

**PUBLISHED BY  
KOLKER & KOLKER, INC.  
FOR**

**TOWN OF INOLA, OKLAHOMA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**WINGARD, RAGSDALE AND LANGLEY  
CERTIFIED PUBLIC ACCOUNTANTS, PLLC  
PRYOR, OKLAHOMA**

**TOWN OF INOLA  
TABLE OF CONTENTS  
FINANCIAL STATEMENTS  
JUNE 30, 2011**

	<b>Page</b>
<b>Independent Auditor's Report</b>	<b>1</b>
<b>Management's Discussion and Analysis (Unaudited) Part I</b>	<b>3</b>
<b>Statement of Net Assets (Statement 1)</b>	<b>16</b>
<b>Statement of Activities (Statement 2)</b>	<b>17</b>
<b>Balance Sheet, Governmental Funds (Statement 3)</b>	<b>19</b>
<b>Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds (Statement 4)</b>	<b>20</b>
<b>Statement of Net Assets, Proprietary Fund (Statement 5)</b>	<b>22</b>
<b>Statement of Revenues, Expenses and Changes in Net Assets, Proprietary Fund (Statement 6)</b>	<b>23</b>
<b>Statement of Cash Flows, Proprietary Fund (Statement 7)</b>	<b>24</b>
<b>Notes to Basic Financial Statements - Index</b>	<b>26</b>
<b>Notes to Basic Financial Statements</b>	<b>27</b>
<b>Budgetary Comparison Schedule, General Fund</b>	<b>48</b>
<b>Other Supplementary Information</b>	<b>50</b>
<b>Combining Balance Sheet - Non-Major Governmental Funds</b>	<b>51</b>
<b>Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds</b>	<b>52</b>
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with <i>Government Auditing Standards</i></b>	<b>53</b>
<b>Schedule of Findings and Responses</b>	<b>55</b>

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Chairman and Board of Directors  
Town of Inola  
Rogers County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Inola, State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Inola, State of Oklahoma's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Inola as of June 30, 2011, and the changes in its net assets and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated August 27, 2012 on our consideration of the Town of Inola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Inola financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Wingard, Ragsdale Langley, CPAs, PLLC*

**WINGARD, RAGSDALE & LANGLEY**  
*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*  
PRYOR, OKLAHOMA

AUGUST 27, 2012

**TOWN OF INOLA, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2011**

The discussion and analysis of the Town of Inola's financial performance provides an overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the accompanying basic financial statements. This discussion and analysis does not include comparative data for prior years, as this information is not available for the first year of implementation of Governmental Accounting Standards Board (GASB) Statement Number 34. Future years will include, when available, comparative analysis of government-wide data.

This discussion is divided into two parts. The first pertains to the entire Town of Inola overall with very little detail to the Inola Public Works Authority, a component unit of the Town of Inola. The second part pertains to the Inola Public Works Authority, which has the same board members as the Town.

**WHO WE ARE**

As of June 30, 2011 the mayor, council members, clerk and treasurer, all of whom are elected, consisted of the following:

Mayor	Cheryl Charles
Council Members	Trent Bynum Larry Grigg John Deboer Bryan Padgett
Treasurer	Glennie Spurlock
Clerk	Wilma Cargil

The governing board, Clerk and Treasurer for the Inola Public Works Authority are the same as the Town.

## FINANCIAL HIGHLIGHTS

- The total assets of the Town for its governmental and business-type activities exceeded its liabilities as of June 30, 2011 by \$3,517,310 as reflected in Statement 1. This excess is summarized as follows:

Invested in capital assets, net of related debt	\$2,160,928
Restricted for debt service	9,040
Unrestricted	<u>1,347,310</u>
	<u>\$3,517,310</u>

- The Town's net assets for all funds increased \$366,075 during the current fiscal year, representing an 11.6% increase. This is reflected in Statement 2.
- The Town's General Fund balance as reflected in the "Statement of Revenues, Expenditures, and Changes in Fund Balances" (Statement 4) decreased by \$4,861, a 3.8% decrease. This is further discussed later in this report.
- All governmental funds of the Town increased \$31,953 during the current fiscal year, which is an 8.0% increase. (Statement 4)
- The Town's governmental capital assets (net of depreciation) decreased \$44,570 during the current year, a 7.6% decrease. Details on this are in Note 3.D. to the financial statements.

## OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the Town's basic financial statements. In accordance with Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Managements' Discussion and Analysis - for State and Local Governments," ("GASB 34"), the Town's basic financial statements include three components: government-wide financial statements; fund financial statements; and notes to the basic financial statements. The major features of these financial statements are summarized as follows:

	<b><u>Government-wide Statements</u></b>	<b><u>Governmental Funds</u></b>	<b><u>Proprietary Funds</u></b>
Scope	Entire Town government and the Town's component units	The activities of the Town that are not proprietary, such as police, fire, library, streets, etc.	Activities of the Inola Public Works Authority consisting of water, sewer and trash services
Required financial statements	-Statement of net assets -Statement of activities	-Balance sheet -Statement of revenues, expenditures, and changes in fund balances	-Statement of net assets -Statement of revenues, expenses, and changes in net assets -Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to statements of a private-sector business.

The statement of net assets presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include public safety activities, streets, cemetery, library and parks activities and general government activities. The business-type activities of the Town include certain utilities.

A component unit is included in the basic financial statements and consists of a legally separate entity for which the Town is financially accountable and that has the same governing board as the Town. This blended component unit is the Inola Public Works Authority.

The government-wide financial statements can be found on Statements 1 and 2 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town, excluding the Inola Public Works Authority, are governmental funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures and changes in fund balance provide a reconciliation to the government-wide financial statements in order to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 11 individual governmental funds for financial reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Volunteer Fire Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non major governmental funds is provided in the non major funds supplementary section of this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund in the basic financial statements.

The governmental funds financial statements can be found on Statements 3 and 4 of this report.

**Proprietary Funds.** Proprietary funds provide the same type of information as the government-wide financial statements but in more detail. The proprietary fund financial statements provide information for the Inola Public Works Authority. The proprietary fund financial statements can be found at Statements 5, 6, and 7 of this report.

**Notes To The Basic Financial Statements.** The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 27 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town and its component unit, assets exceeded liabilities by \$3,517,310 at the close of the current fiscal year.

As shown on Table 1, the largest portion of the Town's net assets, \$2,160,928, reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The Town and its component unit uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Town's net assets, \$9,040 represents cash that is reserved to repay the debt on capital assets.

Included in current assets for Governmental Activities is \$540,150 of cash. None of this is reserved for any special purpose.

At the end of the fiscal year ended June 30, 2011, The Town reported positive balances in all three categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities.

**TABLE 1**  
**SUMMARY OF NET ASSETS**  
**JUNE 30, 2011 and 2010**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 590,300	\$ 431,221	\$ 963,169	\$ 780,982	\$ 1,553,469	\$ 1,212,203
Capital assets	541,137	585,707	2,561,940	1,846,564	3,103,077	2,432,271
Restricted assets	<u>--</u>	<u>--</u>	<u>55,368</u>	<u>54,591</u>	<u>55,368</u>	<u>54,591</u>
<b>Total assets</b>	<b><u>1,131,437</u></b>	<b><u>1,016,928</u></b>	<b><u>3,580,477</u></b>	<b><u>2,682,137</u></b>	<b><u>4,711,914</u></b>	<b><u>3,699,065</u></b>
Current and other liabilities	171,284	47,204	83,435	96,694	254,719	143,898
Long-term liabilities	<u>14,578</u>	<u>24,919</u>	<u>925,307</u>	<u>379,013</u>	<u>939,885</u>	<u>403,932</u>
<b>Total liabilities</b>	<b><u>185,862</u></b>	<b><u>72,123</u></b>	<b><u>1,008,742</u></b>	<b><u>475,707</u></b>	<b><u>1,194,604</u></b>	<b><u>547,830</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	515,508	546,691	1,645,420	1,474,939	2,160,928	2,021,630
Restricted	--	--	9,040	9,040	9,040	9,040
Unrestricted	<u>430,067</u>	<u>398,114</u>	<u>917,275</u>	<u>722,451</u>	<u>1,347,342</u>	<u>1,120,565</u>
<b>Total net assets</b>	<b><u>\$ 945,575</u></b>	<b><u>\$ 944,805</u></b>	<b><u>2,571,735</u></b>	<b><u>\$ 2,206,430</u></b>	<b><u>\$ 3,517,310</u></b>	<b><u>\$ 3,151,235</u></b>

**TABLE 2**  
**Changes in Net Assets**  
**Year Ended June 30, 2011 and 2010**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 65,704	\$ 70,969	\$ 621,502	\$ 651,424	\$ 687,206	\$ 722,393
Operating grants & contributions	33,143	83,820	--	--	33,143	83,820
Capital grants & contributions	196,327	74,312	25,270	--	221,597	74,312
<b>General revenues:</b>						
Sales tax	228,463	223,964	114,231	111,988	342,694	335,952
Other taxes	98,949	90,200	--	--	98,949	90,200
Other general revenues	22,073	16,829	35,853	41,138	57,926	57,967
Transfers - internal activity	<u>( 133,907)</u>	<u>8,668</u>	<u>133,907</u>	<u>( 8,668)</u>	<u>--</u>	<u>--</u>
Total revenues	<u>510,752</u>	<u>568,762</u>	<u>930,763</u>	<u>795,882</u>	<u>1,441,515</u>	<u>1,364,644</u>
<b>Expenses</b>						
Administrative and accounting	74,854	88,756	--	--	74,854	88,756
Public safety	338,575	314,437	--	--	338,575	314,437
Street	15,338	16,808	--	--	15,338	16,808
Cultural, recreation & library	65,615	72,685	--	--	65,615	72,685
Utilities	<u>15,600</u>	<u>15,600</u>	<u>565,458</u>	<u>589,461</u>	<u>581,058</u>	<u>605,061</u>
Total expenses	<u>509,982</u>	<u>508,286</u>	<u>565,458</u>	<u>589,461</u>	<u>1,075,440</u>	<u>1,097,747</u>
Increase in net assets	<u>\$ 770</u>	<u>\$ 60,476</u>	<u>\$ 365,305</u>	<u>\$ 206,421</u>	<u>\$ 366,075</u>	<u>\$ 266,897</u>

**Governmental Activities.** Governmental activities increased the Town's net assets by \$770 for the current fiscal year, a .1% increase in the net assets of the Town's Governmental Funds. This growth was due to changes in the fund balances of the various funds as follows:

General Fund	\$( 4,861)
Library Savings	( 245)
Street and Alley	16,930
Cemetery Fund	10,187
Volunteer Fire Fund	22,104
Police Fund	( 1,590)
Park	( 85)
Library Grant	<u>( 484)</u>
	<u>\$ 41,956</u>

The remainder of the changes are in the reconciliation at the end of Statement 4.

**Business-type Activities.** Business-type activities, i.e. the Inola Public Works Authority, had an increase in net assets of \$365,305 and is discussed further later in this report.

#### **FINANCIAL ANALYSIS OF THE TOWN'S MAJOR FUNDS**

As noted earlier, the Town uses fund accounting to demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financial requirements. In particular unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

##### ***General Fund***

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$123,605, constituting 100% of the fund balance, which was \$4,861 or 3.9% less than the prior year's General Fund balance. Overall expenses and revenues were consistent from the prior year.

##### ***Volunteer Fire Department Fund***

The volunteer fire department fund increased its fund balance by \$22,104. This is up \$10,588 from the previous year, as expenditures were that much less.

### ***Grant Funds***

The unreserved fund balance remained at \$1 as grant revenues are matched with grant expenditures for no net change. The \$1 represents city money used to keep the account open.

### ***Inola Public Works Authority***

The highlights of the fiscal year ending June 30, 2011 are as follows:

- The Authority's net assets increased by \$365,305 during the year.
- Cash increased \$61,978 for the year (Statement of Cash Flows). Unrestricted cash increased \$3,721.
- Long-term debt increased \$544,895 due to the financing of a new waste water treatment facility that was partially completed at year end.

The Authority remains extremely solvent considering current requirements. Current assets are \$963,169 compared to current liabilities of \$49,920. Operating income (before non-operating revenues and expenses) remained relatively consistent at \$68,401, at which prior years income was \$78,469. Included in the operating results is \$74,964 of depreciation and amortization for the current year and \$65,467 for the prior year. As noted in the highlights, unrestricted cash increased \$3,721 and total cash increased \$61,978.

### **GENERAL FUND BUDGETARY**

The following Table 3 presents a summary analysis of the General Fund budget and actuals for the current fiscal year.

**TABLE 3**  
**SUMMARY ANALYSIS OF GENERAL BUDGET**  
**FISCAL YEAR ENDING JUNE 30, 2011**

<u>Category</u>	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budget Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
<b>Revenue</b>				
Sales tax	\$ 206,211	\$ 206,211	\$ 229,123	\$ 22,912
All other taxes	76,823	76,823	84,971	8,148
All other revenues	<u>42,597</u>	<u>42,597</u>	<u>47,717</u>	<u>5,120</u>
<b>Total revenues</b>	<u>325,631</u>	<u>325,631</u>	<u>361,811</u>	<u>36,180</u>
<b>Expenditures</b>				
Administrative & accounting	67,664	67,664	70,970	( 3,306)
Public safety (1)	269,460	269,460	252,723	16,737
Other	<u>64,993</u>	<u>64,993</u>	<u>41,693</u>	<u>23,300</u>
<b>Total expenditures</b>	<u>402,117</u>	<u>402,117</u>	<u>365,386</u>	<u>36,731</u>
<b>Total excess (deficiency)</b> <b>of revenues over</b> <b>expenditures</b>	( 76,486)	( 76,486)	( 3,575)	72,911
<b>Beginning fund balance</b>	<u>76,486</u>	<u>76,486</u>	<u>76,486</u>	<u>--</u>
<b>Excess (deficiency) of</b> <b>revenues and other sources</b> <b>over expenditures and</b> <b>other uses</b>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 72,911</u>	<u>\$ 72,911</u>

(1) Includes Municipal Court and Police

The basis of accounting for budgetary purposes for the General Fund is the cash basis, i. e., revenues are recognized when received and expenses are recognized when paid.

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the beginning of the fiscal year plus 90% of its revenues for the year just ended.

The budgetary fund balance is reconciled to the balance sheet fund balance in the Required Supplementary Information.

Generally, the Town attempts to prepare a budget that will result in a small positive increased in the fund balance. Generally, this is accomplished by only budgeting 90% of the prior year revenues and budgeting amounts, primarily in General Government, that will not be expended.

The reason that the fund balance for budget purposes decreased by \$22,364 was mainly due to decrease in Town revenues.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Town's investment in capital assets as of June 30, 2011 amounted to \$3,103,077 (net of accumulated depreciation) This investment, detailed in Table 4, in a broad range of capital assets includes land, structures and improvements and equipment.

**TABLE 4**  
**CAPITAL ASSETS (NET OF DEPRECIATION)**  
**June 30, 2011 and 2010**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 50,000	\$ 50,000	\$ 100,193	\$ 80,334	\$ 150,193	\$ 130,334
Buildings	86,196	89,696	--	--	86,196	89,696
Machinery and equipment	404,941	446,011	24,932	20,671	429,873	466,682
Utility property	--	--	1,572,575	1,426,403	1,572,575	1,426,403
Work in progress	<u>--</u>	<u>--</u>	<u>864,840</u>	<u>319,152</u>	<u>864,240</u>	<u>319,152</u>
Capital assets, net	<u>\$ 541,137</u>	<u>\$ 585,707</u>	<u>\$2,561,940</u>	<u>\$1,846,560</u>	<u>\$3,103,077</u>	<u>\$2,432,267</u>

Some of the Town's and Authority's major capital assets events in the current fiscal year were:

- Depreciation for governmental assets was \$53,595 for the current year.
- Water line additions for approximately \$208,000
- Work in progress increased \$545,000 for the new waste water treatment plant.

### **Debt Administration**

The Town's long term debt decreased from \$39,016 at the beginning of the year to \$25,629 at year end. This was the result of scheduled debt retirement of \$13,387.

The Authority's long-term debt increased \$544,895 during the year. Scheduled retirements were \$34,395, while new borrowing in the amount of \$579,290 was added for construction of the new waste water treatment plant.

Details concerning long-term debt notes are in Note 3.F to the financial statements.

### **ECONOMIC FACTORS AND NEW YEAR'S BUDGET**

The Town's major governmental revenue, sales tax, increased somewhat from the prior year reversing a recent trend. This local economic trend generally mirrored the similar economic effects experienced at the national and state levels. As a result of the increased fund balance in most of the funds, the Town is more confident of the future.

Also see Note 3.J for significant events after the end of the year.

The long-term economic forecast for the Town is quite good.

The Authority, like any other utility, will ultimately have to replace its utility systems. The Authority is not funding its depreciation to provide future replacement funds. Although a one cent sales tax is allocated the Authority, it is being used to retire debt and operate the Authority.

The Board is fully aware that the issue of replacing the current water and sewer systems needs to be addressed at some point in the future.

Other than a probable increase in the acquisition of capitalized assets, no major changes are expected in either income or expenses for the next year.

### **CONTACTING THE TOWN'S FINANCE DEPARTMENT**

This managements' discussion and analysis is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions or need additional financial information, please contact the Town of Inola at (918) 543-7631.

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

Statement 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash, including time deposits	\$ 541,150	\$ 719,468	\$1,260,618
Taxes receivable	49,150	20,158	69,308
Accounts receivable (net)	--	77,521	77,521
Receivable from other funds	--	136,388	136,388
Due from restricted assets	<u>--</u>	<u>9,634</u>	<u>9,634</u>
Total current assets	<u>590,300</u>	<u>963,169</u>	<u>1,553,469</u>
Noncurrent assets:			
Restricted assets:			
Cash, including time deposits	--	65,002	65,002
Due (to) general obligations	--	( 9,634)	( 9,634)
Capital assets (net)	<u>541,137</u>	<u>2,561,940</u>	<u>3,103,077</u>
Total noncurrent assets	<u>541,137</u>	<u>2,617,308</u>	<u>3,158,445</u>
Total assets	<u>1,131,437</u>	<u>3,580,477</u>	<u>4,711,914</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	16,432	45,611	62,043
Accrued wages and taxes	7,413	4,309	11,722
Current portion of long-term debt	11,051	33,515	44,566
Due to other funds	<u>136,388</u>	<u>--</u>	<u>136,388</u>
Total current liabilities	<u>171,284</u>	<u>83,435</u>	<u>254,719</u>
Noncurrent liabilities:			
Notes payable, less current portion	14,578	883,005	897,583
Utility deposits	<u>--</u>	<u>42,302</u>	<u>42,302</u>
Total noncurrent liabilities	<u>14,578</u>	<u>925,307</u>	<u>939,885</u>
Total liabilities	<u>185,862</u>	<u>1,008,742</u>	<u>1,194,604</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	515,508	1,645,420	2,160,928
Restricted for:			
Debt service	--	9,040	9,040
Unrestricted	<u>430,067</u>	<u>917,275</u>	<u>1,347,342</u>
Total net assets	<u>\$ 945,575</u>	<u>\$ 2,571,735</u>	<u>\$ 3,517,310</u>

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

Statement 2

	<b>Program Revenues</b>				
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>	
<b>Governmental activities</b>					
<b>General government</b>					
Administrative and Accounting	\$ 68,829	\$ 3,029	\$ --	\$ --	\$( 65,800)
Council	<u>6,025</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>( 6,025)</u>
Total general government	<u>74,854</u>	<u>3,029</u>	<u>--</u>	<u>--</u>	<u>( 71,825)</u>
<b>Public safety and judiciary</b>					
Town Attorney and Court	4,017	--	--	--	( 4,017)
Police	257,983	20,611	6,039	--	( 231,333)
Fire	<u>76,575</u>	<u>22,050</u>	<u>18,774</u>	<u>--</u>	<u>( 35,751)</u>
Total public safety and judiciary	<u>338,575</u>	<u>42,661</u>	<u>24,813</u>	<u>--</u>	<u>( 271,101)</u>
<b>Transportation</b>					
Street	<u>15,338</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>( 15,338)</u>
Total transportation	<u>15,338</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>( 15,338)</u>
<b>Utilities</b>					
	<u>15,600</u>	<u>--</u>	<u>--</u>	<u>196,327</u>	<u>180,727</u>
<b>Cultural, parks and recreation</b>					
Cemetery	11,338	17,525	--	--	6,187
Parks	1,638	--	--	--	( 1,638)
Library	<u>52,639</u>	<u>2,489</u>	<u>8,330</u>	<u>--</u>	<u>( 41,820)</u>
Total cultural, parks and recreation	<u>65,615</u>	<u>20,014</u>	<u>8,330</u>	<u>--</u>	<u>( 37,271)</u>
Total governmental activities	<u>509,982</u>	<u>65,704</u>	<u>33,143</u>	<u>196,327</u>	<u>( 214,808)</u>
<b>Business-type activities:</b>					
Water and sewer	510,180	557,438	--	25,270	72,528
Trash	<u>55,278</u>	<u>64,064</u>	<u>--</u>	<u>--</u>	<u>8,786</u>
Total business-type activities	<u>565,458</u>	<u>621,502</u>	<u>--</u>	<u>25,270</u>	<u>81,314</u>
Total	<u>\$ 1,075,440</u>	<u>\$ 687,206</u>	<u>\$ 33,143</u>	<u>\$ 221,597</u>	<u>\$( 133,494)</u>

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

**CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense) /revenue	\$( 214,808)	\$ 81,314	\$( 133,494)
General Revenues			
Taxes:			
Sales tax	228,463	114,231	342,694
Use tax	26,869	--	26,869
Alcohol beverage tax	9,776	--	9,776
Cigarette tax	8,785	--	8,785
Gasoline tax	3,310	--	3,310
Motor vehicle tax	11,294	--	11,294
Franchise taxes	38,915	--	38,915
Investment income	19,373	34,353	53,726
Miscellaneous	2,700	1,500	4,200
Transfers - internal activity	( 133,907)	133,907	--
Total general revenues	<u>215,578</u>	<u>283,991</u>	<u>499,569</u>
Change in net assets	770	365,305	366,075
Net assets - beginning	<u>944,805</u>	<u>2,206,430</u>	<u>3,151,235</u>
Net assets - ending	<u>\$ 945,575</u>	<u>\$ 2,571,735</u>	<u>\$ 3,517,310</u>

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

**TOWN OF INOLA, OKLAHOMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General Fund</u>	<u>Grant Fund</u>	<u>OWRB Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash, including time deposits	\$ 65,845	\$ 1	\$ 162,859	\$ 312,445	\$ 541,150
Taxes receivable	47,133	--	--	2,017	49,150
Due from other fund	<u>31,402</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>31,402</u>
<b>Total assets</b>	<b><u>\$ 144,380</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 162,859</u></b>	<b><u>\$ 314,462</u></b>	<b><u>\$ 621,702</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 13,362	\$ --	\$ --	\$ 3,070	\$ 16,432
Accrued expenses	7,413	--	--	--	7,413
Due other funds	<u>--</u>	<u>--</u>	<u>162,858</u>	<u>4,932</u>	<u>167,790</u>
	<u>20,775</u>	<u>--</u>	<u>162,858</u>	<u>8,002</u>	<u>191,635</u>
<b>Fund Balances</b>					
Unassigned	123,605	--	--	--	123,605
Assigned	--	1	1	185,638	185,640
Restricted	<u>--</u>	<u>--</u>	<u>--</u>	<u>120,822</u>	<u>120,822</u>
<b>Total fund balance</b>	<b><u>123,605</u></b>	<b><u>1</u></b>	<b><u>1</u></b>	<b><u>306,460</u></b>	<b>430,067</b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 144,380</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 162,859</u></b>	<b><u>\$ 314,462</u></b>	

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 in the funds, net of accumulated depreciation of \$659,331.

541,137

Other assets not reported in the balance sheet as they are not considered "measurable and available" to pay current period expenditures

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet

Due within one year

( 11,051)

Due in more than one year

( 14,578)

Net assets of governmental activities

\$ 945,575

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Grant Fund</u>	<u>OWRB Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Sales tax	\$ 228,463	\$ --	\$ --	\$ --	\$ 228,463
Other taxes	45,430	--	--	14,604	60,034
Fines and forfeits	20,611	--	--	--	20,611
Licenses and permits	3,029	--	--	--	3,029
Franchise taxes	38,915	--	--	--	38,915
Interest	4,534	--	--	14,839	19,373
Library	2,489	--	--	--	2,489
Miscellaneous	1,734	--	--	40,541	42,275
Grants and contributions	<u>--</u>	<u>196,327</u>	<u>--</u>	<u>33,143</u>	<u>229,470</u>
Total revenues	<u>345,205</u>	<u>196,327</u>	<u>--</u>	<u>103,127</u>	<u>644,659</u>
Expenditures					
Current					
General government					
Administrative and accounting	64,945	--	--	--	64,945
Council	<u>6,025</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,025</u>
Total general government	<u>70,970</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>70,970</u>
Parks and recreation					
Library	41,693	--	--	9,265	50,958
Parks	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,638</u>	<u>1,638</u>
Total parks and recreation	<u>41,693</u>	<u>--</u>	<u>--</u>	<u>10,903</u>	<u>52,596</u>
Public safety and judiciary:					
Town attorney and court	4,017	--	--	--	4,017
Police	239,583	--	--	8,132	247,715
Fire	<u>--</u>	<u>--</u>	<u>--</u>	<u>42,249</u>	<u>42,249</u>
Total public safety and judiciary	<u>243,600</u>	<u>--</u>	<u>--</u>	<u>50,381</u>	<u>293,981</u>
Transportation					
Street	<u>--</u>	<u>--</u>	<u>--</u>	<u>11,435</u>	<u>11,435</u>
Total transportation	<u>--</u>	<u>--</u>	<u>--</u>	<u>11,435</u>	<u>11,435</u>
Cemetery	<u>--</u>	<u>--</u>	<u>--</u>	<u>10,267</u>	<u>10,267</u>
Utilities	<u>--</u>	<u>15,600</u>	<u>--</u>	<u>--</u>	<u>15,600</u>

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General Fund</u>	<u>Grant Fund</u>	<u>OWRB Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Debt service					
Principal	\$ 7,888	\$ --	\$ --	\$ 5,499	\$ 13,387
Interest and other charges	<u>1,235</u>	<u>--</u>	<u>--</u>	<u>303</u>	<u>1,538</u>
Total	<u>9,123</u>	<u>--</u>	<u>--</u>	<u>5,802</u>	<u>14,925</u>
Capital outlay	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,025</u>	<u>9,025</u>
Total expenditures	<u>365,386</u>	<u>15,600</u>	<u>--</u>	<u>97,813</u>	<u>478,799</u>
Excess (deficiency) of revenues over expenditures	<u>( 20,181)</u>	<u>180,727</u>	<u>--</u>	<u>5,314</u>	<u>165,860</u>
Other financing sources (uses)					
Transfers in	15,320	--	--	31,500	46,820
Transfers out	<u>--</u>	<u>( 180,727)</u>	<u>--</u>	<u>--</u>	<u>( 180,727)</u>
Total other financing sources (uses)	<u>15,320</u>	<u>( 180,727)</u>	<u>--</u>	<u>31,500</u>	<u>( 133,907)</u>
Net change in fund balances	( 4,861)	--	--	36,814	31,953
Fund balances - beginning	<u>128,466</u>	<u>1</u>	<u>1</u>	<u>269,646</u>	<u>398,114</u>
Fund balances -ending	<u>\$ 123,605</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 306,460</u>	<u>\$ 430,067</u>

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities

Net change in fund balances - total governmental funds \$ 31,953

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchase capitalized	9,025
Depreciation expense	<u>( 53,595)</u>
	<u>( 44,570)</u>

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets:

Lease with purchase contracts	<u>13,387</u>
-------------------------------	---------------

Change in net assets of governmental activities	<u>\$ 770</u>
---	---------------

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
INOLA PUBLIC WORKS AUTHORITY  
JUNE 30, 2011**

**ASSETS**

## Current assets

Cash and cash equivalents	\$ 719,468
Due from other funds	136,388
Accounts receivable	77,521
Due from restricted assets	9,634
Taxes receivable	<u>20,158</u>

Total current assets 963,169

## Noncurrent assets:

Restricted assets	
Cash and cash equivalents	65,002
Due to general operations	( 9,634)
Capital assets (net of depreciation)	<u>2,561,940</u>

Total noncurrent assets 2,617,308

Total assets 3,580,477

**LIABILITIES**

## Current liabilities

Accounts payable	45,611
Current portion of long-term debt	33,515
Accrued wages and taxes	<u>4,309</u>

Total current liabilities 83,435

## Noncurrent liabilities

Payable from restricted assets	
Utility deposits	42,302

## Long-term debt

Notes payable, less current portion	<u>883,005</u>
-------------------------------------	----------------

Total noncurrent liabilities 925,307

Total liabilities 1,008,742

**NET ASSETS**

Investment in capital assets, net of related debt	1,645,420
Restricted for debt retirement	9,040
Retained earnings - unreserved	<u>917,275</u>

Total net assets \$2,571,735

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
INOLA PUBLIC WORKS AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2011**

Operating revenues	
Utility charges	\$ 621,502
Miscellaneous	<u>1,500</u>
Total operating revenues	<u>623,002</u>
Operating expenses	
Purchase of water	140,560
Purchase of trash services	55,278
Office and general expense	33,356
Salaries and benefits	130,097
Plant and distribution expenses	120,346
Depreciation	<u>74,964</u>
Total operating expense	<u>554,601</u>
Net operating income (loss)	<u>68,401</u>
Nonoperating revenue (expenses)	
Interest expense	( 10,857)
Sales tax revenue	114,231
Investment income	34,353
Contributions	<u>25,270</u>
Total nonoperating revenue (expenses)	<u>162,997</u>
Net income before operating transfers	231,398
Operating transfers in	180,727
Operating transfers out	<u>( 46,820)</u>
Net income (loss)	365,305
Net assets - beginning of year	<u>2,206,430</u>
Net assets - end of year	<u>\$2,571,735</u>

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
INOLA PUBLIC WORKS AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Receipts from customers	\$ 630,625
Payments to suppliers	( 494,240)
Payments to employees and benefits	( 126,717)
Receipts over refunds of customer meter deposits	<u>520</u>
Net cash provided (used) by operating activities	<u>10,188</u>
Cash flows from noncapital financing activities:	
Sales tax	114,562
Operating transfers to/from other funds (net)	133,907
Contributions	<u>25,270</u>
Net cash provided by noncapital financing activity	<u>273,739</u>
Cash flows from capital and related financing activities:	
Net principal paid on long-term debt	544,895
Purchase of capital assets	( 790,340)
Interest paid	<u>( 10,857)</u>
Net cash provided (used) by capital and related financing activities	<u>( 256,302)</u>
Cash flows from investing activities	
Interest	<u>34,353</u>
Net cash provided (used) by investing activities	<u>34,353</u>
Net increase (decrease) in cash and cash equivalents	61,978
Balances - beginning of the year	<u>722,492</u>
Balances - end of the year	<u>\$784,470</u>
Cash, including time deposits	719,468
Restricted cash, including time deposits	<u>65,002</u>
Total cash and cash equivalents, end of year	<u>\$784,470</u>

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

**TOWN OF INOLA, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
INOLA PUBLIC WORKS AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2011**

Reconciliation of operating income (loss ) to net  
cash provided (used) by operating activities

Operating income (loss)	68,401
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows in other categories:	
Depreciation and amortization expense	74,964
Change in assets and liabilities:	
Decrease in receivables	7,623
Decrease in accounts payable	( 15,760)
Increase in customer meter deposits payable	520
Increase in accrued expenses	3,380
Increase in due from other funds	<u>(128,940)</u>
	<u>\$ 10,188</u>

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

**TOWN OF INOLA, OKLAHOMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**TABLE OF CONTENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

- A. Fund Accounting Requirements
- B. Deposits and Investments Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants
- E. Fund Equity Restrictions

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

- A. Cash and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Accounts Payable
- F. Long-term Debt
- G. Employment Retirement System
- H. Due to/from Operating and Capital Transfers
- I. Net Assets
- J. Risk Management

**TOWN OF INOLA, OKLAHOMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Inola operates under an elected Town Board of Trustees form of government. The Town's major operations include public safety (police and fire), provision and maintenance of streets and drainage, library and general administrative services. In addition, the Town exercises sufficient control over another governmental agency that provides water and sewer services that is included as part of the Town's reporting entity.

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The Town is required to implement the new financial reporting requirements of GASB Statement Nos. 33 and 34 for the year ended June 30, 2004. As a result, an entirely new financial presentation format has been implemented.

**1.A. FINANCIAL REPORTING ENTITY**

The Town's financial reporting entity comprises the following:

Primary Government:	Town of Inola
Blended Component Units:	Inola Public Works Authority

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

*Blended Component Unit*

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town's by appropriate activity type to compose the primary government presentation.

*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 Town has no discretely presented component units.

**Blended Component Unit**

<b>Component Unit</b>	<b>Brief Description/Inclusion Criteria</b>	<b>Reporting</b>
Inola Public Works Authority	The Authority, which has the same Board Members as the Town, provides water, sewer and trash services to citizens of the Town. The Authority is dependent on the Town, as a major source of revenues is sales tax. The Town is the beneficiary of the Authority.	Proprietary

**1.B. BASIS OF PRESENTATION**

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental category. The Inola Public Works Authority is the only proprietary type

activity of the reporting entity and is considered a major fund. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/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 expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

## **Governmental Funds**

### *General Fund*

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

### *Special Revenue Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally or council restricted to expenditures for certain purposes.

### *Capital Project Funds*

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

### *Debt Service Fund*

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town other than debt service payments made by other funds. The Town has no debt service funds.

## **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 Inola Public Works Authority is the only enterprise fund.

## Major and Non major Funds

The funds are further classified as major or non major as follows:

<b>Fund</b>	<b>Brief Description</b>
<b>Major:</b>	
General	See above for description
CDBG Grant Fund	Accounts for grant funds used for street and utility projects
OWRB Grant Fund	Accounts for grant funds and loans used to repair/improve Inola PWA's lift station
Proprietary Fund: Inola Public Works Authority	Accounts for activities of providing water, sewer, and trash services to the public.
<b>Non major:</b>	
Special Revenue Funds:	
Street and Alley	Provides funds for the construction, repair and maintenance of streets and alleys. Funded primarily by motor vehicle and gas excise taxes.
Cemetery Fund	Accounts for revenues and expenditures of maintaining the two town cemeteries
Volunteer Fire Fund	Accounts for revenues raised by the volunteer firefighters and the expending of such funds.
Library Savings Fund	Accounts for revenues raised by the Town Library and the expending of such funds
Library Grant	Accounts for grants received by the Town library and the expending of such funds
Park Fund	Provides for the maintenance and upkeep of Town parks. Funded solely by transfers from other funds
Police Fund	Accounts for donations and grants to the police department

## 1.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.

### Measurement Focus

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- 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 operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

### Basis of Accounting

The Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The effect of this change is as follows:

1. Government-wide Statement of Net Assets and Statement of Activities
  - a. Proprietary Fund - Inola Public Works Authority - In the current year, sales tax received in July and August, 2011 (representing sales tax collection in May and June, 2011) has been reflected.

- b. Governmental Funds - Two months of sales tax revenues are being reflected as discussed under proprietary fund. Fixed assets are reported net of depreciation and depreciation expense is reflected in the statement of activities. Debt related to the acquisition of fixed assets is also now reflected on the statement of activities. Franchise taxes are being reported on the accrual basis. Expenditures are now recognized when a liability is incurred.

Infrastructure is being reported on a prospective basis and, accordingly, only reflects additions in the current year, of which there were none.

2. Fund Financial Statements- Two months of tax revenues and franchise taxes, representing receivables at year end, are reflected as income and expenses are recognized when incurred.
3. Budget Basis of Accounting - No Change

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and businesslike 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. Specifically taxes received in July and August after the year end are accrued when such taxes pertain to the period being reported.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, asset acquisitions and repayment of debt are expensed and depreciation is not reflected.

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.

### **Budget Basis of Accounting**

Formal budgetary accounting is employed as a management control for the governmental funds of the Town. Annual operating budgets are adopted only for the general fund. The basis of accounting for budgetary purposes for all funds is the cash basis, i.e., revenues are recognized when received and expenditures are recognized when paid. The Inola Public Works Authority also adopts a budget and revenues are recognized when earned and billed and expenditures are recognized when incurred.

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the end of the fiscal year plus 90% of its

revenues for the year just ended. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.

## **1.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 Town. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit.

Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

### **Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

The Inola Public Works Authority is the only fund that has receivables that are essentially subject to bad debts. An allowance for uncollectible accounts has been established, as is more fully explained in Note 3.C. Such receivables consist of utility charges to customers.

### **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.

The capitalization policy of the Town is to capitalize assets which are expected to last past the end of the current year with a cost of \$500 or more. The policy of the Authority was to capitalize all such assets, regardless of cost, until June 30, 2002. Beginning July 1, 2002, the policy is to capitalize those assets with a cost of \$500 or more.

### *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.

As of June 30, 2011, the governmental funds' infrastructure assets have not been capitalized, which, in accordance with GASB 34, is not required.

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

	<u>Government</u>	<u>Proprietary</u>
Buildings	20 - 40 years	10 - 40 years
Machinery and Equipment	5 - 25 years	5 - 10 years
Utility System	--	5 - 50 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. The primary restricted assets are related to charter and third party required reserves and utility meter deposits.

### **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 are reported as liabilities in the government-wide statements. The long-term debt consist primarily of notes and leases payable, and customer meter deposits.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

## **Equity Classifications**

### *Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The restricted net assets are funds set aside for the payment of long-term debt as required by bond indentures, funds held for utility deposits, and funds restricted for capital improvements. All are reflected in the Inola Public Works Authority.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### *Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

## **REVENUES, EXPENDITURES, AND EXPENSES**

### **Sales Tax**

A 3 cent sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. Two cents of the sales tax is allocated to the general fund and one cent to the Inola Public Works Authority. The one cent to the Authority is for the construction of water and sewer treatment and distribution systems, operations and maintenance of said system, and/or the retirement of current debt related to such improvements.

**Use Tax**

The Town levies a 3 cent 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 Town 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.

**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:

Governmental Funds - By Character	Current (further classified by function) Debt Service Capital Outlay
-----------------------------------	--

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources.

**Interfund Transfers**

Permanent reallocation 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.

**Operating/non-operating Revenues - Proprietary Funds**

Operating revenues for the Authority consist only of revenues derived from the providing of utility and services to its customers. Nonoperating revenues consist of all other revenues and consist of sales tax revenues and interest earned.

## NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

### 2.A. FUND ACCOUNTING REQUIREMENTS

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

<b>Fund</b>	<b>Required By</b>
Street and Alley	State Law
Cemetery Fund	State Law
Public Works Authority	Trust Indenture

### 2.B. DEPOSITS 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 Town must have a written collateral agreement approved by the board of directors or loan committee.

### 2.C. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	See Note 1.E.
Gasoline Excise & Commercial Vehicle Tax	Street and Alley Purposes
Water, Sewer, and Trash Revenue	Debt Service & Utility Operations

For the year ended June 30, 2011, the Town complied, in all material respects, with these revenue restrictions.

## **2.D. DEBT RESTRICTIONS AND COVENANTS**

### **General Obligation Debt**

Article 10, Sections 26 and 27, for the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for nonutility or nonstreet purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2011, the Town complied with this provision.

### **Other Long-term Debt**

Except as noted in the preceding paragraph, as required by the Oklahoma State Constitution, the Town (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, 2011, the Town incurred no such indebtedness.

## **2.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 Town of Inola complied with this statute in all material respects for the year ended June 30, 2011.

## **NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

### **3.A. CASH AND INVESTMENTS**

#### **Deposits**

The Town's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2011. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's or Authority's name; or collateralized with no written or approved collateral agreement.

Type of Deposits	Total Bank Balance	Category 1	Credit Risk 2	Category 3	Total Carrying Value
PWA	\$ 775,938	\$250,309	\$ 525,629	\$ --	\$ 784,470
Town	<u>563,103</u>	<u>250,000</u>	<u>313,103</u>	<u>--</u>	<u>541,150</u>
Total deposits	<u>\$1,339,041</u>	<u>\$500,309</u>	<u>\$838,732</u>	<u>\$ --</u>	<u>\$1,325,620</u>
Reconciliation to Government-wide Statement of Net Assets:					
Unrestricted cash, including time deposits					\$1,260,618
Restricted cash, including time deposits					<u>65,002</u>
					<u>\$1,325,620</u>

### 3.B. RESTRICTED NET ASSETS

The following is a summary of the restricted assets, which consist of cash and money market funds and related liabilities at June 30, 2011:

Amounts reserved from retained earnings:

U.S. Department of Agriculture	\$ <u>13,066</u>
Total reserved from retained earnings	<u>13,066</u>

Amounts due for utility deposits:

Cash in bank	51,936
Less: Due general operations	<u>( 9,634)</u>
	<u>42,302</u>
Total restricted assets	<u>\$ 55,368</u>

The debt reserve for the Oklahoma Water Resources Board is fully funded.

The reserve for utility deposits represents deposits for utilities by customers and is not refunded until the customer no longer is receiving utilities from the Authority. As of June 30, 2011 this fund had an excess of \$9,634 over the utility deposits outstanding. This is the result of interest earned and depositing revenues to this fund in error

### 3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable and are reported at their gross value. All accounts have utility deposits with the Authority which can be applied to any unpaid balances. Management feels that such deposits will cover most accounts that might become uncollectible.

### 3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<b>Governmental activities:</b>				
Land	\$ 50,000	\$ --	\$ --	\$ 50,000
Buildings	200,000	--	--	200,000
Machinery and equipment	<u>941,443</u>	<u>9,025</u>	<u>--</u>	<u>950,468</u>
Totals at historical cost	<u>1,191,443</u>	<u>9,025</u>	<u>--</u>	<u>1,200,468</u>
<b>Less accumulated depreciation</b>				
Buildings	( 110,304)	( 3,500)	--	( 113,804)
Machinery and equipment	<u>( 495,432)</u>	<u>( 50,095)</u>	<u>--</u>	<u>( 545,527)</u>
Total accumulated depreciation	<u>( 605,736)</u>	<u>( 53,595)</u>	<u>--</u>	<u>( 659,331)</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 585,707</u></b>	<b><u>\$( 44,570)</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 541,137</u></b>
<b>Business-type activities:</b>				
Land	80,334	19,859	--	100,193
Machinery and equipment	151,390	16,750	--	168,140
Utility property	3,186,732	208,647	--	3,395,379
Work in progress	<u>319,152</u>	<u>545,088</u>	<u>--</u>	<u>864,240</u>
Totals at historical cost	<u>3,737,608</u>	<u>790,344</u>	<u>--</u>	<u>4,527,952</u>
<b>Less accumulated depreciation:</b>				
Machinery and equipment	( 130,719)	( 12,489)	--	( 143,208)
Utility property	<u>(1,760,329)</u>	<u>( 62,475)</u>	<u>--</u>	<u>(1,822,804)</u>
Total accumulated depreciation	<u>(1,891,048)</u>	<u>( 74,964)</u>	<u>--</u>	<u>(1,966,012)</u>
<b>Business-type capital assets, net</b>	<b><u>\$ 1,846,560</u></b>	<b><u>\$ 715,380</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 2,561,940</u></b>

\*Depreciation expense was charged to governmental activities as follows:

General government:	
Administrative and accounting	\$ 3,884
Total general government	<u>3,884</u>
Public safety and judiciary:	
Police	9,033
Fire	<u>34,023</u>
Total public safety and judiciary	<u>43,056</u>
Streets	<u>3,903</u>
Cultural, parks and recreation:	
Library	1,681
Cemetery	<u>1,071</u>
Total cultural, parks and recreation	<u>2,752</u>
Total depreciation expense	<u>\$ 53,595</u>

The capitalization of infrastructure is reported on a prospective basis beginning with the current year. No such additions were made in the current year.

### 3.E. ACCOUNTS PAYABLE

Payables in all funds are composed of payables to vendors only. Accrued expenses consist mainly of accrued payroll and benefits and additionally for the Inola Public Works Authority, accrued interest.

### 3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

#### Governmental Activities

The following is a summary of the Town's (excluding Proprietary Funds) long-term debt transactions for the year ended June 30, 2011:

Debt outstanding, July 1, 2010	\$ 39,016
Retirements	<u>( 13,387)</u>
Debt outstanding, June 30, 2011	<u>\$ 25,629</u>

	<u>Total</u>	<u>Due Within One Year</u>
Notes payable at June 30, 2011 for the Town of Inola consists of the following, all of which are from the general fund:		
Lease/purchase option on fire truck in monthly installments of \$483.53 including 5.29% interest in the original amount of \$25,396	\$ 2,778	\$ 2,778
Lease/purchase option on two police cars payable in monthly installments of \$760.22 including 4.45% interest in the original amount of \$40,746	<u>22,851</u>	<u>8,273</u>
	25,629	<u>\$11,051</u>
Less: Current portion	<u>11,051</u>	
Long term portion	<u>\$14,578</u>	

Long-term debt maturities for each of the next years until maturity:

June 30, 2012	\$11,051
June 30, 2013	8,649
June 30, 2014	<u>5,929</u>
	<u>\$25,629</u>

Business-Type Activities

The following is a summary of the Inola Public Works Authority's long-term debt transactions for the year ended June 30, 2011.

Debt outstanding July 1, 2010	\$ 371,625
Additions	579,290
Retirements	<u>( 34,395)</u>
Debt outstanding June 30, 2011	<u>\$ 916,520</u>

The following is a summary of the Authority's long-term debt for the year ended June 30, 2011:

	<u>Total</u>	<u>Due Within One Year</u>
4.99% note payable, dated November, 2008, in the original amount of \$10,275, secured by equipment, principle and interest of \$308.21 monthly	1,517	1,517
Advances on a note in the amount of \$2,000,000, dated June 2, 2011. Payments will begin after construction of a waste water treatment facility is completed. Stated interest rate is 2.18%	579,290	--
A note in the amount of \$625,000 dated April 29, 1997. Interest and administrative fees totaling 3.683% per annum is to be paid semiannually beginning September 15, 1997. Payments of principal, which will commence no later than September 15, 1997, are due semiannually in an amount sufficient to amortize the loan over 20 years	<u>335,713</u>	<u>31,998</u>
	916,520	<u>\$ 33,515</u>
Less current portion	<u>33,515</u>	
	<u>\$883,005</u>	

Long-term debt maturities, including interest, until retired are as follows:

	<u>Principal *</u>	<u>Interest *</u>
Year ended June 30, 2012	33,516	12,286
Year ended June 30, 2013	33,236	11,037
Year ended June 30, 2014	34,489	9,784
Year ended June 30, 2015	35,789	8,485
Year ended June 30, 2016	37,119	7,154
Four year period ending June 30, 2020	163,081	14,011

\* Does not include newest loan, as terms are not finalized.

### **3.G EMPLOYEE RETIREMENT SYSTEM**

#### ***Oklahoma Firefighters' Pension and Retirement System***

##### **Plan Description**

All volunteer firemen of the Town of Inola, Oklahoma are covered by the Oklahoma Firefighters' Pension and Retirement System, which is a cost-sharing multiple-employer PERS.

All volunteer firemen, except those under 18 years of age or an employee who was hired after reaching age 45 unless he or she has prior service and will have completed twenty years of service by age 65, are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after accumulating 20 years of service with the Town or another entity covered by the State PERS. Benefits vest after 10 years of service. Employees who retire with 20 or more years of service are entitled to pension payments beginning at age 50 equal to \$5.33 per month times their number of years of service up to a maximum of 30 years.

Pension provisions include deferred allowances whereby a volunteer firefighter may terminate with the Town after accumulating 10 years of service but not before reaching the age of 50. The volunteer firefighter is entitled to all pension benefits upon reaching the age of 50 or by the time he or she would have completed 20 years of service, whichever is later.

Pension provisions include death and disability benefits, whereby the disabled volunteer firefighter or surviving spouse is entitled to receive the same as a normal retirement with 20 years of service.

Both the Town's current-year covered payroll and its total current-year payroll for all employees amount to \$ .00, as contributions and benefits for volunteer firemen are not based on payroll.

##### **Contributions Required and Made**

Volunteer firefighters of the Town do not make contributions to the pension plan. The Town makes annual contributions of \$60 to the pension plan for each active volunteer firefighter, which amounted to \$1,200.00 for the year ended June 30, 2011.

The Town made all required contributions to the plan for the year, and no contributions are required from the firefighters. Total contributions are allocated between the municipality and the state. The contribution amounts for municipalities are set by state statutes. Therefore, the remainder of required contributions must be made by the state.

## Funding Status and Progress

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB-5 that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits which will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among other PERS and among other employers.

Total unfunded pension benefit obligation of the State PERS as of July 1, 2011 was as follows:

Total pension benefit obligations (actuarial accrued liability)	\$2,760,356,036
Net assets available for pension benefits, at actuarial value	<u>1,757,838,480</u>
Unfunded actuarial benefit obligation	<u>\$1,002,517,556</u>

The measurement of the total pension benefit obligation is based on actuarial valuation as of June 30, 2011. Net assets available to pay pension benefits were valued as of the same date.

The Town's 2011 required contribution to the State PERS represents approximately .01% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

Ten-year historical trend information is presented in the State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

### 3.H. DUE TO/FROM OPERATING TRANSFERS

As of June 30, 2011, interfund receivables and payables which resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 31,402	\$ --
Library Savings	--	150
Library Grant	--	260
Cemetery	--	4,522
Inola Public Works Authority	136,388	--
OWRB Fund	<u>    --</u>	<u>162,858</u>
	<u>\$167,790</u>	<u>\$167,790</u>

- a. Due to/Due from - Monthly, the Town of Inola pays vendors and employees that are suppliers and employees of both the Authority and the Town, and then bills the Authority and other appropriate funds. The General Fund borrowed funds from the Street and Alley Fund to provide during a short term cash flow shortage caused by sales tax collection decrease.
- b. Operating Transfers - The Authority, in its operating budget, approved the transfer of funds to the Town for the benefit of its fire department and General Fund. Such transfers were \$32,500 to the Fire Department, \$14,668 to the General Fund and \$1,500 to the Park Fund.

### 3.I. NET ASSETS

The net assets at June 30, 2011 consist of:

	<u>Unassigned</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Total</u>
General Fund	\$123,605	\$ --	--	\$ --	\$123,605
Volunteer Fire Fund	--	--	--	169,941	169,941
Grant Fund	--	--	--	1	1
Cemetery	--	61,723	--	--	61,723
Police	--	--	--	15,426	15,426
OWRB Grant	--	--	--	1	1
Library Savings	--	--	--	43	43
Library Grant	--	--	--	109	109
Park	--	--	--	119	119
Street & Alley	<u>    --</u>	<u>59,099</u>	<u>    --</u>	<u>    --</u>	<u>59,099</u>
	<u>\$123,605</u>	<u>\$120,822</u>	<u>\$    --</u>	<u>\$ 185,640</u>	<u>\$ 430,067</u>

### **3.J. RISK MANAGEMENT/CONTINGENT LIABILITY**

The Town is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Town manages these various risks through the purchase of commercial insurance with varying deductibles. These deductibles are well below materiality levels for the Town. During the last three years no claim has been settled for amounts in excess of insurance coverage.

There is currently pending litigation for which trial dates have not been set. At this time the cases are unsettled and management disputes and denies the allegations. No amounts are probably at this time.

**TOWN OF INOLA, OKLAHOMA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ 76,486	\$ 76,486	\$ 76,486	\$ --
Resources (inflows)				
Taxes				
Franchise taxes	35,372	35,372	38,915	3,543
Use tax	28,414	28,414	31,571	3,157
Sales tax	<u>206,211</u>	<u>206,211</u>	<u>229,123</u>	<u>22,912</u>
Total taxes	<u>269,997</u>	<u>269,997</u>	<u>299,609</u>	<u>29,612</u>
Intergovernmental				
Alcoholic beverage tax	8,631	8,631	9,589	958
Cigarette tax	4,406	4,406	4,896	490
Grants and donations	<u>150</u>	<u>150</u>	<u>--</u>	<u>( 150)</u>
Total intergovernmental	<u>13,187</u>	<u>13,187</u>	<u>14,485</u>	<u>1,298</u>
Fines and forfeitures				
Police fines	<u>18,550</u>	<u>18,550</u>	<u>20,611</u>	<u>2,061</u>
Total fines and forfeitures	<u>18,550</u>	<u>18,550</u>	<u>20,611</u>	<u>2,061</u>
Licenses and permits				
Various licenses	<u>2,726</u>	<u>2,726</u>	<u>3,029</u>	<u>303</u>
Total licenses and permits	<u>2,726</u>	<u>2,726</u>	<u>3,029</u>	<u>303</u>
Library	<u>2,240</u>	<u>2,240</u>	<u>2,489</u>	<u>249</u>
Intra-governmental - Transfers in	<u>13,788</u>	<u>13,788</u>	<u>15,320</u>	<u>1,532</u>
Investment income	<u>4,081</u>	<u>4,081</u>	<u>4,534</u>	<u>453</u>
Miscellaneous	<u>1,062</u>	<u>1,062</u>	<u>1,734</u>	<u>672</u>
Total miscellaneous	<u>1,062</u>	<u>1,062</u>	<u>1,734</u>	<u>672</u>
Amounts available for appropriation	<u>402,117</u>	<u>402,117</u>	<u>438,297</u>	<u>36,180</u>
Charges to appropriations (outflows)				
Administration and accounting				
Personal services	47,900	47,900	51,541	( 3,641)
Maintenance and operation	<u>13,610</u>	<u>13,610</u>	<u>13,404</u>	<u>206</u>
Total General Government	<u>61,510</u>	<u>61,510</u>	<u>64,945</u>	<u>( 3,435)</u>

**TOWN OF INOLA, OKLAHOMA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Council</b>				
Personal services	5,604	5,604	5,485	119
Maintenance and operation	<u>550</u>	<u>550</u>	<u>540</u>	<u>10</u>
	<u>6,154</u>	<u>6,154</u>	<u>6,025</u>	<u>129</u>
<b>Police</b>				
Personal services	214,350	214,350	206,900	7,450
Maintenance and operation	36,050	36,050	32,683	3,367
Capital outlay	<u>15,000</u>	<u>15,000</u>	<u>9,123</u>	<u>5,877</u>
Total Police	<u>265,400</u>	<u>265,400</u>	<u>248,706</u>	<u>16,694</u>
<b>Municipal Court</b>				
Personal services	3,710	3,710	3,697	13
Maintenance and operation	<u>350</u>	<u>350</u>	<u>320</u>	<u>30</u>
Total Municipal Court	<u>4,060</u>	<u>4,060</u>	<u>4,017</u>	<u>43</u>
<b>Library</b>				
Personal services	30,250	30,250	30,306	( 56)
Maintenance and operation	<u>14,000</u>	<u>14,000</u>	<u>11,387</u>	<u>2,613</u>
Total Library	<u>44,250</u>	<u>44,250</u>	<u>41,693</u>	<u>2,557</u>
<b>Other</b>				
Unallocated capital outlay	<u>20,743</u>	<u>20,743</u>	<u>--</u>	<u>20,743</u>
Total Other	<u>20,743</u>	<u>20,743</u>	<u>--</u>	<u>20,743</u>
<b>Total Charges to Operations</b>	<u>402,117</u>	<u>402,117</u>	<u>365,386</u>	<u>36,731</u>
<b>Ending Budgetary Fund Balances</b>	<u>\$ --</u>	<u>\$ --</u>	72,911	<u>\$ 72,911</u>
<b>Adjustments to reconcile to balance sheet</b>				
Increase in beginning fund balance			51,980	
Increase (decrease) in taxes receivable, including franchise			<u>( 1,286)</u>	
Fund Balance			<u>\$ 123,605</u>	

## **OTHER SUPPLEMENTARY INFORMATION**

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds

**TOWN OF INOLA, OKLAHOMA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2011**

	<u>Library Savings Fund</u>	<u>Library Grant Fund</u>	<u>Cemetery Fund</u>	<u>Park Fund</u>	<u>Volunteer Fire Fund</u>	<u>Police Fund</u>	<u>Street and Alley Fund</u>	<u>Total</u>
<b>Assets</b>								
Cash, including time deposits	\$682	\$369	\$66,400	\$450	\$171,545	\$15,448	\$57,551	\$312,445
Taxes receivable	--	-	--	--	--	--	2,017	2,017
<b>Total assets</b>	<u>\$682</u>	<u>\$369</u>	<u>\$66,400</u>	<u>\$450</u>	<u>\$171,545</u>	<u>\$15,448</u>	<u>\$59,568</u>	<u>\$314,462</u>
<b>Liabilities</b>								
Accounts payable	489	--	155	331	1,604	22	469	3,070
Due to other fund	150	260	\$4,522	--	--	--	--	4,932
<b>Total liabilities</b>	<u>639</u>	<u>260</u>	<u>4,677</u>	<u>331</u>	<u>1,604</u>	<u>22</u>	<u>469</u>	<u>8,002</u>
<b>Fund Balances</b>								
Assigned	43	109	--	119	169,941	15,426	--	185,638
Restricted	--	--	61,723	--	--	--	59,099	120,822
<b>Total fund balances</b>	<u>43</u>	<u>109</u>	<u>61,723</u>	<u>119</u>	<u>169,941</u>	<u>15,426</u>	<u>59,099</u>	<u>306,460</u>
<b>Total liabilities and fund balances</b>	<u>\$682</u>	<u>\$369</u>	<u>\$66,400</u>	<u>\$450</u>	<u>\$171,545</u>	<u>\$15,448</u>	<u>\$59,568</u>	<u>\$314,462</u>

**TOWN OF INOLA, OKLAHOMA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	Library Savings Fund	Library Grant Fund	Cemetery Fund	Park Fund	Volunteer Fire Fund	Police Fund	Street and Alley Fund	Total
<b>Revenues</b>								
Other taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$14,604	\$14,604
Grants and contributions	1,186	7,144	--	--	18,774	6,039	--	33,143
Interest	24	63	2,929	53	8,356	503	2,911	14,839
Miscellaneous	116	--	17,525	--	22,050	--	850	40,541
<b>Total revenues</b>	<u>1,326</u>	<u>7,207</u>	<u>20,454</u>	<u>53</u>	<u>49,180</u>	<u>6,542</u>	<u>18,365</u>	<u>103,127</u>
<b>Expenditures</b>								
<b>Current</b>								
<b>Debt service</b>								
Principal	--	--	--	--	5,499	--	--	5,499
Interest	--	--	--	--	303	--	--	303
<b>Police</b>								
Police	--	--	--	--	--	8,132	--	8,132
<b>Cemetery</b>								
Cemetery	--	--	10,267	--	--	--	--	10,267
<b>Library</b>								
Library	1,574	7,691	--	--	--	--	--	9,265
<b>Park</b>								
Park	--	--	--	1,638	--	--	--	1,638
<b>Streets</b>								
Streets	--	--	--	--	--	--	11,435	11,435
<b>Fire</b>								
Fire	--	--	--	--	42,249	--	--	42,249
<b>Capital outlay</b>								
Capital outlay	--	--	--	--	9,025	--	--	9,025
<b>Total expenditures</b>	<u>1,574</u>	<u>7,691</u>	<u>10,267</u>	<u>1,638</u>	<u>57,076</u>	<u>8,132</u>	<u>11,435</u>	<u>97,813</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(248)</u>	<u>(484)</u>	<u>10,187</u>	<u>(1,585)</u>	<u>(7,896)</u>	<u>(1,590)</u>	<u>6,930</u>	<u>5,314</u>
<b>Other financing sources (uses)</b>								
Transfers in	--	--	--	1,500	30,000	--	--	31,500
Transfers (out)	--	--	--	--	--	--	--	--
<b>Total other financing sources (uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,500</u>	<u>30,000</u>	<u>--</u>	<u>--</u>	<u>31,500</u>
<b>Net change in fund balances</b>	<u>(248)</u>	<u>(484)</u>	<u>10,187</u>	<u>(85)</u>	<u>22,104</u>	<u>(1,590)</u>	<u>6,930</u>	<u>36,814</u>
<b>Fund balances - beginning of year</b>	<u>291</u>	<u>593</u>	<u>51,536</u>	<u>204</u>	<u>147,837</u>	<u>17,016</u>	<u>52,169</u>	<u>269,646</u>
<b>Fund balances - end of year</b>	<u>\$43</u>	<u>\$109</u>	<u>\$61,723</u>	<u>\$119</u>	<u>\$169,941</u>	<u>\$15,426</u>	<u>\$59,099</u>	<u>\$306,460</u>

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

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

To The Honorable Chairman and Board of Trustees  
Town of Inola  
Town of Inola, Rogers County, Oklahoma

We have audited the accompanying financial statements of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Inola for the year ended June 30, 2011, which collectively comprise the Town of Inola's basic financial statements and have issued our report thereon dated August 27, 2012. 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.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Town of Inola, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Inola's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Inola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Inola's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Inola'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, other within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wingard, Ragsdale Langley, CPAs, PLLC*

**WINGARD, RAGSDALE & LANGLEY**  
*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

**AUGUST 27, 2012**

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

## SCHEDULE OF FINDINGS AND RESPONSES

Items beginning with "2010" represent findings as reported in the previous audit period. See update to these items provided below.

### 2010-1 Segregation of Duties

*Criteria or specific requirement:* Segregation of certain duties is necessary to maintain the integrity of reported financial information.

*Condition:* Inherent in small municipalities, segregation of certain accounting duties is limited due to the limited number of staff. As such, alternative methods of maintaining the "check and balance" feature of segregated accounting procedures may require alternative solutions to meet those needs.

*Context:* Observations and inquiries of the Town Clerk revealed her responsibilities included the billing, collection, depositing, and reconciling of the Public Works activities. Without segregating these duties, there is an opportunity for fraud. This opportunity arises from the Town's use of a separate utility billing system that is not integrated with its accounting system. As such, amounts paid and received for utilities services could be properly updated in the utility billing system, while being reported differently in the Town's accounting system. It was noted the Town employs an outside accountant who reviews and reconciles the information from these systems when preparing the year-end financial information for audit, however the frequency of this annual review is not considered sufficient to circumvent fraudulent activities.

*Effect:* Public Works revenues could be embezzled. When the same individual has responsibilities of billing, collection, then posting of these amounts in separate reporting systems, the billing system could reflect payments credited to customer accounts as received, however these amounts could be excluded from the accounting system and the Town's bank account.

*Cause:* There is no monitoring control to ensure the proper processing of the Public Works activities.

*Recommendation:* Monthly, someone charged with governance or directed by them should perform an independent comparison of cash deposited to amounts billed and recorded in the utility billing system.

*Corrective Action Update:* Jeff Kolker, monthly makes a comparison of the separate systems to serve as a control, which sufficiently addresses this finding.

## SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

### 2010-2 Recognition of Grant Awards

*Criteria or specific requirement:* Government accounting standards require recognition of capital contributions. This requirement is applicable to capital contributed through grant

*Condition:* The Town receives various forms of grant awards, however, the information and communication of capital grant awards is not properly captured in reported financial information.

*Context:* The Town received approximately \$75,000 of capital grants which were not recorded in the financial statements.

*Effect:* The Town's assets and revenues are materially understated.

*Cause:* There are no procedures for capturing grant activities to ensure proper recognition of those activities in the Town's reported financial information.

*Recommendation:* Someone charged with governance or directed by them should monitor the Board decisions made regarding grant activities. Grants, once awarded, should be systematically reviewed and all necessary aspects of those activities are summarized and considered for financial reporting.

*Corrective Action Update:* Finding corrected; Jeff Kolker, consulting accountant responsible for compiling the Town's financial statements has taken steps to insure grant activities are appropriately captured which sufficiently addresses this finding.