.79	7,629.23	5,921.53	4,287.40	2,204.97	5,923.73	2,072.56	37,758.21
Total Principal and Interest	$ 70,878.16	$ 62,456.29	$ 55,709.80	$ 48,280.78	$ 39,857.39	$ 100,526.26	$ 23,848.87	$ 401,557.55

6. FINANCE LEASES

The City has entered into a finance lease agreement dated May 25, 2017, to construct a police station. The cost of the police station was $125,000.00. The City agreed to make monthly payments of $1,264.03, which includes imputed interest at 3.974% for a period of ten years.

For the Year Ended December 31	Totals
2026	$ 15,168.36
2027	6,746.49
Total Net Minimum Payments	21,914.85
Less: Imputed Interest	(627.29)
Net Present Value of Finance Lease	21,287.56
Less: Current Maturities	(14,603.38)
Long-Term Finance Lease Obligations	$ 6,684.18

The City has entered into a finance lease agreement dated December 6, 2021, for a Sewer Lagoon Project. The cost of the project financed by the lease is $225,000.00. The City agreed to make monthly payments of $2,169.15, which includes imputed interest at 2.951% for a period of ten years.

For the Year Ended December 31	Totals
2026	$ 26,029.80
2027	26,029.80
2028	26,029.80
2029	26,029.80
2030	26,029.80
2031	27,069.52
Total Net Minimum Payments	157,218.52
Less: Imputed Interest	(13,172.00)
Net Present Value of Finance Lease	144,046.52
Less: Current Maturities	(22,113.15)
Long-Term Finance Lease Obligations	$ 121,933.37

The City has entered into a finance lease agreement dated July 16, 2024, for a Chevrolet Tahoe for the Police Department. The cost of the Tahoe financed by the lease is $65,225.00. The City agreed to make monthly payments of $1,238.52, which includes imputed interest at 5.25% for a period of five years.

For the Year Ended December 31	Totals
2026	$ 14,862.24
2027	14,862.24
2028	14,862.24
2029	7,433.22
Total Net Minimum Payments	52,019.94
Less: Imputed Interest	(4,590.00)
Net Present Value of Finance Lease	47,429.94
Less: Current Maturities	(12,676.12)
Long-Term Finance Lease Obligations	$ 34,753.82

7. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences:
Full time employees earn and accumulate vacation leave as follows:

Zero to Five Years of Employment - 10 Days
Five or more Years of Employment - 12 Days

Part time employees who work at least 20 hours or more per week shall earn vacation at a rate of four hours for each month.

Employees shall not accrue more than 100% of their annual vacation leave.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of .20 days per week of service. Sick leave may be accumulated to a maximum of 60 days. Any unused sick leave at date of termination is lost.

The City estimates a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has estimated a liability for vacation pay, which has been earned, but not taken by City employees of $5,356.34. The City has not estimated a liability for sick leave earned, but not taken, by City employees, as the amounts cannot be reasonably estimated at this time.

Other Post-Employment Benefits:
As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged the level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the Federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

8. ECONOMIC DEPENDENCY

During 2025, the City sold 31.09% of its water available for sale to Rural Water District #5 and 23.93% to the City of McCune, Kansas. The City purchased 27.87% of its water from Public Wholesale Water Supply District #11.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

10. INTERFUND TRANSFERS

Operating transfers were as follows:

From Fund:	To Fund:	Statutory Authority	Amount
Water Utility	General	K.S.A. 12-825d	$ 50,000.00
Water Utility	Sewer Utility	K.S.A. 12-825d	46,483.82

11. SUBSEQUENT EVENTS

The City evaluated events and transactions occurring subsequent year end, and there were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE, KANSAS
Summary of Expenditures - Budgeted Funds Only
Regulatory Basis
For the Year Ended December 31, 2025

Funds	Total Certified Budget	Adjustments for Qualifying Budget Credits	Total Certified Budget for Comparison	Expenditures Charged to Current Year Budget	Variance - Over (Under)
General	$ 503,279.00	$ 3,899.00	$ 507,178.00	$ 496,579.49	$ (10,598.51)
Special Purpose Funds:					
Special Parks and Recreation	16,124.00	-	16,124.00	-	(16,124.00)
Special Highway	153,375.00	-	153,375.00	-	(153,375.00)
Business Funds:					
Water Utility	484,136.00	-	484,136.00	282,142.71	(201,993.29)
Sewer Utility	101,764.00	-	101,764.00	130,502.30	28,738.30

CITY OF CHEROKEE, KANSAS
GENERAL FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Receipts				
Taxes and Shared Receipts				
Ad Valorem Property Tax	$ 95,756.31	$ 108,490.60	$ 119,626.00	$ (11,135.40)
Delinquent Tax	12,846.94	8,583.49	7,826.00	757.49
Motor Vehicle Tax	21,399.44	23,028.17	20,864.00	2,164.17
Recreational Vehicle Tax	323.80	468.30	306.00	162.30
16 & 20 M Truck Tax	12.73	0.01	19.00	(18.99)
Commercial Vehicle Tax	557.64	436.39	587.00	(150.61)
Watercraft Tax	-	-	185.00	(185.00)
Special Assessment	4,329.76	135.22	-	135.22
Sales Tax	201,512.75	215,382.14	210,206.00	5,176.14
Alcohol Liquor Tax	420.04	415.76	380.00	35.76
Franchise Tax	27,952.16	28,987.66	27,087.00	1,900.66
Licenses and Permits				
Other Licenses and Permits	645.00	820.00	625.00	195.00
Fines, Forfeitures, and Penalties	15,360.33	32,466.00	14,715.00	17,751.00
Use of Money and Property				
Donations	(87.26)	200.00	-	200.00
Interest	6,818.85	7,065.91	2,064.00	5,001.91
Rental	190.00	500.00	250.00	250.00
Sale of Assets	-	893.19	-	893.19
Charges for Services				
Grave Openings and Sale of Cemetery Lots	825.00	2,225.00	1,025.00	1,200.00
Copies and Fax Charges	34.50	16.00	23.00	(7.00)
Other Receipts				
Miscellaneous	4,257.08	8,764.45	-	8,764.45
Reimbursed Expense	6,753.39	3,899.00	-	3,899.00
Operating Transfer from Water Utility Fund	50,000.00	50,000.00	50,000.00	-
Total Receipts	449,908.46	492,777.29	$ 455,788.00	$ 36,989.29
Expenditures				
General Government				
Personal Services	33,654.03	29,143.96	$ 28,713.00	$ 430.96
Contractual Services	111,075.03	124,887.95	96,471.00	28,416.95
Commodities	23,108.43	16,596.64	27,627.00	(11,030.36)
Capital Outlay	31,879.19	16,868.68	228.00	16,640.68

CITY OF CHEROKEE, KANSAS
GENERAL FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Expenditures (Continued)				
Police Department				
Personal Services	$ 116,842.70	$ 115,751.79	$ 121,343.00	$ (5,591.21)
Contractual Services	28,573.03	16,307.09	26,602.00	(10,294.91)
Commodities	9,055.48	13,821.91	28,006.00	(14,184.09)
Capital Outlay	3,865.87	5,300.00	15,000.00	(9,700.00)
Fire Department				
Contractual Services	-	-	3,745.00	(3,745.00)
Commodities	489.71	-	-	-
Street Department				
Personal Services	40,935.96	38,500.75	40,000.00	(1,499.25)
Contractual Services	18,805.20	11,245.79	15,639.00	(4,393.21)
Commodities	27,495.70	29,369.21	43,608.00	(14,238.79)
Capital Outlay	22,600.53	-	-	-
Parks and Recreation Department				
Contractual Services	529.42	323.58	3,024.00	(2,700.42)
Commodities	318.25	20.30	-	20.30
Cemetery Department				
Contractual Services	13,250.00	18,613.51	12,075.00	6,538.51
Commodities	-	1,472.13	-	1,472.13
Capital Outlay	-	2,300.00	-	2,300.00
Debt Service				
Finance Lease - Police Car	7,429.02	14,858.04	-	14,858.04
Finance Lease - Sewer Lagoon	26,029.80	26,029.80	26,030.00	(0.20)
Finance Lease - Police Building	15,168.36	15,168.36	15,168.00	0.36
Total Certified Budget			503,279.00	(6,699.51)
Adjustments for Qualifying Budget Credits			3,899.00	(3,899.00)
Total Expenditures	531,105.71	496,579.49	$ 507,178.00	$ (10,598.51)
Receipts Over (Under) Expenditures	(81,197.25)	(3,802.20)		
Unencumbered Cash, Beginning	93,315.05	12,117.80		
Unencumbered Cash, Ending	$ 12,117.80	$ 8,315.60		

CITY OF CHEROKEE, KANSAS
SPECIAL PARKS AND RECREATION FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Receipts				
Taxes and Shared Receipts				
Alcohol Liquor Tax	$ 420.03	$ 415.76	$ 380.00	$ 35.76
Intergovernmental				
Special Parks and Recreation Distribution	240.00	-	240.00	(240.00)
Total Receipts	660.03	415.76	$ 620.00	$ (204.24)
Expenditures				
Culture and Recreation				
Contractual Services	-	-	$ 2,000.00	$ (2,000.00)
Commodities	-	-	2,000.00	(2,000.00)
Capital Outlay	-	-	12,124.00	(12,124.00)
Total Expenditures	-	-	$ 16,124.00	$ (16,124.00)
Receipts Over (Under) Expenditures	660.03	415.76		
Unencumbered Cash, Beginning	15,112.81	15,772.84		
Unencumbered Cash, Ending	$ 15,772.84	$ 16,188.60		

CITY OF CHEROKEE, KANSAS
SPECIAL HIGHWAY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Receipts				
Taxes and Shared Receipts				
Motor Fuel Tax	$ 16,061.92	$ 16,035.62	$ 19,160.00	$ (3,124.38)
County Fuel Tax	2,184.15	2,177.44	2,400.00	(222.56)
Total Receipts	18,246.07	18,213.06	$ 21,560.00	$ (3,346.94)
Expenditures				
Street Maintenance				
Personal Services	-	-	$ 10,000.00	$ (10,000.00)
Contractual Services	-	-	18,000.00	(18,000.00)
Commodities	-	-	15,000.00	(15,000.00)
Capital Outlay	128,491.12	-	110,375.00	(110,375.00)
Total Expenditures	128,491.12	-	$ 153,375.00	$ (153,375.00)
Receipts Over (Under) Expenditures	(110,245.05)	18,213.06		
Unencumbered Cash, Beginning	110,245.05	-		
Unencumbered Cash, Ending	$ -	$ 18,213.06		

CITY OF CHEROKEE, KANSAS
CAPITAL IMPROVEMENT FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

	Prior Year Actual	Current Year Actual
Receipts		
Residual Transfer from Sewer Project Fund	$ 27,580.00	$ -
Total Receipts	27,580.00	-
Expenditures		
General Government		
Capital Outlay	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	27,580.00	-
Unencumbered Cash, Beginning	145,100.01	172,680.01
Unencumbered Cash, Ending	$ 172,680.01	$ 172,680.01

CITY OF CHEROKEE, KANSAS
SEWER PROJECT FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

	Prior Year Actual	Current Year Actual
Receipts		
Intergovernmental		
ARPA Grant Proceeds - County	$ 27,580.00	$ -
Total Receipts	27,580.00	-
Expenditures		
Residual Transfer to		
Capital Improvement Fund	27,580.00	-
Total Expenditures	27,580.00	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	$ -	$ -

CITY OF CHEROKEE, KANSAS
WATER UTILITY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Receipts				
Charges for Services				
Water Sales	$ 307,607.88	$ 310,803.84	$ 288,765.00	$ 22,038.84
Permits and Fees	538.50	600.00	750.00	(150.00)
Penalties	4,124.99	3,683.78	4,044.00	(360.22)
Use of Money and Property				
Interest	124.94	137.30	136.00	1.30
Other Receipts				
Miscellaneous	920.85	1,469.56	-	1,469.56
Total Receipts	313,317.16	316,694.48	$ 293,695.00	$ 22,999.48
Expenditures				
Production and Distribution				
Personal Services	88,388.13	62,404.53	$ 73,472.00	$ (11,067.47)
Contractual Services	38,276.48	30,384.61	55,000.00	(24,615.39)
Commodities	77,336.03	80,090.63	90,000.00	(9,909.37)
Capital Outlay	14,526.00	12,779.12	200,664.00	(187,884.88)
Operating Transfers to:				
General Fund	50,000.00	50,000.00	50,000.00	-
Sewer Utility Fund	-	46,483.82	15,000.00	31,483.82
Total Expenditures	268,526.64	282,142.71	$ 484,136.00	$ (201,993.29)
Receipts Over (Under) Expenditures	44,790.52	34,551.77		
Unencumbered Cash, Beginning	142,914.67	187,705.19		
Unencumbered Cash, Ending	$ 187,705.19	$ 222,256.96		

CITY OF CHEROKEE, KANSAS
SEWER UTILITY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance - Over (Under)
Receipts				
Charges for Services				
Sewer Charges	$ 65,260.06	$ 64,795.63	$ 66,311.00	$ (1,515.37)
Other Receipts				
Miscellaneous	170.57	295.75	-	295.75
Operating Transfer from				
Water Utility Fund	-	46,483.82	15,000.00	31,483.82
Total Receipts	65,430.63	111,575.20	$ 81,311.00	$ 30,264.20
Expenditures				
Treatment and Distribution				
Personal Services	46,755.94	65,386.87	$ 64,112.00	$ 1,274.87
Contractual Services	10,197.97	10,078.40	12,345.00	(2,266.60)
Commodities	9,594.89	8,987.14	7,499.00	1,488.14
Capital Outlay	-	31,232.13	2,990.00	28,242.13
Debt Service				
Sewer Lagoon-Principal	11,294.16	11,528.02	11,528.00	0.02
Sewer Lagoon-Interest	3,523.60	3,289.74	3,290.00	(0.26)
Total Expenditures	81,366.56	130,502.30	$ 101,764.00	$ 28,738.30
Receipts Over (Under) Expenditures	(15,935.93)	(18,927.10)		
Unencumbered Cash, Beginning	34,863.03	18,927.10		
Unencumbered Cash, Ending	$ 18,927.10	$ -		

CITY OF CHEROKEE, KANSAS
METER DEPOSIT FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts For the Year Ended December 31, 2024)

	Prior Year Actual	Current Year Actual
Receipts		
Meter Deposits	$ -	$ -
Total Receipts	-	-
Expenditures		
Operation and Maintenance		
Contractual Services	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	$ -	$ -

Jarred Gilmore Phillips

Honorable Mayor, City Council and Management
City of Cherokee, Kansas

In planning and performing our audit of the financial statement of the City of Cherokee, Kansas as of and for the year ended December 31, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Cherokee, Kansas' system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of City of Cherokee, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cherokee, Kansas' internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement 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 misstatements of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

Preparation of Financial Statement

Professional standards require management to accept responsibility for the preparation and fair presentation of the financial statement, including related note disclosures. The City engages the auditor to assist in drafting the financial statement in accordance with the Kansas Municipal Audit and Accounting Guide. The City does not have personnel with specialized training in governmental financial reporting necessary to independently prepare the complete financial statement and related disclosures. Accordingly, management relies on the auditor for preparation of the financial statement. While this condition is common among smaller governmental entities and does not reflect on management's integrity or oversight, it represents a deficiency in internal control over financial reporting because the preparation of the financial statement is not performed by individuals independent of the audit process.

Management has reviewed and approved the financial statement and has accepted responsibility for them. We encourage management and the Council to continue their oversight of the financial reporting process and to remain informed of reporting requirements.

Payroll Tax Reporting Reconciliation

During our audit procedures, we noted the total wages reported on the four quarterly Forms 941 did not agree to the annual Form W-3 filed for the year ended December 31, 2025. Although the difference noted was small, quarterly payroll tax filings and the annual wage transmittal should be reconciled before filing to ensure wages and payroll taxes are reported completely and consistently to the Internal Revenue Service and Social Security Administration.

This type of difference can occur when year-end adjustments, corrections, voided payroll checks, manual payroll entries, fringe benefits, or taxable benefit adjustments are not consistently reflected across all payroll reports and tax filings. Because the Forms 941 and Form W-3 are filed with different federal agencies, even small unreconciled differences can result in follow-up notices from the IRS or Social Security Administration, possible penalties or interest, amended filings, and additional staff time to research and resolve the discrepancy. Based on the nature of the difference noted, the City should expect that a notice may be received and should retain documentation supporting the reconciliation and any corrective action taken.

We recommend the City implement a year-end payroll reconciliation process before filing the fourth quarter Form 941, Form W-2s, and Form W-3. This reconciliation should compare total gross wages, Social Security wages, Medicare wages, federal income tax withheld, and applicable payroll tax amounts between the payroll system, general ledger, quarterly Forms 941, and annual Form W-3. Any differences should be researched, documented, and corrected before the annual payroll filings are submitted. We also recommend the reconciliation be reviewed and approved by someone other than the preparer, when possible

Segregation of Duties

Due to the limited number of personnel, complete segregation of duties is not achievable. As a result, certain internal control functions are necessarily performed by the same individual. Under auditing standards generally accepted in the United States, this condition represents a significant deficiency in internal control, as it increases the risk that errors or irregularities could occur and not be detected on a timely basis.

This comment is provided as a reminder to those charged with governance of their fiduciary oversight responsibilities, rather than as a recommendation for corrective action. Management and the governing body are aware of these circumstances and have determined that the costs associated with additional staffing or restructuring would outweigh the related benefits at this time.

Accordingly, the governing body should continue to exercise diligent financial oversight, including active involvement in the review of financial information, approval of disbursements, and periodic review of internal control procedures, to mitigate the risks inherent in these conditions.

This communication is intended solely for the information and use of management, the Mayor, City Council, and others within the City of Cherokee, Kansas, and is not intended to be and should not be used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

Chanute, Kansas
June 30, 2026