

TOWN OF ARKOMA, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

TOWN OF ARKOMA, OKLAHOMA

TABLE OF CONTENTS

<u>Statement</u>	<u>Page</u>
LIST OF PRINCIPAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS:	4-12
1. Statements of Net Assets, Modified Cash Basis	13
2. Statements of Activities - Modified Cash Basis	14
3. Balance Sheet – Modified Cash Basis – Governmental Funds	15
4. Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis – Governmental Funds	16
5. Statements of Net Assets- Modified Cash Basis - Proprietary Fund	17
6. Statement of Revenues, Expenses, and Changes in Fund Net Assets - Modified Cash Basis - Proprietary Fund	18
7. Statement of Cash Flows – Modified Cash Basis – Proprietary Fund	19
Notes to Financial Statements	20-40
REQUIRED SUPPLEMENTARY INFORMATION:	
8. Budgetary Comparison Schedule – Modified Cash Basis – General Fund	41-42
9. Budgetary Comparison Schedule – Modified Cash Basis – Special Revenue Fund	43
10. Notes to Budgetary Comparison Schedule – General Fund	44
OTHER SUPPLEMENTARY INFORMATION:	
11. Combining Balance Sheet – Modified Cash Basis – Nonmajor Governmental Funds	45

TOWN OF ARKOMA, OKLAHOMA

TABLE OF CONTENTS

<u>Statement</u>	<u>Page</u>
12. Budgetary Comparison Schedule – Modified Cash Basis – Nonmajor Governmental Funds	46

INTERNAL CONTROL AND COMPLIANCE:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards	47-48
---	-------

TOWN OF ARKOMA, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS

Board of Trustees

Floyd Lawrence	Mayor
Stan Cottrell	Vice Mayor
Gene Earls	Member
Billy Miller	Member

Town Clerk & Treasurer

Dottie Smith

Town Attorney

Ronald H. Lawson

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Arkoma, 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 the Town of Arkoma, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Arkoma, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Arkoma, Oklahoma's management. Our responsibility is to express an opinion 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, and in accordance with Oklahoma Statutes. 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.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Arkoma, Oklahoma, as of June 30, 2012, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2013, on our consideration of the Town of Arkoma, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information and the notes to the budgetary comparison information are not a required part of the basic

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Arkoma's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major 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 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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

March 29, 2013

Town of Arkoma

P. O. BOX 277

ARKOMA, OKLAHOMA 74901

(Unaudited)

MANAGEMENT AND DISCUSSION ANALYSIS

Our discussion and analysis of the Town of Arkoma's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012, within the limitations of the Town's modified cash basis of accounting. Please read it in conjunction with the Town's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- The Town's total revenues exceeded total expenses, on the modified cash basis of accounting, by \$184,677 for the year, resulting in a increase in total net assets of 6.08 percent over the previous year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Town's modified cash basis of accounting.

Report Components This annual report consists of five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (*on pages 13-14*) provide information about the activities of the Town government-wide (or "as a whole") and present a longer-term view of the Town's finances.

Fund Financial Statements: The fund financial statements (*starting on page 15*) focus on the individual parts of the Town government. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the Town operates like businesses, such as water, sewer and sanitation services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 2 (Unaudited)**

Required Supplementary Information: This Management’s Discussion and Analysis and the Governmental Funds Budgetary Comparison Schedules (*starting on page 41*) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as “the basic financial statements”).

Basis of Accounting

The Town has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Town’s modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Town as a Whole

The Town’s Reporting Entity Presentation

This annual report includes all activities for which the Town of Arkoma Council is fiscally responsible. These activities, defined as the Town’s reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit.

The primary government includes the following legal entities:

- The Town of Arkoma

- Arkoma Municipal Authority

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 3 (Unaudited)**

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the Town as a whole begins on page 7. The government-wide financial statements are presented on pages 13 and 14. One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all of the Town's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the Town's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Town's net assets—the difference between assets and liabilities—as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's sales tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

Governmental activities. Most of the Town's basic services are reported here, including the police, fire, general administration, streets, parks, cemetery, and senior citizens. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

Business-type activities. The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water, sewer and sanitation systems are reported here.

Reporting the Town's Most Significant Funds

The Fund Financial Statements

Our analysis of the Town's major funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 4 (Unaudited)**

Governmental funds—Most of the Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements. The Town considers the General Fund and the Capital Improvement Fund to be significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds—When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the Town’s proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. The Town only has one enterprise fund—the Municipal Authority Utilities Fund.

The Town currently has no fiduciary funds. *Fiduciary funds* are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

A FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Following is a summary of the Town’s Net Assets on a comparative basis with the previous year.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 5 (Unaudited)**

Net Assets—Modified Cash Basis

TOWN OF ARKOMA'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	527,305	523,730	873,625	753,583	1,400,930	1,277,313
Capital Assets	681,630	511,289	1,733,732	1,758,317	2,415,362	2,269,606
Total Assets	<u>1,208,935</u>	<u>1,035,019</u>	<u>2,607,357</u>	<u>2,511,900</u>	<u>3,816,292</u>	<u>3,546,919</u>
Long term liabilities	151,434	6,637	389,752	452,556	541,186	459,193
Other liabilities	3,302	3,958	53,063	49,705	56,365	53,663
Total Liabilities	<u>154,736</u>	<u>10,595</u>	<u>442,815</u>	<u>502,261</u>	<u>597,551</u>	<u>512,856</u>
Net Assets:						
Invested in capital assets, net of related debt	530,196	504,652	1,355,846	1,320,792	1,886,042	1,825,444
Restricted	496,286	491,138	83,238	78,076	579,524	569,214
Unrestricted	27,717	28,634	725,458	610,771	753,175	639,405
Total Net Assets	<u>1,054,199</u>	<u>1,024,424</u>	<u>2,164,542</u>	<u>2,009,639</u>	<u>3,218,741</u>	<u>3,034,063</u>

The Town's combined net assets, resulting from modified cash basis transactions, increased from approximately \$3,034,063 to \$3,218,741 between fiscal years 2011 and 2012. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$29,775 and business-type activities increased by \$154,903.

Net assets of the Town's governmental activities increased 2.91 percent to \$1,054,199. However, \$1,026,482 of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed only \$27,717 at the end of this year. The net assets of Town's business-type activities increased to \$2,164,542. However, \$1,439,084 of those net assets were restricted as to the purposes they can be used for or are invested in capital assets (buildings, electric, water, sewer and so on). Consequently, unrestricted assets were \$725,458 at the end of the year.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 6 (Unaudited)**

TOWN OF ARKOMA'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program Revenues:						
Fees, fines and charges for services	152,428	193,514	737,795	701,369	890,223	894,883
Operating grants and contributions	4,412	4,397			4,412	4,397
General revenues:						
Sales tax	162,397	122,725			162,397	122,725
Use tax	32,539	31,134			32,539	31,134
Franchise tax	70,984	67,537			70,984	67,537
Cigarette tax	2,341	1,708			2,341	1,708
Intergovt. Revenue	32,216	15,776			32,216	15,776
Investment earnings	1,211	2,155	1,715	2,675	2,926	4,830
Gain (loss) on sale of assets	0	0			0	0
Miscellaneous	20,846	26,698			20,846	26,698
Total revenues	479,374	465,644	739,510	704,044	1,218,884	1,169,688
Expenses:						
General government and administration						
Public safety	346,496	345,194			346,496	345,194
Transportation	68,941	78,026			68,941	78,026
Cultural and recreational	2,249	1,692			2,249	1,692
Interest on long term debt						
Water and Sewer Sanitation			512,813	536,185	512,813	536,185
			71,794	73,562	71,794	73,562
Total expenses	449,599	460,366	584,607	609,747	1,034,207	1,070,113
Increases in net assets before transfers						
	29,775	5,278	154,903	94,297	184,677	99,575
Net assets - July 1	1,024,424	1,019,146	2,009,639	1,915,342	3,034,063	2,934,488
Net assets - June 30	1,054,199	1,024,424	2,164,542	2,009,639	3,218,740	3,034,063

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 7 (Unaudited)**

For the year ended June 30, 2012, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$449,599. Of these total expenses, taxpayers and other general revenues funded \$322,534, while those directly benefiting from the program funded \$4,412 from grants and other contributions and \$152,428 from charges for services.

Business-Type Activities

The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements. The water and sewer service activities reported net revenues of \$125,630 and \$21,643 respectively. The sewer includes interest expense of \$11,960 and the non-cash system depreciation of \$127,994 and amortization of \$3,164. The sanitation service is operated under private contract and the net revenue of \$5,914 is from a fee for billing and collection of the sanitation revenue along with the normal billing.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues, lease proceeds and net transfers of \$314,183 and expenditures of \$315,100 resulting in a decrease in fund balance of \$917.
- The Street and Alley incurred capital outlay expenditures of approximately \$1,651 for building and equipment.
- The Fire Fund incurred capital outlay expenditures of approximately \$250,760 for equipment.

General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget.

For the year ended June 30, 2012, General Fund expenditures were \$16,177 under final appropriations, while actual resources available for appropriation were \$22,917 under the final budgeted amount.

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 8 (Unaudited)**

CAPTIAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At June 30, 2012, the Town had \$2,269,606 invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. This represents a net decrease of \$22,970 or 1.002 percent, under last year.

This year's more significant capital assets additions include:

Fire Fund - 2012 International 4400 Commercial Rescue Pumper	\$ 250,192
Municipal Authority - Water Construction in Process	49,946
Municipal Authority - Sewer Construction in Process	49,946

**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	10,000	10,000	16,000	16,000	26,000	26,000
Const. In Progress	0	0	301,348	201,457	301,348	201,457
Buildings	90,487	98,120	17,166	17,871	107,653	115,991
Equipment	381,336	176,884	77,686	97,128	459,022	274,012
Improvements	0	0	1,321,531	1,425,861	1,321,531	1,425,861
Infrastructure	199,808	226,285	0	0	199,808	226,285
Total	<u>681,630</u>	<u>511,289</u>	<u>1,733,731</u>	<u>1,758,317</u>	<u>2,415,361</u>	<u>2,269,606</u>

**TOWN OF ARKOMA
MANAGEMENT AND DISCUSSION ANALYSIS
PAGE 9 (Unaudited)**

Long-Term Debt—Modified Cash Basis

At June 30, 2012, the Town as a whole had \$508,675 in long term debt arising from modified cash basis transactions compared to \$577,819 at June 30, 2011. At June 30, 2012, \$6,637 of the debt is related to governmental activities and \$502,038 related to business-type activities. (See table below).

Primary Government Long-Term Debt – Modified Cash Basis

	<u>2011</u>	<u>2012</u>
Governmental debt:		
Lease purchase to Capital corp	\$ 6,637	\$ 3,427
Lease purchase to Welch St Bank	-	148,007
Total business-type debt	<u>6,637</u>	<u>151,434</u>
Business-type debt:		
Refundable utility deposits	\$ 49,482	\$ 52,842
OWRB note payable	270,000	220,000
OWRB note payable	182,556	169,752
Total business-type debt	<u>502,038</u>	<u>442,594</u>
Total all debt	<u>\$ 508,675</u>	<u>\$ 446,021</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected officials and staff considers many factors in setting the 2012-2013 budget, tax rates and service rates being the main sources and personal services and utility costs being the main uses of funds. The Town plans to begin water system improvements of approximately \$3,562,000 in the next year. The funds will consist of a USDA Rural Development grant of \$261,000 and a \$3,241,000 loan thru Rural Utilities Service (RUS) of the USDA Rural Development along with Town participation of \$60,000. The major improvements will consist of a water tower, replaced water lines and equipment and fire hydrants.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact the Town Clerk's office at 1103 Main, Arkoma, Oklahoma or telephone at (918) 875-3228.

TOWN OF ARKOMA, OKLAHOMA

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash, and cash equivalents	\$527,305	\$860,534	\$1,387,839
Due from other Governments		1,225	1,225
Capital assets (Note 2.C.):			
Land and construction in progress	10,000	317,349	327,349
Other capital assets, net of accumulated depreciation	671,630	1,416,383	2,088,013
Loan application cost, net of accumulated amortization		11,866	11,866
Total assets	1,208,935	2,607,357	3,816,292
LIABILITIES			
Payroll taxes payable	776	221	997
Due to other governments	2,526		2,526
Refundable deposits		52,842	52,842
Long term liabilities (Note 2.D.)			
Due within one year	16,188	68,238	84,426
Due in more than one year	135,246	321,514	456,760
Total Liabilities	154,736	442,815	597,551
NET ASSETS			
Invested in capital assets, net of related debt	530,196	1,355,846	1,886,042
Restricted for:			
Street and Alley	362,000		362,000
Fire Department	134,286		134,286
Debt service		83,238	83,238
Unrestricted	27,717	725,458	753,175
Total Net Assets	\$1,054,199	\$2,164,542	\$3,218,741

See accompanying notes to the basic financial statements.

TOWN OF ARKOMA, OKLAHOMA

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities							
General Government	\$31,914	\$6,039			(\$25,875)		(\$25,875)
Total general government	31,914	6,039	0	0	(25,875)	0	(25,875)
Public Safety:							
Police	286,895	144,889			(142,006)		(142,006)
Fire	48,871	1,500	4,412		(42,959)		(42,959)
Animal Control	7,262				(7,262)		(7,262)
Emergency Management	3,469				(3,469)		(3,469)
Total Public safety	346,496	146,389	4,412	0	(195,695)	0	(195,695)
Transportation:							
Streets	68,941				(68,941)		(68,941)
Total transportation	68,941	0	0	0	(68,941)	0	(68,941)
Cultural, Parks and Recreation:							
Library	2,249				(2,249)		(2,249)
Total cultural, parks and recreation	2,249	0	0	0	(2,249)	0	(2,249)
Capital Projects (Water Lines):					0		0
Total governmental activities	449,599	152,428	4,412	0	(292,759)	0	(292,759)
Business-type activities:							
Water	259,058	384,688				125,630	125,630
Sewer	253,755	275,398				21,643	21,643
Sanitation	71,794	77,709				5,914	5,914
Total business-type activities	584,607	737,795	0	0	0	153,188	153,188
Total primary government	\$1,034,207	\$890,223	\$4,412	\$0	(\$292,759)	153,188	(139,572)
					Governmental (\$292,759)	Business-Type \$153,188	Total (\$139,572)
General revenues:							
Taxes:							
Sales Tax					162,397		162,397
Use Tax					32,539		32,539
Franchise and public service taxes					70,984		70,984
Cigarette Tax					2,341		2,341
Intergovernmental revenue not restricted to specific programs					32,216		32,216
Interest income					1,211	1,715	2,926
Gain (loss) on sale of assets					0		0
Miscellaneous					20,846		20,846
Transfers internal activity							
Total general revenues and transfers					322,534	1,715	324,249
Charge in net assets					29,775	154,903	184,677
Net assets-beginning					1,024,424	2,009,639	3,034,063
Net assets- ending					\$1,054,199	\$2,164,542	\$3,218,741

See accompanying notes to the basic financial statements.

TOWN OF ARKOMA, OKLAHOMA
BALANCE SHEET -- MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Fire Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash, and cash equivalents	\$28,352	\$362,606	\$134,286	\$2,061	\$527,305
Due from Street Fund	576				576
Total assets	<u>28,928</u>	<u>362,606</u>	<u>134,286</u>	<u>2,061</u>	<u>\$527,881</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payroll taxes payable	746	30			776
Due to other governments	1,301				1,301
Due to General Fund		576			576
Due to AMA	1,225				1,225
Total Liabilities	<u>3,272</u>	<u>606</u>	<u>0</u>	<u>0</u>	<u>3,878</u>
Fund Balances:					
Restricted for:					
Street and Alley		362,000			362,000
Fire Department			134,286		134,286
Assigned	5,034				5,034
Unassigned	20,622			2,061	22,683
Total Fund Balances	<u>25,656</u>	<u>362,000</u>	<u>134,286</u>	<u>2,061</u>	<u>524,003</u>
Total Liabilities and Fund Balances	<u>\$28,928</u>	<u>\$362,606</u>	<u>\$134,286</u>	<u>\$2,061</u>	

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$ 1,693,916 net of accumulated depreciation of \$ 1,012,286 are not financial resources and, therefore, are not reported in funds	681,630
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(151,434)</u>
Net assets of governmental activities	<u>\$1,054,199</u>

See accompanying notes to the financial statements.

TOWN OF ARKOMA, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Street & Alley Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	136,743	65,759	65,759		268,261
Intergovernmental	14,769	17,447	4,412		36,628
Charges for services	949		1,500		2,449
Fines and forfeitures	144,889				144,889
Licenses and permits	5,090				5,090
Interest income	254	523	434		1,211
Miscellaneous	11,489	9,356			20,845
Total Revenues	<u>314,183</u>	<u>93,085</u>	<u>72,105</u>	<u>0</u>	<u>479,373</u>
Expenditures:					
Current:					
General Government:	25,790				25,790
Public Safety:					
Police	274,602				274,602
Fire			18,306		18,306
Emergency Management	20				20
Animal Control	7,169				7,169
Street and Public Works:					
Streets		36,526			36,526
Culture and Recreation:					
Library	1,264				1,264
Capital Outlay	2,594	1,651	250,760		255,005
Debt Service	3,661		2,991		6,652
Total Expenditures	<u>315,100</u>	<u>38,177</u>	<u>272,057</u>	<u>0</u>	<u>625,334</u>
Excess (deficiency) of revenues over expenditures	(917)	54,908	(199,952)	0	(145,961)
Other Financing Sources (Uses):					
Lease proceeds			150,192		150,192
Transfers in					0
Transfers out					0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>150,192</u>	<u>0</u>	<u>150,192</u>
Net change in fund balances	(917)	54,908	(49,760)	0	4,231
Fund balances - beginning	26,573	307,092	184,046	2,061	519,772
Fund balances - ending	<u>25,656</u>	<u>362,000</u>	<u>134,286</u>	<u>2,061</u>	<u>524,003</u>

Reconciliation to the Statement of Activities:

Net change in fund balances -total governmental funds \$4,231

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 purchases capitalized	255,005
Depreciation expense	(84,664)
Debt service principal payments are not considered expenditures in the governmental activities report	5,395
Lease proceeds are not considered expenditures in the governmental activities report	(150,192)
The net effect of various transactions involving capital assets (i.e. sales, trade ins, and contributions)	0
	<u>25,544</u>

Change in Net Assets of Governmental Activities \$29,775

See accompanying notes to the basic financial statements.

TOWN OF ARKOMA, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND

June 30, 2012

	<u>Arkoma Municipal Authority</u>
ASSETS	
Current Assets:	
Cash, and cash equivalents	\$535,518
Due from other governments	1,225
Total current assets	<u>536,743</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	325,016
Land and construction-in-progress	317,349
Other capital assets, net of accumulated depreciation	1,416,383
Loan application cost, net of accumulated amortization	11,866
Total noncurrent assets	<u>2,070,614</u>
Total Assets	<u>2,607,357</u>
LIABILITIES	
Current Liabilities:	
Payroll taxes payable	221
Notes payable - current portion	68,238
Total current liabilities	<u>68,459</u>
Noncurrent Liabilities:	
Refundable deposits	52,842
Notes payable - long-term portion	321,514
Total noncurrent liabilities	<u>374,356</u>
Total Liabilities	<u>442,815</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,355,846
Restricted for debt service	83,238
Unrestricted	725,458
Total net assets	<u>2,164,542</u>

See accompanying notes to combined financial statements.

TOWN OF ARKOMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSESTS
MODIFIED CASH BASIS PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Arkoma Municipal Authority Enterprise Fund</u>
Operating Revenues:	
Charges for services:	
Water	\$365,247
Sewer	261,634
Sanitation	73,925
Penalties	15,311
Water & Sewer Taps	1,125
Reconnect Fees	4,424
Other	16,129
Total Operating Revenues	<u>737,795</u>
Operating Expenses:	
Administration/general	115,121
Water	204,011
Sewer	122,357
Depreciation	127,994
Amortization	3,164
Total Operating Expenses	<u>572,647</u>
Net Operating Income (Loss)	165,148
Non-Operating Revenue (Expense):	
Investment income	1,715
Interest expense and fiscal agent fees	(11,960)
Total Non-Operating Revenue (Expense)	<u>(10,245)</u>
Net Income (Loss) Before Operating Transfers	154,903
Changes in net assests	154,903
Total Net Assets-Beginning	2,009,639
Total Net Assets-Ending	<u>\$2,164,542</u>

See accompanying notes to combined financial statements.

TOWN OF ARKOMA, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Arkoma Municipal Authority Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$737,795
Payments to suppliers	(374,128)
Payments to employees	(67,361)
Receipts of customer utility deposits	14,014
Refunds of customer utility deposits	(10,654)
Net Cash Provided by Operating Activities	<u>299,666</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Decrease in payroll taxes payable	(2)
Net Cash Provided (Used) by Operating Activities	<u>(2)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(103,408)
Principal paid on capital debit	(62,804)
Interest and fiscal agent fees paid on capital debit	(11,960)
Net Cash Used in Capital and Related Financing Activities	<u>(178,172)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	1,715
Net Cash Provided by Investing Activities	<u>1,715</u>
Net Increase in Cash and Cash Equivalents	123,207
Balance- beginning of the year	737,327
Balance- end of the year	<u>\$860,534</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$165,148
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	127,994
Amortization expense	3,164
Change in assets and liabilities:	
Refundable deposits	3,360
Net cash provided by operating activities	<u>\$299,666</u>

See accompanying notes to combined financial statements.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Town are described below.

1.A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is composed of the following:

Primary Government: Blended Component Unit:	Town of Arkoma Arkoma Municipal Authority
--	--

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

BLENDING COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's 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 by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

Component Unit	Brief Description/Inclusion Criteria	Fund Included In
Arkoma Municipal Authority	<i>Created January 4, 1972 to finance, develop, and operate the water, wastewater, and sanitation activities of the Town. Current Town Council serves as entire governing Body (Trustees). Debt issued by Authority Requires two-thirds approval of the Town Council</i>	<i>AMA Enterprise Fund</i>

The component unit does not issue separately audited component unit financial statements.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 except for fiduciary funds. 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 of goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the 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 accounted for in other funds.

TOWN OF ARKOMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds:

<u>Fund</u>	<u>Brief Description</u>
Street and Alley Fund	Accounts for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.
Fire Fund	Accounts for a special 1 cent sales tax for benefit of the fire department.

Capital Project Funds

Capital project funds area used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity presently includes no capital project fund.

Proprietary Funds

Enterprise Fund

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

<u>Fund</u>	<u>Brief Description</u>
Arkoma Municipal Authority	Accounts for the activities of the public trust in providing water, wastewater, and sanitation services to the public.

1.C. MEASUREMENT FOCUS ON BASIS OF ACCOUNTING

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

TOWN OF ARKOMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

MEASUREMENT FOCUS

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

In the funds financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, 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, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

BASIS OF ACCOUNTING, (Cont.)

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

1.D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments. Trust account investments in open-ended mutual funds shares are also considered cash equivalents.

INVESTMENTS

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The Town’s modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds’ infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Government-Wide Statements, (Cont.)

Depreciation of all exhaustible capital assets arising from cash transactions 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. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

EQUITY CLASSIFICATION

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 borrowing that are attributable to the acquisition, construction, or improvements of those assets.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Government-Wide Statements, (Cont.)

- 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 and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- 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.”

It is the Town’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

1. E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Town’s taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

General Government	Licenses and permits.
Public Safety	Fine revenue and Fire run revenue; operating and capital grants include Cops School Grant and KEDDO
Streets and Public Works	Commercial vehicle and gasoline excise tax shared by the State

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans—Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services—Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements—Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers—Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances—Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities—Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers--Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS, (Cont.)

3. Primary government and component unit activity and balances—Resource flows between the primary government (the Town and Municipal Improvement Authority) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

1.G. FUND EQUITY

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (Such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt services, or for other purposes).

TOWN OF ARKOMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1.H. USE OF STATEMENTS

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. DETAIL NOTES—TRANSACTIONS 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.

2.A. CASH AND INVESTMENTS

CUSTODIAL CREDIT RISK-DEPOSITS

The table presented below is designed to disclose the level of custodial credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2012. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

- Category 1-- Insured by Federal Deposit Insurance Corporation (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 name; or properly collateralized with no written and approved collateral agreement.

Custody Credit Risk Category

Type of Deposits	Balance	Total Bank			
		1	2	3	
Insured deposits	250,000	250,000	-	-	
Uninsured deposits					
Collateralized	1,060,344	-	1,060,344	-	
Uncollateralized	-	-	-	-	
Total Deposits	1,310,344	250,000	1,060,344	-	Total Carrying Value
Petty Cash					1,305,744
					400
					1,306,144
Reconciliation to Government-Wide Statements of Net Assets:					
					Cash and cash equivalents
					1,387,839
Less:					Investments in mutual funds recorded as
					Cash and cash equivalents
					(81,695)
					1,306,144

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

INVESTMENTS AND CUSTODIAL CREDIT RISK

Investments are limited by State law to the following:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d. County, municipal, or school district tax-supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a, b, c, and d.

During the year ended June 30, 2012 the Town's investments consisted solely of open-ended, money-market mutual funds in a financial institution's trust department relating to debt trust accounts. At June 30, 2012 the carrying value and fair value of the money-market mutual fund investments totaled \$81,695. For purposes of the Statement of Net Assets and the Statement of Cash Flows, the money-market mutual fund investments are classified as cash and cash equivalents. For purposes of custodial credit risk, the certificates of deposit are included in the preceding deposits risk analysis, while the money-market mutual funds are not classified as to custodial credit risk since they are not evidenced by specific investment securities.

2.B. RESTRICTED ASSETS

The amounts reported as restricted assets are composed of amounts held by the Municipal Authority for utility deposits (refunded upon termination of service or applied to final bill) of \$72,943 and the amount of mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount of \$81,694. Additionally a certificate of deposit is held for debt service on the promissory note in the amount of \$15,000. Also, the amounts held to comply with the water and sewer project debt service requirements are \$155,378.

TOWN OF ARKOMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2.C. CAPITAL ASSETS

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year.

	<i>Balance at July 1, 2011</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at June 30, 2012</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	0	0	10,000
Total capital assets not being depreciated	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>10,000</u>
Other capital assets:				
Buildings	204,567	0	0	204,567
Vehicles	54,678	0	0	54,678
Machinery and equipment	632,028	253,354	0	885,382
Infrastructure	537,638	1,651	0	539,289
Total other capital assets at historical cost	<u>1,428,911</u>	<u>255,005</u>	<u>0</u>	<u>1,683,916</u>
Less accumulated depreciation for:				
Buildings	106,447	7,633	0	114,080
Vehicles	48,309	4,062	0	52,371
Machinery and equipment	461,513	44,840	0	506,353
Infrastructure	311,353	28,128	0	339,481
Total accumulated depreciation	<u>927,622</u>	<u>84,664</u>	<u>0</u>	<u>1,012,286</u>
Other capital assets, net	<u>501,289</u>	<u>170,341</u>	<u>0</u>	<u>671,630</u>
Governmental activities capital assets, net	<u>511,289</u>	<u>170,341</u>	<u>0</u>	<u>681,630</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	16,000	0	0	16,000
Construction-in-process	201,457	99,891	0	301,348
Total capital assets not being depreciated	<u>217,457</u>	<u>99,891</u>	<u>0</u>	<u>317,348</u>
Other capital assets:				
Buildings	22,370	0	0	22,370
Machinery and equipment	187,729	3,517	0	191,246
Utility property & improvements	3,972,747	0	0	3,972,747
Total other capital assets at historical cost	<u>4,182,846</u>	<u>3,517</u>	<u>0</u>	<u>4,186,363</u>
Less accumulated depreciation for:				
Buildings	4,499	705	0	5,204
Machinery and equipment	90,601	22,959	0	113,560
Utility property & improvements	2,546,886	104,330	0	2,651,216
Total accumulated depreciation	<u>2,641,986</u>	<u>127,994</u>	<u>0</u>	<u>2,769,980</u>
Other capital assets, net	<u>1,540,860</u>	<u>(124,477)</u>	<u>0</u>	<u>1,416,383</u>
Business-type activities capital assets, net	<u>1,758,317</u>	<u>(24,586)</u>	<u>0</u>	<u>1,733,731</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Primary Government	
Government Activities:	
General Government	6,123
Police	12,292
Fire	29,759
Street & Alley	32,414
Animal Control	93
Library	985
Emergency Management	2,998
Total depreciation expense for governmental activities	<u>84,664</u>
Business-Type Activities:	
Administration	338
Water	29,606
Sewer	98,050
Total depreciation expense for business-type activities	<u>127,994</u>

TOWN OF ARKOMA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2.D. LONG-TERM DEBT

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

GOVERNMENTAL ACTIVITIES

Lease Purchase Obligations

As of June 30, 2012, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Lease purchase obligations due Government Capital Corporation:

6.796% interest with 5 yearly payments of a principal and interest of 3,661 due October 15, 2012, secured by 2 Storm Sirens. Scheduled debt service payments to the Emergency Management in the General Fund. 3,427

Lease purchase obligations due Welch State Bank:

3.64% interest with 120 monthly payments of a principal and interest of 1,496 due April 15, 2022, secured by 2012 International 4400 Commercial Rescue Pumper. Scheduled debt service payments to the Fire Fund. 148,007

Total Lease Purchases Outstanding \$ 151,434

Current portion \$ 16,188

Non-current portion 135,246

Total Notes Payable \$ 151,434

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

BUSINESS-TYPE ACTIVITIES

As of June 30, 2012, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Notes Payable:

Amended Series 2001 Promissory Note to the Oklahoma Water Resources Board. The amended note was issued by the Arkoma Municipal Authority and dated April 2, 2009, with the aggregate principal of \$340,000 and the next scheduled payment due August 15, 2009. Interest payments are scheduled semiannually beginning August 15, 2009 thru August 15, 2015. The interest rates progress annually from the initial rate of .895% to the final rate of 2.995%. The cost associated with the reissue are capitalized as loan application fees in the amount of \$22,151 and are amortized over the 7 year life of the amended loan.

BUSINESS-TYPE ACTIVITIES, (Cont.)

The original 2001 promissory note to the Oklahoma Water Resources Board in the amount of \$565,000 was for the purpose of paying off 2 GMAC loans, issuance cost, and establish debt service reserve fund.	\$ 220,000
--	------------

Promissory Note to the Oklahoma Water Resources Board in the amount of 287,364 with a 2.495% interest and a .5% administration fee. Interest and principal payments are due semiannually with a stated principal payment of \$8,875 beginning September 15, 2003. The note proceeds are for sewer system improvements.	<u>169,752</u>
--	----------------

Total Notes Payable Outstanding	\$ <u>389,752</u>
---------------------------------	-------------------

Current portion	\$ 68,238
Non-current portion	<u>321,514</u>
Total Notes Payable	<u>\$389,752</u>

Refundable Deposits:

Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits –Refundable	\$ <u>52,842</u>
------------------------------	------------------

TOWN OF ARKOMA, OKLAHOMA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

<u>Type of Debt</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
Government Activities:					
Capital Debt Obligations	6,637	150,192	5,395	151,434	16,188
Business-Type Activities:					
Refundable Deposits	49,482	14,014	10,654	52,842	
Notes Payable	<u>452,556</u>		<u>62,804</u>	<u>389,752</u>	<u>68,238</u>
Total Business-Type Activities:	<u><u>508,675</u></u>	<u><u>164,206</u></u>	<u><u>78,853</u></u>	<u><u>594,028</u></u>	<u><u>84,426</u></u>

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except for refundable deposits, as of June 30, 2012, are as follows:

<u>Year Ended June 30,</u>	<u>Capital Debt Obligations</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	16,187.71	5,421.72	68,238.49	10,759.39
2014	13,233.60	4,715.28	68,638.62	8,712.01
2015	13,724.66	4,224.22	69,050.85	6,652.53
2016	14,233.94	3,714.94	69,475.54	4,580.59
2017	14,762.10	3,186.78	14,913.06	3,319.44
2018-2022	79,292.00	7,304.82	81,605.24	9,557.26
2023	0.00	0.00	17,830.26	402.24
Total	<u><u>151,434.01</u></u>	<u><u>28,567.76</u></u>	<u><u>389,752.06</u></u>	<u><u>43,983.46</u></u>

DEBT SERVICE COVERAGE AND RESERVE REQUIREMENT

The Municipal Authority's OWRB Promissory Notes are collateralized by the revenue of the Arkoma Municipal Authority Water and Sewer System. The agreement contains provisions which require the Town to maintain pledged revenue, of at least 125% of the annual debt service and a debt reserve fund of 10% of the note balance. As of June 30, 2012 the Authority's debt service coverage percentage is 377% and the reserve balance is \$83,238, both meet the promissory note requirements.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2.E. INTERFUND TRANSFERS AND BALANCES

INTERFUND TRANSFERS

There were no transfers between funds of the primary government and between the primary government and the discretely presented component unit for the year ended June 30, 2012.

INTERFUND BALANCES

At June 30, 2012, the General Fund owed the Arkoma Municipal Authority \$1,225, and the Street and Alley Special Revenue Fund owed the General Fund \$576.

NOTE 3. OTHER NOTES

3. A. GRANTS AND CONTRACTS

Rural Fire Defense Grant - The Town received a grant of \$4,413 from the Oklahoma Department of Agriculture Forestry Services for a fire calls.

3.B. COUNTY FIRE DEPARTMENT SALES TAX REVENUE

The LeFlore County Board of Commissioners passed a resolution assessing a .25% sales tax for the benefit of the LeFlore County Fire Departments. The County began collecting the funds July 1, 2011 and remitting monthly into the funds designated by each County Fire Department and maintained under custody and control of the County Treasurer. In accordance with the resolution the funds can generally be used for construction and improvements, various approved equipment, fire training safety and education, and general maintenance and operation of the department. For the period beginning July 1, 2011 thru June 30, 2012 the Town of Arkoma Fire Department has been appropriated \$28,904.27 for its benefit and has expended \$18,487.89 leaving a balance of \$10,416.38 for future use. Funds requested must be used in accordance with County purchasing policies and procedures as outlined in the resolution.

3.C. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

Volunteer firemen of the Town of Arkoma, Oklahoma, participate in the Oklahoma Firefighters Pension and Retirement System. The plan covers all volunteer fireman hired before age 45 if they are working in a participating municipality. These firemen are not paid a salary.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

A. Eligibility Factors, Contribution Methods, and Benefit Provisions

	Oklahoma Firefighter's Pension and <u>Retirement System</u>
Obtaining separately issued financial statements	Firefighters Pension & Retirement 4545 N. Lincoln Blvd. Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate	N/A
Town's contribution rate (\$60 per volunteer)	\$60
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	20 years of service
Eligibility and benefits for distribution (full-time)	20 years credited service, 2 ½% of Final average salary multiplied by the years of credited service with a

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS, (Cont.)

	maximum of 30 years considered; if vested; at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Provisions for:	
Death (duty, non-duty, post retirement)	Yes
Disability (duty, non-duty)	Yes
Cost of living allowances	Yes

Contributions and Trend Information

Contributions required by State Statute and made for each of the past three fiscal years are:

2010	\$ 960
2011	\$ 960
2012	\$ 960

These contributions represent 100% of the required contribution in each fiscal year.

The Town participates in the Oklahoma Municipal Retirement Fund (O.M.R.F.), which provides coverage to substantially all full-time Town employees. The plan is a multiple-employer plan

Agent Multiple-Employer, Defined Contribution Plan

The Town provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate twelve months after the employee's employment commencement date.

The employer hereby elects to have provisions of Section 4.9 of the plan apply. The employer shall pick-up and pay 3% of each participant's compensation. The Town's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. The Town contributions for, and interest forfeited by, employees who leave employment before five years of service are divided equally amount current plan participants.

The Town's total payroll in the fiscal year 2012 was \$276,885. The Town's contributions were calculated using the base salary amount of \$261,602. Both the Town and the covered employees made the required contribution of 3% and 1% respectively.

The employer required contributions from the current year wages amounted to \$7,846. The covered employees required contributions amounted to \$2,616 and additional voluntary contributions above the required 1% totaled \$5,166 for total plan employee/employer contributions of \$15,628.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

Related-Party Investments

As of June 30, 2012, the System held no related-party investments of the Town or of its component units.

3.D. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; employee's health and life; and natural disasters.

The Town manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk Retained
a. Torts, errors and omissions	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
b. Injuries to employees (workers' compensation)	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
c. Physical property loss and natural disasters	Purchased insurance with Oklahoma Municipal Assurance Group and	(1)
d. Health and life	Purchased insurance with Oklahoma Blue Cross and Blue Shield and Dearborn National Life	None

3.D. RISK MANAGEMENT, (Cont.)

(1) The Town participates in the Oklahoma Municipal Assurance Group Liability Protection Plan and Life and Health Benefit Plan (risk entity pools).

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3.E. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

At June 30, 2012, the City had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service.

The compensated absences commitment of \$4,693 at June 30, 2012, can be summarized as follows:

	<u>Town</u>	<u>Street & Alley</u>	<u>AMA</u>	<u>Total</u>
Vacation	\$ 3,215	\$ 0	\$ 1,478	\$ 4,693

CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

TOWN OF ARKOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3.F. SUBSEQUENT EVENTS

The organization has adopted FASB ASC 855-10-50, formerly SFAS No. 165, *Subsequent Events*, which is effective for periods ending after June 15, 2009. The standard reflects the existing principles of current subsequent event accounting guidance and requires disclosure of the date through which subsequent events have been evaluated. Management performed an evaluation of the Organization's activity through March 29, 2013, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

TOWN OF ARKOMA, OKLAHOMA

**BUDGETARY COMPARISON SCHEDULE
MODIFIED CASH BASIS
GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	26,573	26,573	26,573	-
Revenues:				
Taxes				
Sales tax	39,400	39,400	54,132	14,732
Use tax	8,000	8,000	10,847	2,847
Franchise tax	65,000	65,000	70,984	5,984
Cigarette tax	600	600	780	180
Total Taxes	<u>113,000</u>	<u>113,000</u>	<u>136,743</u>	<u>23,743</u>
Intergovernmental:				
Alcoholic beverage tax	13,000	13,000	14,769	1,769
Total Intergovernmental	<u>13,000</u>	<u>13,000</u>	<u>14,769</u>	<u>1,769</u>
Charges for services	<u>100</u>	<u>100</u>	<u>949</u>	<u>849</u>
Fines and forfeitures				
Court Fines	192,000	192,000	144,889	(47,111)
Total Fines and Forfeitures	<u>192,000</u>	<u>192,000</u>	<u>144,889</u>	<u>(47,111)</u>
Licenses and Permits	<u>4,500</u>	<u>4,500</u>	<u>5,090</u>	<u>590</u>
Interest Income	<u>500</u>	<u>500</u>	<u>254</u>	<u>(246)</u>
Miscellaneous:				
Oil & Gas Royalties	0	0	341	341
Donations	0	0	3,922	3,922
Misc. Revenue	14,000	14,000	7,226	(6,774)
Total Miscellaneous	<u>14,000</u>	<u>14,000</u>	<u>11,489</u>	<u>(2,511)</u>
Other Financing Sources:				
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amounts available for appropriation	<u>363,673</u>	<u>363,673</u>	<u>340,756</u>	<u>(22,917)</u>

TOWN OF ARKOMA, OKLAHOMA

BUDEYARY COMPARISON SCHEDULE
MODIFIED CASH BASIS
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
General Government				
Personal services	18,587	21,087	20,430	657
Materials and supplies	500	500	81	419
Other services and charges	6,000	6,000	5,279	721
Total General Government	<u>25,087</u>	<u>27,587</u>	<u>25,790</u>	<u>1,797</u>
Police:				
Personal services	218,557	215,057	205,708	9,349
Materials and supplies	20,300	20,300	19,366	934
Other services and charges	49,100	49,300	49,528	(228)
Capital outlay	6,000	6,000	2,594	3,406
Total Police	<u>293,957</u>	<u>290,657</u>	<u>277,196</u>	<u>13,461</u>
Animal Control:				
Personal services	4,933	3,933	3,711	222
Materials and supplies	500	1,500	1,491	9
Other services and charges	1,250	2,050	1,967	83
Total Animal Control	<u>6,683</u>	<u>7,483</u>	<u>7,169</u>	<u>314</u>
Library:				
Materials and supplies	200	200	43	157
Other services and charges	1,100	1,400	1,221	179
Total Library	<u>1,300</u>	<u>1,600</u>	<u>1,264</u>	<u>336</u>
Emergency Management:				
Materials and supplies	0	0	20	(20)
Other services and charges	500	200	0	200
Debt service	3,750	3,750	3,661	89
Total Emergency Management	<u>4,250</u>	<u>3,950</u>	<u>3,681</u>	<u>269</u>
Other Financing Sources:				
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Charges to Appropriations	331,277	331,277	315,100	16,177
Ending Budgetary Fund Balance	<u>32,396</u>	<u>32,396</u>	<u>25,656</u>	<u>(6,740)</u>

TOWN OF ARKOMA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS			
	STREET AND ALLEY			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
Original	Final			
Beginning Budgetary Fund Balance	307,092	307,092	307,092	0
Resources (Inflows):				
Taxes	48,000	48,000	65,759	17,759
Intergovernmental	16,500	16,500	17,447	947
Interest	500	500	523	23
Miscellaneous	6,000	6,000	9,356	3,356
Amounts available for appropriation	<u>378,092</u>	<u>378,092</u>	<u>400,177</u>	<u>22,085</u>
Charges to appropriations (Outflows):				
Street:				
Personal services	25,262	20,262	15,630	4,632
Materials and supplies	10,400	15,400	11,507	3,893
Other services and charges	12,800	12,800	9,389	3,411
Capital outlay	75,000	75,000	1,651	73,349
Total Street	<u>123,462</u>	<u>123,462</u>	<u>38,177</u>	<u>85,285</u>
Total Charges to Appropriations	123,462	123,462	38,177	85,285
Ending Budgetary Fund Balance	<u>254,630</u>	<u>254,630</u>	<u>362,000</u>	<u>107,370</u>

	SPECIAL REVENUE FUNDS			
	FIRE			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
Original	Final			
Beginning Budgetary Fund Balance	184,046	184,046	184,046	0
Resources (Inflows):				
Taxes	48,000	48,000	65,759	17,759
Intergovernmental	0	0	4,412	4,412
Charges for services	500	500	1,500	1,000
Interest	300	300	434	134
Miscellaneous	5,000	5,000	0	(5,000)
Lease proceeds	0	0	150,192	150,192
Amounts available for appropriation	<u>237,846</u>	<u>237,846</u>	<u>406,343</u>	<u>168,497</u>
Charges to appropriations (Outflows):				
Fire:				
Personal services	15,909	15,869	8,358	7,511
Materials and supplies	3,300	3,300	2,893	407
Other services and charges	9,000	9,000	7,055	1,945
Capital outlay	50,000	150,000	250,760	(100,760)
Debt service	0	5,000	2,991	2,009
Total Fire	<u>78,209</u>	<u>183,169</u>	<u>272,057</u>	<u>(88,888)</u>
Total Charges to Appropriations	78,209	183,169	272,057	(88,888)
Ending Budgetary Fund Balance	<u>159,637</u>	<u>54,677</u>	<u>134,286</u>	<u>79,609</u>

TOWN OF ARKOMA, OKLAHOMA

NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2012

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the Mayor submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1.
 - b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
 - c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Council.
 - d. The adopted budget is filed with the Office of State Auditor and Inspector.
- The legal level of control at which expenditures may not legally exceed appropriations is by department within a fund.

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the same modified cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions.

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

**TOWN OF ARKOMA, OKLAHOMA
 COMBINING BALANCE SHEET-MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2012**

SPECIAL REVENUE FUNDS

	<u>CDGB Grant Fund</u>
ASSETS	
Cash and cash equivalents	2,061
Total Assets	<u>2,061</u>
 FUND BALANCES	
Unreserved, reported in nonmajor special revenue funds	<u>2,061</u>

TOWN OF ARKOMA, OKLAHOMA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS			
	CDBG GRANT			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance	2,061	2,061	2,061	0
Resources (Inflows):				
Intergovernmental	0	0	0	0
Amounts available for appropriation	2,061	2,061	2,061	0
Charges to appropriations (Outflows):				
CDBG Grant:				
Transfers out	0	0	0	0
Total CDBG Grant	0	0	0	0
Total Charges to Appropriations	0	0	0	0
Ending Budgetary Fund Balance	2,061	2,061	2,061	0

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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
Town of Arkoma, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Arkoma, State of Oklahoma, as of June 30, 2012, which collectively comprise the Town's basic financial statements which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and have issued our report thereon dated March 29, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Arkoma's financial statements are free of material misstatement, we performed tests of 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 the board of directors and management of the Town of Arkoma, 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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

March 29, 2013