
THE TOWN OF JONES CITY

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

BECKY FLEMING, C.P.A., INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Jones City, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each fund of the Town of Jones City, 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 the management of the Town of Jones City. 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 *Governmental 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 the 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 opinions.

As discussed in Note 2 to the financial statements, management has not maintained sufficient financial records to adequately support the valuation of capital assets. Additionally, management has not maintained sufficient financial records to reconcile the expenses recorded in the financial statements to the individual documentation of such expenses.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Jones City as of June 30, 2011, or the changes in its financial position, or, where applicable, its cash flows, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2012, on our consideration of the internal control over financial reporting of the Town of Jones City, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Jones City. The schedules of expenditures of federal and state awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters described in the 3rd paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Management has omitted the management's discussion and analysis and budgetary comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Becky Fleming, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
June 20, 2012

**THE TOWN OF JONES CITY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities	Business-type Activities	Total 2011
ASSETS			
Current Assets			
Cash and demand deposits	104,526	354,405	458,931
Certificates of deposit	210,695	0	210,695
Restricted cash	462,987	30,100	493,087
Revenue and accounts receivable	77,601	45,629	123,230
Allowance for doubtful accounts	0	(4,891)	(4,891)
Other receivables	0	17,717	17,717
Grants receivable	690,169	0	690,169
Prepaid expenses	0	6,100	6,100
Total current assets	1,545,978	449,060	1,995,038
Noncurrent Assets			
Depreciable property and equipment	1,031,081	2,838,056	3,869,137
Accumulated depreciation	(348,715)	(1,765,413)	(2,114,128)
Land	18,000	0	18,000
Construction in progress	312,641	63,165	375,806
Total noncurrent assets	1,013,007	1,135,808	2,148,815
TOTAL ASSETS	2,558,985	1,584,868	4,143,853
LIABILITIES			
Current Liabilities			
Accounts payable	39,716	43,941	83,657
Payroll taxes payable	563	346	909
Accrued leave payable	20,394	3,794	24,188
Deferred grant revenues	657,789	0	657,789
Capital leases payable, current portion	68,990	13,000	81,990
Total current liabilities	787,452	61,081	848,533
Noncurrent Liabilities			
Meter deposits refundable	0	30,100	30,100
Capital leases payable, less current portion	204,760	9,750	214,510
Total noncurrent liabilities	204,760	39,850	244,610
TOTAL LIABILITIES	992,212	100,931	1,093,143
NET ASSETS			
Invested in capital assets, net of related debt	739,257	1,113,058	1,852,315
Restricted for:			
Debt	246,692	0	246,692
Capital improvements	71,897	0	71,897
Police	6,253	0	6,253
Fire	32,085	0	32,085
Capital outlay	40,139	0	40,139
Library	3,251	0	3,251
Main street project	62,670	0	62,670
Unrestricted	364,529	370,879	735,408
TOTAL NET ASSETS	1,566,773	1,483,937	3,050,710

THE TOWN OF JONES CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Governmental Activities:		Business-type Activities:		Total governmental activities	Total business-type activities	Total all activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
General government	(241,767)	16,026	5,705	17,388	(202,648)	0	(202,648)
Community building department	(6,892)	2,905	0	0	(3,987)	0	(3,987)
Police department	(413,497)	108,056	5,710	0	(299,731)	0	(299,731)
Fire department	(89,800)	0	14,653	0	(75,147)	0	(75,147)
Park department	(12,797)	0	0	0	(12,797)	0	(12,797)
Street department	(64,907)	0	23,179	32,380	(9,348)	0	(9,348)
Total governmental activities	(829,660)	126,987	49,247	49,768	(603,658)	0	(603,658)
Administration	(76,742)	121,132	3,391	0	47,781	47,781	47,781
Sewer department	(164,907)	105,772	0	0	(59,135)	(59,135)	(59,135)
Trash department	(155,878)	250,947	0	0	95,069	95,069	95,069
Water department	(103,843)	121,248	0	0	17,405	17,405	17,405
Gas department	(357,055)	449,309	0	0	92,254	92,254	92,254
Total business-type activities	(858,425)	1,048,408	3,391	0	193,374	193,374	193,374
General revenues:	1,175,395	52,638	49,768	(603,658)	193,374	(410,284)	(1,688,085)
Taxes:							
Sales taxes for general purposes	440,059	440,059	0	0	0	0	440,059
Sales taxes, restricted for capital expenses and debt service	133,609	133,609	0	0	0	0	133,609
Franchise and public service taxes	67,435	67,435	0	0	0	0	67,435
Other general revenues	457	457	0	0	0	0	457
Investment income	2,526	2,526	960	0	3,486	0	3,486
Capital contributions	(3,000)	(3,000)	3,000	0	0	0	0
Transfers	259,336	259,336	(259,336)	0	0	0	0
Total general revenues and transfers	900,422	900,422	(255,376)	645,046	645,046	645,046	645,046
Change in net assets	296,764	296,764	(62,002)	234,762	234,762	234,762	234,762
Beginning net assets	1,267,509	1,267,509	1,524,812	2,792,321	2,792,321	2,792,321	2,792,321
Prior period adjustments	2,500	2,500	21,127	23,627	23,627	23,627	23,627
Ending net assets	1,566,773	1,566,773	1,483,937	3,050,710	3,050,710	3,050,710	3,050,710

* Interest expense of \$3,555 is included in the fire department

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>
ASSETS	
Cash and demand deposits	104,526
Certificates of deposit	210,695
Restricted cash	462,987
Revenue receivable	77,601
Grants receivable	<u>690,169</u>
TOTAL ASSETS	<u>1,545,978</u>
LIABILITIES	
Accounts payable	39,716
Payroll taxes payable	563
Accrued leave payable	20,394
Deferred grant revenues	<u>657,789</u>
TOTAL LIABILITIES	<u>718,462</u>
FUND BALANCE	
Restricted for:	
Debt	246,692
Capital improvements	71,897
Police	6,253
Fire	32,085
Capital outlay	40,139
Library	3,251
Main street project	62,670
Unrestricted	<u>364,529</u>
TOTAL FUND BALANCE	<u>827,516</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>1,545,978</u>

Reconciliation of fund balance to net assets of governmental activities:

Fund balance	827,516
Depreciable capital assets	1,031,081
Accumulated depreciation	(348,715)
Land	18,000
Construction in progress	312,641
Capital lease payable	<u>(273,750)</u>
Net assets	<u>1,566,773</u>

**THE TOWN OF JONES CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>
REVENUES	
Sales and use taxes	440,059
Sales taxes - restricted	133,609
Franchise taxes	67,435
Shared taxes	29,565
Fines and forfeitures	104,894
Licenses, permits, inspections	16,026
Rental revenues	2,905
Donations	18,726
Grants	50,724
Other revenues	3,619
Interest	<u>2,526</u>
TOTAL REVENUES	870,088
EXPENDITURES	
General government	235,677
Community building	3,487
Police department	394,078
Fire department	58,165
Park department	11,897
Street department	62,852
Debt service	71,756
Capital outlay	<u>361,768</u>
TOTAL EXPENDITURES	1,199,680
REVENUES OVER (UNDER) EXPENDITURES	(329,592)
OTHER FINANCING SOURCES (USES)	
Loan proceeds	250,000
Transfers-in (out)	<u>259,336</u>
TOTAL OTHER FINANCING SOURCES (USES)	509,336
NET CHANGE IN FUND BALANCES	179,744
BEGINNING FUND BALANCE	645,272
Prior period adjustments	<u>2,500</u>
ENDING FUND BALANCE	<u><u>827,516</u></u>
Reconciliation of net change in fund balance to change in net assets	
of governmental activities:	
Net change in fund balances - governmental funds	179,744
Capital asset purchases capitalized	361,768
Depreciation expense	(59,949)
Capital asset transfers	(3,000)
Loan proceeds	(250,000)
Principal payments on capital lease	<u>68,201</u>
Change in Net Assets of Governmental Activities	<u><u>296,764</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	<u>Jones Public Works Authority</u>
ASSETS	
Current Assets	
Cash and demand deposits	354,405
Restricted cash	30,100
Accounts receivable	45,629
Allowance for doubtful accounts	(4,891)
Other receivables	17,717
Prepaid expenses	6,100
Total current assets	<u>449,060</u>
Noncurrent Assets	
Depreciable property and equipment	2,838,056
Accumulated depreciation	(1,765,413)
Construction in progress	63,165
Total noncurrent assets	<u>1,135,808</u>
TOTAL ASSETS	<u><u>1,584,868</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	43,941
Payroll taxes payable	346
Accrued leave payable	3,794
Current portion of notes payable	13,000
Total current liabilities	<u>61,081</u>
Noncurrent Liabilities	
Meter deposits refundable	30,100
Notes payable, less current portion	9,750
Total noncurrent liabilities	<u>39,850</u>
TOTAL LIABILITIES	<u>100,931</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,113,058
Unrestricted	370,879
TOTAL NET ASSETS	<u><u>1,483,937</u></u>

**THE TOWN OF JONES CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Jones Public Works Authority</u>
OPERATING REVENUES	
Sewer revenues	105,772
Trash revenues	250,947
Water revenues	121,248
Gas revenues	449,309
Late fees	26,261
Other income	94,871
TOTAL OPERATING REVENUES	<u>1,048,408</u>
OPERATING EXPENSES	
Administration department	76,742
Sewer department	164,907
Trash department	155,878
Water department	103,843
Gas department	357,055
TOTAL OPERATING EXPENSES	<u>858,425</u>
OPERATING INCOME	189,983
NON-OPERATING REVENUES	
Interest income	960
Donations	3,391
TOTAL NON-OPERATING REVENUES	<u>4,351</u>
INCOME BEFORE TRANSFERS	194,334
TRANSFERS	
Capital contributions	3,000
Transfers-in (out)	<u>(259,336)</u>
NET TRANSFERS	(256,336)
INCREASE IN NET ASSETS	(62,002)
BEGINNING NET ASSETS	1,524,812
Prior period adjustments	21,127
ENDING NET ASSETS	<u><u>1,483,937</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Jones Public Works Authority</u>
Cash flows from operations:	
Cash received from:	
Customers	1,028,903
Cash payments for:	
Goods and services	(481,672)
Employees	(145,040)
Net cash provided from operations	<u>402,191</u>
Cash flows from capital financing activities:	
Principal payments	(13,000)
Purchases of capital assets	(89,012)
Net cash from capital financing activities	<u>(102,012)</u>
Cash flows from non-capital financing activities:	
Donations	3,391
Transfers to general fund	(259,336)
Net cash from capital financing activities	<u>(255,945)</u>
Cash flows from investing activities:	
Interest income	960
Net cash from investing activities	<u>960</u>
Net increase (decrease) in cash	<u>45,194</u>
Beginning cash	<u>309,211</u>
Ending cash	<u><u>354,405</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income	189,983
Adjustments to income from operations:	
Depreciation	107,850
Change in assets and liabilities:	
(Increase) decrease in receivables	(20,805)
(Increase) decrease in prepaid expenses	348
(Increase) decrease in due from other funds	96,250
Increase (decrease) in payables	28,565
Net cash provided by operations	<u><u>402,191</u></u>

The accompanying notes are an integral part of these financial statements

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

The Town of Jones City, Oklahoma, was incorporated January 4, 1909, under the laws of the State of Oklahoma. The Town of Jones City (Town) operates under the Statutory Town Board of Trustees form of government and provides the following major services: public safety, streets, public improvements, planning and zoning, and general administration. Sewer, trash, water, and gas utilities are provided by the Town's public works authority.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that does not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

For the fiscal year ended June 30, 2011, the Town implemented the new financial reporting requirements of GASB-54, which establishes new fund balance classifications for governmental funds. Fund balance will now be composed of three primary categories: Non-spendable, restricted, and unrestricted. Non-spendable fund balance reflects amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact. Restricted amounts reflect amounts that are either restricted by external sources or imposed by law. Unrestricted balances consist of amounts that either have no restriction, or that have been internally restricted by the town board of trustees. Currently, the Town has no non-spendable or internally restricted resources.

1A. Financial Reporting Entity

These financial statements present the Town (the primary government) and its component unit in conformity with GASB-14. The financial statements of the Town's Title 60 Trust have been included in the financial reporting entity as a blended component unit because their operating and financial relationships are significant to the Town.

1B. Blended Component Units

The Jones City Public Works Authority (JCPWA) was established to finance, establish, and operate utility services for the citizens of the Town. JCPWA is a legally separate entity from the Town and is governed by the same board of trustees that governs the Town. For financial reporting purposes, the JCPWA is reported as if it were part of the Town's operations. The JCPWA does not present separate financial statements.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

1C. Basic Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's police, fire, streets, community building, and general government administration are classified as governmental activities. The Town's sewer, trash, water, and gas utilities are classified as business-type activities.

1D. Government-wide Financial Statements

In the government wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. The functions are also supported by general government revenues (sales and use taxes, certain intergovernmental revenues, permits, and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

1E. Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

Governmental Funds

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period.

**The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

Proprietary Funds

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Town maintains one proprietary fund, which is an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

1F. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual Basis

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis

The governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

1G. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statement of cash flows are defined as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1H. Deposits and Investments

The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

1I. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

1J. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

1K. Capital Assets

Capital assets purchased or acquired with an original cost of \$3,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Vehicles and equipment	5 to 25 years
Infrastructure	25 to 40 years

GASB-34 required the Town to report and depreciate new infrastructure assets effective with the 2004 year. Infrastructure assets include roads, sidewalks, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has been reported in the financial statements. Retroactive reporting is not required.

Management has not maintained sufficient financial records to adequately support the valuation of capital assets. The cost of significant capital assets purchased or constructed prior to July 1, 2008, is estimated based on the recollection of past board members and current employees.

**The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

1L. Compensated Absences

Town employees are entitled to certain compensated absences based on their length of employment. Such amounts are accrued as earned and reported in the financial statements.

1M. Revenues and Expenditures

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are nonoperating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

2. Stewardship, Compliance, and Accountability

Management has not maintained sufficient financial records to adequately support the valuation of capital assets. The cost of significant capital assets purchased or constructed prior to July 1, 2008, is estimated based on the recollection of past board members and current employees. In addition, although the Town set up new accounting software for the 2011 fiscal year, there was no way to reconcile expenditures in the general ledger to the individual source documents for those expenditures. Town employees are in the process of updating the software to correct this problem.

3. Budgets and Budgetary Accounting

The board of trustees adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for fund financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used. Budget to actual comparisons for 2011 have not been presented.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

4. Risk Management

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. During the year just ended, no claims were made.

5. Deposits and Investments

At year end, the Town had insured deposits of \$500,000. Deposits of \$614,226 were not insured, but were collateralized with securities held by the bank's agent but not in the Town's name.

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

6. Restricted Cash and Investments

Restricted taxes, as discussed in note 7, are maintained in separate bank accounts of the general fund of the Town.

Customer meter deposits are maintained in separate bank accounts of the JCPWA.

7. Restricted Taxes

Sales Taxes

1 cent of the 4 cent sales tax of the town is restricted as follows: 60% for the payment of long-term debt; 20% for capital improvements of the Town and the JCPWA; and 20% for capital outlay for the Town and JCPWA. Currently, not all of the allowable expenses that could be paid from these accounts is being paid from them, causing excess funds of the town to be recorded as restricted.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

8. Capital Assets

Capital asset activity for the year just ended is summarized as follows:

Governmental Activities	Beginning			Ending	Beginning			Ending	Book
	Balance	Additions	Disposals	Balance	Depreciation	Additions	Disposals	Depreciation	Value
Non-depreciable									
Construction in progress	14,859	297,782	0	312,641	0	0	0	0	312,641
Land	18,000	0	0	18,000	0	0	0	0	18,000
Total non-depreciable	32,859	297,782	0	330,641	0	0	0	0	330,641
Depreciable									
Land improvements	70,000	0	0	70,000	26,750	2,500	0	29,250	40,750
Buildings & bldg equipment	246,423	9,560	0	255,983	80,386	10,297	0	90,683	165,300
Equipment	601,671	49,651	0	651,322	180,650	45,096	0	225,747	425,576
Roads, bridges, sidewalks	49,000	4,776	0	53,776	980	2,056	0	3,036	50,740
Total depreciable	967,095	63,987	0	1,031,081	288,766	59,949	0	348,715	682,366
Total governmental	999,954	361,769	0	1,361,722	288,766	59,949	0	348,715	1,013,007

Business-type Activities	Beginning			Ending	Beginning			Ending	Book
	Balance	Additions	Disposals	Balance	Depreciation	Additions	Disposals	Depreciation	Value
Non-depreciable									
Construction in progress	30,915	32,250	0	63,165	0	0	0	0	63,165
Total non-depreciable	30,915	32,250	0	63,165	0	0	0	0	63,165
Depreciable									
Buildings & bldg equipment	77,125	3,042	0	80,167	37,428	3,228	0	40,656	39,511
Equipment	258,108	13,173	0	271,281	136,052	24,132	0	160,184	111,098
Utility systems	2,446,061	40,547	0	2,486,608	1,484,083	80,490	0	1,564,573	922,034
Total depreciable	2,781,294	56,762	0	2,838,056	1,657,563	107,850	0	1,765,413	1,072,643
Total business-type	2,812,209	89,012	0	2,901,221	1,657,563	107,850	0	1,765,413	1,135,808

Depreciation by department is as follows:

Governmental Activities		Business-type Activities	
General government	6,090	Sewer	63,786
Community building	3,404	Water	19,717
Police department	19,419	Gas	24,347
Fire department	28,080		<u>107,850</u>
Park department	900		
Street department	2,056		
	<u>59,949</u>		

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

9. Capital Leases

Debt outstanding at June 30, 2011, consisted of the following:

Fund		Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Governmental	Fire truck	4.25%	02/14/15	177,000	273,750	Fire truck
Governmental	Streets	0	05/20/15	250,000	200,000	Franchise tax
Business-type	Backhoe	0.00%	03/01/13	52,000	22,750	Backhoe

Long-term debt activity for the year ended June 30, 2011, was as follows:

Fund	Capital Leases	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental	Fire Truck	91,951	0	(18,201)	73,750	18,990
Governmental	Streets	0	250,000	(50,000)	200,000	50,000
Business-type	Backhoe	35,750	0	(13,000)	22,750	13,000

Debt service requirements to maturity are as follows:

Governmental	Principal	Interest	Business-Type	Principal	Interest
2012	68,990	2,766	2012	13,000	0
2013	69,813	1,944	2013	9,750	0
2014	70,671	1,085		22,750	0
2015	64,276	228			
	<u>273,750</u>	<u>6,023</u>			

10. Pension Plans

Oklahoma Firefighters Pension and Retirement System – Defined Benefit Pension Plan

Plan Description. The Town contributes to the Oklahoma Firefighters Pension and Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

Funding Policy. Volunteer firefighters are not required to contribute, but the Town is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The Town's contribution to the System for the years ended June 30, 2011, 2010, and 2009 were \$1,080, \$1,140 and \$1,140, equal to the required contribution for each year.

Oklahoma Police Pension and Retirement System - Defined Benefit Pension Plan

Plan Description. The city contributes to the Oklahoma Police Pension and Retirement System (OPPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OPPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city and employee contributions to OPPRS for 2011, 2010 and 2009 were as follows: \$20,494, \$23,851 and \$26,444; and \$12,612, \$14,678 and \$16,273, equal to the required contributions for each year. Eligible payroll was \$157,647, \$183,472 and \$203,415.

11. Inter-fund Transactions

	General Fund	Utility Fund	Total Transfers
Operating	259,336	(259,336)	0
Equipment	(3,000)	3,000	0
	<u>256,336</u>	<u>(256,336)</u>	<u>0</u>

12. Prior Period Adjustments

	General Fund	Utility Fund	Total Adjustments
Equipment	2,500	21,127	23,627

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011

13. Subsequent Events

Management performed an evaluation of the Town's activity through June 20, 2012, the date the audit report was ready to be released, and has concluded that there are no significant subsequent events requiring disclosure through that date.

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

To the Board of Trustees
The Town of Jones City, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the Town of Jones City, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Town of Jones City, and have issued our report thereon, dated June 20, 2012. In our report, the Town of Jones City received an adverse opinion due to inadequate financial records supporting the valuation of capital assets and expenses. Except as discussed in the preceding sentence, 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

In planning and performing our audit, we considered the internal control over financial reporting of the Town of Jones City 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 Jones City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Jones City'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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-8 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Town of Jones City 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-7 through 2011-8.

The Town of Jones City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town of Jones City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Becky Fleming, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
June 20, 2012

SCHEDULE OF FINDINGS AND RESPONSES

2011-1 The Town's general ledger does not provide sufficient detail in the expense accounts to reconcile the expense totals to the individual invoices that make up those totals. In addition, batch reports for many transactions do not print automatically and cannot be printed subsequent to the data entry if the operator does not print them immediately after entering the data. We recommend that procedures be established to provide for data entry and report printing procedures that provide an audit trail for all transactions entered into the general ledger. The prior year finding that the Town did not maintain a general ledger to account for all funds of the Town has been cleared.

Response We will establish data entry and report printing procedures that provide an audit trail for all transactions entered into the general ledger.

2011-2 There are no established procedures to ensure that capital assets are correctly recorded in the financial records; that subsidiary schedules of constructed capital assets are adequately maintained; or that donated capital assets are correctly recorded. We recommend that procedures be established to ensure that capital assets are correctly recorded in the financial records; that subsidiary schedules of constructed capital assets are adequately maintained; and that donated capital assets are correctly recorded. This finding was also reported in 2010 and 2009.

Response We will establish procedures to make sure all capital expenditures are properly recorded in the financial records and that separate schedules are maintained for construction projects. We will also make sure that separate files are kept for donated capital assets.

2011-3 There are no established procedures to ensure that police fines are correctly recorded in the financial records and subsidiary schedules. We recommend that procedures be established to ensure that police fines are correctly recorded in the financial records and subsidiary schedules.

Response We will establish procedures to make sure that all police fines are properly maintained in their subsidiary ledgers and in the financial records and that they are reconciled to each other monthly.

2011-4 There are no established procedures to ensure that meter deposits are correctly recorded in the utility billing system; that they are properly recorded in the financial records; or that the two are reconciled to each other monthly. We recommend that procedures be established to ensure that meter deposits are correctly recorded in the utility billing system; that they are properly recorded in the financial records; and that the two are reconciled monthly. This finding was also reported in 2010 and 2009.

Response We will establish procedures to make sure that all meter deposits are correctly recorded in the utility billing system and the financial records and that they are reconciled monthly.

- 2011-5 There are no established procedures to ensure that utility billing reports are reconciled to the general ledger. We recommend that procedures be established to ensure that utility billing reports are reconciled to the general ledger at least monthly. This finding was also reported in 2010 and 2009. The prior year finding that utility billing reports were not being printed has been corrected.
- Response We will set up a schedule of reports that need to be printed every month and make sure that they are reconciled to the financial records.
- 2011-6 There is no segregation of duties between those maintaining the financial records and billing systems, performing reconciliations, or collecting payments. We recommend that duties be segregated between financial personnel so that better oversight over financial transactions can be achieved. This finding was also reported in 2010 and 2009. However, during 2011, the Town started requiring utility payments to be made at the bank providing some mitigation of this problem.
- Response We are working on allocating office tasks to various personnel in order to have better segregation of duties. However, since we are a small town with limited office personnel, we realize we will never be able to have adequate segregation of duties.
- 2011-7 There are no established procedures to adequately track restricted sales and shared taxes. We recommend that procedures be established to track restricted sales and shared taxes and that procedures be performed to verify the adequacy of net asset balances for those amounts. This finding was also reported in 2010 and 2009.
- Response We are working on establishing procedures to track all restricted deposits, to make sure that allowable expenditures are made from those funds, and to verify the balances in those accounts.
- 2011-8 There are no established procedures to adequately track grants. We recommend that procedures be established to track all grants, beginning with the application, through all cash receipts and disbursements, reporting, and close-out.
- Response We are working on establishing procedures to track all grants and make sure they are reported correctly in the general ledger.

**THE TOWN OF JONES CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011
(Accrual Basis)**

<i>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</i>	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	DEFERRED REVENUE JUNE 30, 2010	REVENUES	EXPENSES	DEFERRED REVENUE JUNE 30, 2011
U.S. Department of Housing and Urban Development <i>Oklahoma Department of Commerce</i> Community Development Block Grants/State's Program	14.228	14252-CDBG-CIP-10	0	13,750	13,750	13,750
U.S. Department Transportation <i>Oklahoma Department of Transportation</i> Federal Aid Highway Program	20.205	State Job #26886(04)	0	32,380	32,380	617,275
U.S. Department of Homeland Security <i>N/A</i> Assistance to Firefighters Grant	97.044	EMW-2009-FO-07747	196	196	196	0
U.S. Department of Homeland Security <i>N/A</i> Hazard Mitigation Grant	97.039	FEMA-1718-DR-OK	0	0	0	26,764
TOTAL EXPENDITURES OF FEDERAL AWARDS			196	46,326	46,326	657,789

**THE TOWN OF JONES CITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011
(Accrual Basis)**

<i>STATE GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</i>	GRANTOR'S NUMBER	DEFERRED REVENUE JUNE 30, 2010	REVENUES	EXPENSES	DEFERRED REVENUE JUNE 30, 2011
Oklahoma Department of Agriculture <i>N/A</i> Rural Fire Protection		0	4,398	4,398	0
TOTAL EXPENDITURES OF STATE AWARDS			0	4,398	0