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NORTHEASTERN OKLAHOMA ACCOUNTING
109 E. DELAWARE ★ TAHLEQUAH OKLAHOMA 74464

INDEPENDENT AUDITOR'S REPORT

To the City Council
Jay, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely resented component units, each major fund, and the aggregate remaining fund information of City of Jay, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 judgement, 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.

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Jay, Oklahoma, as of June 30, 2013, 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

Management has omitted management's discussions and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015, on our consideration of the City of Jay, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Jay, Oklahoma's internal control over financial reporting and compliance.

Northeastern Oklahoma Accounting, PLLC
Tahlequah, Oklahoma
June 1, 2015

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

June 1, 2015

To the City Council
City of Jay, 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, business-type activities the aggregate remaining fund information of City of Jay, Oklahoma, as of and for the year ended June 30, 2013, and the related noted to financial statements, which collectively comprise the City's financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably. In accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of this internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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. No instances of non-compliance were found.

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 or on non-compliance. This report is an integral part of an audit preformed in accordance with Government Auditing Standard in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Northeastern Oklahoma Accounting, PLLC
June 1, 2015

City of Jay, Oklahoma
Statement of Net Assets
June 30, 2013

	Governmental Activities	Business-type Activities	Total	Discretely Presented Component Unit
ASSETS				
Current Assets:				
Cash and Cash Equivalents	9,932	341,385	351,317	383,087
Deposit with Third Party Administrator	15,651	-	15,651	-
Accounts Receivable	-	293,899	293,899	-
Due From Other Governments	186,587	-	186,587	1,955,953
Prepaid Insurance	10,821	10,821	21,642	-
Total Current Assets	222,991	646,105	869,096	2,339,040
Noncurrent Assets:				
Restricted Asset-Cash		286,194	286,194	-
Property, Plant and Equipment, Net	1,963,773	6,706,997	8,670,770	-
Bond and Loan Costs, Net		1,250	1,250	98,275
Total Noncurrent Assets	1,963,773	6,994,441	8,958,214	98,275
Total Assets	2,186,764	7,640,546	9,827,310	2,437,315
LIABILITIES				
Current Liabilities:				
Accounts Payable	32,705	132,217	164,922	-
Payroll Taxes Payable	29,631	4,633	34,264	-
Sales Tax Payable	-	1,073	1,073	-
Accrued Interest	359	48,297	48,656	-
Payable from Restricted Assets:			-	-
Meter Deposits Payable		150,301	150,301	-
Total Current Liabilities	62,695	336,521	399,216	-
Noncurrent Liabilities:				
Notes Payable	241,694	3,974,540	4,216,234	-
Bonds Payable	-	125,000	125,000	1,370,000
Total Noncurrent Liabilities	241,694	4,099,540	4,341,234	1,370,000
Total Liabilities	304,389	4,436,061	4,740,450	1,370,000
NET ASSETS				
Invested in Capital, Net of Related Debt	1,722,079	2,607,457	4,329,536	-
Restricted	-	-	-	1,067,315
Unrestricted	160,296	597,028	757,324	-
Total Net Assets	1,882,375	3,204,485	5,086,860	1,067,315
Total Liabilities and Net Assets	2,186,764	7,640,546	9,827,310	2,437,315

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Activities
For the Year Ended June 30, 2013

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Grants & Contributions	Net (Expense)/Revenue & Changes in Net Assets: Governmental Activities	Net (Expense)/Revenue & Changes in Net Assets: Business-Type Activities	Net (Expense)/Revenue & Changes in Net Assets: Total
Governmental Activities						
General Government:						
Mangerial	39,562	-	-	(39,562)	-	(39,562)
City Clerk/Treasurer	38,952	-	-	(38,952)	-	(38,952)
Maintenance & Operation	112,003	1,476	-	(110,527)	-	(110,527)
Total General Government	190,517	1,476	-	(189,041)	-	(189,041)
Public Safety & Judiciary:						
City Attorney	3,937	-	-	(3,937)	-	(3,937)
Emergency Medical Service	327,859	22,148	-	(305,711)	-	(305,711)
Fire	62,683	675	4,484	(57,524)	-	(57,524)
Municipal Court	2,000	16,636	-	14,636	-	14,636
Police	442,829	2,500	-	(440,329)	-	(440,329)
Total Public Safety & Judiciary	839,308	41,959	4,484	(792,865)	-	(792,865)
Transportation:						
Street and Alley	192,630	-	-	(192,630)	-	(192,630)
Culture, Park & Recreation:						
Community Center	6,000	11,000	-	5,000	-	5,000
Parks	46,903	-	-	(46,903)	-	(46,903)
Cemetary	-	593	-	593	-	593
Swimming Pool	20,513	13,226	-	(7,287)	-	(7,287)
Total Culture, Park & Recreation	73,416	24,819	-	(48,597)	-	(48,597)
Total Governmental Activities	1,295,871	68,254	4,484	(1,223,133)	-	(1,223,133)
Business-Type Activities						
Water & Sewer	2,672,822	2,716,780	-	-	43,958	43,958
Total Business-Type Activities	2,672,822	2,716,780	-	-	43,958	43,958
	3,968,693	2,785,034	4,484			
		General Revenues:				
		Sales and Use Tax		925,132	-	925,132
		Motor Vehicle Tax		17,372	-	17,372
		Franchise Tax		57,760	-	57,760
		Other Taxes		41,233	-	41,233
		Investment Earnings		102	-	102
		Miscellaneous		4,400	(4,400)	-
		Other Income		85,423	-	85,423
		Total Revenues & Transfers		1,131,422	(4,400)	1,127,022
		Change In Net Assets		(91,711)	39,558	(52,153)
		Net Assets, Beginning of Year		1,974,086	3,164,927	5,139,013
		Net Assets, End of Year		1,882,375	3,204,485	5,086,860

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Net Assets - Governmental Funds
June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	220	9,712	9,932
Deposits with Third Party Administrator	15,651	-	15,651
Due From Othe Governments	186,587	-	186,587
Prepaid Insurance	10,821	-	10,821
Total Assets	213,279	9,712	222,991
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	32,705	-	32,705
Payroll Taxes and Withholdings Payable	29,631	-	29,631
Total Liabilities	62,336	-	62,336
Fund Balance:			
Cash Fund Balance, Unreserved	150,943	9,712	160,655
TOTAL LIABILITIES AND FUND BALANCE	213,279	9,712	222,991

Reconciliation to the Statement of Net Assets

Total Governmental Funds Balance		160,655
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is $4,656,365 and the accumulated depreciation is $2,692,592 for a net book value of $1,963,773		1,963,773
Long term liabilities, including capitalized lease obligations, are not due and payable in the current perios and therefore, are not reported as liabilities in the funds. Long term liabilities at year end consist of:		
	Accrued Interest Payable	(359)
	Capitalized Lease Obligations Payable	(241,694)
Net Assets of Governmental Activities		1,882,375

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	1,041,497	-	1,041,497
Grants	5,273	-	5,273
Charges for Services	54,435	13,773	68,208
Fines and Forfeitures	-	-	-
Investment Income	102	-	102
Reimbursements	-	-	-
Sale/Lease of Property	-	-	-
Other Revenues	88,822	(8,000)	80,822
Total Revenues	1,190,129	5,773	1,195,902
Expenditures:			
General Government:			
City Clerk/Treasurer	37,729	-	37,729
Mangerial	38,320	-	38,320
Maintenance and Operation	135,285	-	135,285
Public Safety:			
City Attorney	3,599	-	3,599
Emergency Medical Service	314,800	-	314,800
Fire	72,723	-	72,723
Municipal Court	1,800	-	1,800
Police	429,078	-	429,078
Transportation:			
Street and Alley	179,019	-	179,019
Parks and Recreation:			
Community Center	6,000	-	6,000
Parks	30,742	-	30,742
Cemetary	-	-	-
Swimming Pool	-	18,664	18,664
Total Expenditures	1,249,095	18,664	1,267,759
Net Change in Fund Balance	(58,966)	(12,891)	(71,857)
Fund Balance, Beginning of Year	209,909	22,603	232,512
Fund Balance, End of Year	150,943	9,712	160,655

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma

Reconciliation of the Govenrmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Govenrment-Wide Financial Statement of Activities

For the Year Ended June 30, 2013

Net Changes in Fund Balances - Governmental Funds	(71,857)
Amounts reported for governmental activities are different because:	
In the governmental funds, capital outlays are reported as expenditures, while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.	
Depreciation expense	(113,548)
In the governmental funds expenses are recognized when paid while in the government-wide statement of activities, expenses are recognized when incurred	(57,566)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilitities in the government-wide statements	
Capital lease obligation principal payments	151,619
Accrued Interest Payable	(359)
Change in Net Assets of Governmental Activitities	(91,711)

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Net Assets - Proprietary Fund
June 30, 2013

Current Assets:	
Cash & Cash Equivalents	144,719
Accounts Receivable	293,899
Prepaid Insurance	10,821
Total Current Assets	449,439
Non-current Assets:	
Restricted Assets:	
Cash & Cash Equivalents	482,859
Capital Assets:	
Property, Plant & Equipment, net of Accumulated Depreciation	6,706,998
Other Assets:	
Bond and Loan Costs, net of Accumulated Amortization	1,250
Total Non-current Assets	7,191,107
TOTAL ASSETS	**7,640,546**
LIABILITIES	
Current Liabilities:	
Accounts Payable	132,217
Payroll Tax and Withholding Payable	4,633
Sales Tax Payable	1,073
Accrued Interest	48,297
Payable from Restricted Assets:	
Meter Deposits Payable	150,301
Current Portion of Notes Payable	-
Current Portion of Bonds Payable	-
Total Current Liabilities	336,521
Non-current Liabilities:	
Notes Payable	2,062,369
Bonds Payable	2,037,171
Total Non-current Liabilities	4,099,540
TOTAL LIABILITIES	**4,436,061**
NET ASSETS	
Invested In Capital Assets, Net of Related Debt	2,607,458
Resticted	332,558
Unrestricted	264,469
TOTAL NET ASSETS	**3,204,485**
TOTAL LIABILITIES AND NET ASSETS	**7,640,546**

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets-Propreitary Funds
For the Year Ended June 30, 2013

	Utility Authority Enterprise Fund
Operating Revenues:	
Utility Revenue	2,714,102
Other Revenues	-
Total Operating Revenues	2,714,102
Operating Expenses:	
Gas Purchased	602,000
Salaries and Benefits	464,702
Depreciation and Amortization	261,141
Utilities and Telephone	164,047
Insurance	61,224
Supplies	119,335
Maintenance and Repairs	183,863
Chemicals	212,724
Contract Labor	54,542
Landfill Costs	195,685
Other Expenses	29,198
Professional Fees	9,184
Water Purchased	39,183
Truck Expense	34,453
Lab and Test Fees	12,194
Licenses and Permits	17,561
Uniforms	5,771
Office Supllies and Postage	20,533
Total Operating Expenses	2,487,340
Operating income/(Loss)	226,762
Non-Operating Revenues/(Expenses):	
Interest Income	2,678
Interest Expense	(189,882)
Total Non-Operating Revenues/(Expenses)	(187,204)
Change in Net Assets	**39,558**
Net Assets, Beginning of Year	3,164,927
Net Assets, End of Year	**3,204,485**

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2013

Cash Flows from Operating Activities	
Payments Received from Customers	2,562,451
Meter Deposits Received	11,934
Payments for Salaries and Benefits	(461,626)
Payments for Goods and Services	(1,766,007)
Net Cash Provided by Operating Activitites	346,752
Cash Flows from Capital and Related Financing Activities	
Principal Payments on Capital Debt	(368,540)
Interest Paid on Capital Debt	(197,102)
Net Cash Used by Capital and Related Financing Activiites	(565,642)
Cash Flows from Investing Activities	
Interest Earned	2,678
Net Cash Provided by Investing Activities	2,678
Net Cash Used from All Activities	(216,212)
Cash and Cash Equivalents, Beginning of Year	843,790
Cash and Cash Equivalents, End of Year	627,578
Unrestricted	144,719
Restricted	482,859
Cash and Cash Equivalents, End of Year	627,578

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	226,762
Depreciation and Amortization	261,141
(Increase)/Decrease in:	
Accounts Receivable	(151,651)
Prepaid Insurance	(2,097)
Increase/(Decrease) in:	
Accounts Payable	(2,482)
Payroll Tax and Withholding Payable	3,076
Sales Tax Payable	70
Meter Deposits Payable	11,933
Net Cash Provided by Operating Activities	346,752

The accompanying Notes to the Financial Statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the City's financial statements.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Jay
Blended Component Unit:	Jay Utilities Authority
Discretely Presented Component Unit:	Jay Industrial Authority

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. The component unit's fund is blended into those of the City's by appropriate activity type to comprise the primary government presentation.

Component units that are blended into the reporting activity types of the City's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Jay Utilities Authority	Created to finance, develop and operate the utility services activities. The current City Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the City Council.	Enterprise Fund

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has one discretely presented component unit.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Additional detailed information and/or separately issued financial statements for this component unit can be obtained from the City Clerk.

Component units that are discretely presented are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Jay Industrial Authority	Created to assist in financing and constructing facilities, promote local industrial development and provide cultural and educational activities and facilities.	Special Fund

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
b. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Jay Utilities Authority	Accounts for activities of the public trust in providing utility services to the public.

Major and Non-Major Funds

Major:	General Fund	
	Proprietary Fund:	Jay Utilities Authority
Non-Major:	Special Revenue Fund:	Swimming Pool Fund
	Special Revenue Fund:	Cemetery Care Fund

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

I. Summary of Significant Accounting Policies (continued)

Measurement Focus

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.
c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "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. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts and certificates of deposit of the City. For the purposes of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

I. Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrance accounting, under which purchase order, contract, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-our basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The City has not maintained inventory records; however, the value of inventory on hand at June 30, 2013 is not believed to be material.

Deposits with Third-Party Administrator

Certain sales tax revenues designated for the Fire Department are received and disbursed by the Delaware County Clerk. The cash balance available to the City of Jay Fire Department as of June 30, 2013 was $19,651.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes and franchise taxes. Business-type activities report water charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fixed assets are defined by the City as assets with an initial, individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The range of estimated useful lives by type of asset is as follows:

Buildings	20-60 years
Improvements	20-60 years
Machinery and Equipment	3-20 years
Utility System	20-60 years
Infrastructure	20-60 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the 2001 Bond Issue and the 2003 Sales Tax Revenue Note require that funds be held in accounts with a trustee bank for certain purposes. Under the terms and provisions of the bond and note, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bond and note are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits, which are refundable to the customer.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted, committed, assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The City's Council is the highest level of decision making authority of the City.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications (continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

E. Revenues, Expenditures and Expenses

Sales Tax

The City presently levies a 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. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the City in July and August have been accrued and are included under the caption "Due from other governments."

Use Tax

The City levies a use-tax on personal property purchased outside the City limits but stored, used or consumed within the City. The use tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors.
The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the City in July and August are included under the caption "Due from other governments."

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

I. Summary of Significant Accounting Policies (continued)

E. Revenues, Expenditures and Expenses (continued)

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component unit are subject to various federal, state and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

Fund	Required By
Utility Authority Fund	Trust Indenture
Cemetery Care Fund	State Law

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., none of the Utility Authority's deposits were exposed to credit risk.

C. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants

Revenue Source	Legal Restrictions of Use
Special Sales Tax	Fire Department Purposes
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2013, the City complied, in all material respects, with these revenue restrictions.

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2013, the City had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2013, the City incurred no such indebtedness.

Meter Deposits Payable

The Jay Utilities Authority is required to have reserved funds available for the amount of meter deposits held. The following is a brief summary of the requirements and the Authority's level of compliance thereon as of June 30, 2013.

Requirement	Level of Compliance
Reserve Account Requirement	
Account Balance should be equal to the Total meter deposits payable of $ 150,301.	Account balance at June 30, 2013 is $ 173,738.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The City complied with this statute in all material respects for the year ended June 30, 2013.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments
City policy for eligible investments is governed by State statutes which, in general, allow the City to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

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. The City's cash deposits are maintained in financial institutions. As of June 30, 2013 none of City's deposits were exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Utilities Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2013 are as follows:

Meter Deposits	$	173,738
2003 Interest Fund Account		112,456
Total	$	286,194

C. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, alcoholic beverage tax, and grants. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2013 is as follows:

	Governmental Activities	Business-Type Activities	Total
Total	$ 186,587	$ 293,899	$ 480,486