

**TOWN OF ARKOMA, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2013**

# TOWN OF ARKOMA, OKLAHOMA

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**TOWN OF ARKOMA, OKLAHOMA**

**LIST OF PRINCIPAL OFFICIALS**

**Board of Trustees**

Floyd Lawrence	Mayor
Stan Cottrell	Vice Mayor
Gene Earls	Member
Billy Miller	Member
Ray Foster	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 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Town of Arkoma, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Arkoma, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in

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order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinions*

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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Arkoma, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *Other Matters*

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Town of Arkoma's basic financial statements. The management's discussion and analysis, budgetary comparison schedules, introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, the budgetary comparison schedules, the introductory section, and the other supplementary information section listed in the accompanying table of contents have not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

### *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2014, on our consideration of the Town of Arkoma's internal control over financial reporting and on our tests of

## KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
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FAX (580) 762-1047

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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* in considering Town of Arkoma's internal control over financial reporting and compliance.

### *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

June 3, 2014

# Town of Arkoma

P. O. BOX 277

ARKOMA, OKLAHOMA 74901

(Unaudited)

## MANAGEMENT'S DISCUSSION AND 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, 2013, 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 14.

## FINANCIAL HIGHLIGHTS

- The Town's total revenues exceeded total expenses, on the modified cash basis of accounting, by \$137,026 for the year, resulting in an increase in total net position of 4.25 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 Position and the Statement of Activities (*on page 15*) 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 16*) 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'S DISCUSSION AND ANALYSIS  
PAGE 2 (Unaudited)

**Supplementary Information:** This Management's Discussion and Analysis and the Governmental Funds Budgetary Comparison Schedules (*starting on page 42*) represent financial information to provide 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").

**Other Supplementary Information:** This part of the annual report includes financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column. This other supplemental financial information is provided to address certain specific needs of various users of the Town's annual report.

**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.

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

The primary government includes the following legal entities:

- The Town of Arkoma
- Arkoma Municipal Authority

*The Government-Wide Statement of Net Position and the Statement of Activities*

Our financial analysis of the Town as a whole begins on page 9. The government-wide financial statements are presented on pages 14 and 15. 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 Position 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 position and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Town's net position—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 position 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 Position 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 11. The fund financial statements begin on page 16 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.

***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 Position 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 Position 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.

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

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 Position on a comparative basis with the previous year.

**Net Position—Modified Cash Basis**

TOWN OF ARKOMA'S NET POSITION						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	602,366	527,305	975,613	873,625	1,577,979	1,400,930
Capital Assets	613,508	681,630	1,706,780	1,733,732	2,320,288	2,415,362
Total Assets	<u>1,215,874</u>	<u>1,208,935</u>	<u>2,682,393</u>	<u>2,607,357</u>	<u>3,898,267</u>	<u>3,816,292</u>
Long term liabilities	135,205	151,434	348,854	389,752	484,059	541,186
Other liabilities	3,038	3,302	55,403	53,063	58,441	56,365
Total Liabilities	<u>138,243</u>	<u>154,736</u>	<u>404,257</u>	<u>442,815</u>	<u>542,500</u>	<u>597,551</u>
Net Position:						
Net investment in capital assets						
net of related debt	478,303	530,196	1,357,926	1,355,846	1,836,229	1,886,042
Restricted	559,506	496,286	118,980	83,238	678,486	579,524
Unrestricted	39,822	27,717	801,230	725,458	841,052	753,175
Total Net Position	<u>1,077,631</u>	<u>1,054,199</u>	<u>2,278,136</u>	<u>2,164,542</u>	<u>3,355,767</u>	<u>3,218,741</u>

The Town's combined net position, resulting from modified cash basis transactions, increased from approximately \$3,218,741 to \$3,355,767 between fiscal years 2012 and 2013. Looking at the net position and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$23,432 and business-type activities increased by \$113,594.

Net position of the Town's governmental activities increased 2.22 percent to \$1,077,631. However, \$1,037,809 of those net position 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 position showed only \$39,822 at the end of this year. The net position of Town's business-type activities increased to \$2,278,136. However, \$1,476,906 of the net position was restricted as to the purposes they can be used for or are invested in capital assets (buildings, electric, water, sewer and so on). Consequently, the unrestricted position was \$801,230 at the end of the year.

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

**TOWN OF ARKOMA'S CHANGES IN NET POSITION**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>						
Program Revenues:						
Fees, fines and charges for services	140,308	152,428	729,075	737,795	869,383	890,223
Operating grants and contributions	8,597	4,412			8,597	4,412
General revenues:						
Sales tax	152,931	162,397			152,931	162,397
Use tax	36,294	32,539			36,294	32,539
Franchise tax	69,187	70,984			69,187	70,984
Cigarette tax	2,136	2,341			2,136	2,341
Intergovt. Revenue	33,207	32,216			33,207	32,216
Investment earnings	1,259	1,211	1,865	1,715	3,124	2,926
Gain (loss) on sale of assets	0	0			0	0
Miscellaneous	21,749	20,846			21,749	20,846
<b>Total revenues</b>	<b>465,668</b>	<b>479,374</b>	<b>730,940</b>	<b>704,044</b>	<b>1,196,608</b>	<b>1,218,884</b>
<b>Expenses:</b>						
General government and administration	31,853	31,914			31,853	31,914
Public safety	338,931	346,496			338,931	346,496
Transportation	69,350	68,941			69,350	68,941
Cultural and recreational	2,102	2,249			2,102	2,249
Interest on long term debt						
Water and Sewer Sanitation			547,891	512,813	547,891	512,813
			69,455	71,794	69,455	71,794
<b>Total expenses</b>	<b>442,236</b>	<b>449,600</b>	<b>617,346</b>	<b>609,747</b>	<b>1,059,582</b>	<b>1,034,207</b>
Increases in net position before transfers	23,432	29,775	113,594	154,903	137,026	184,677
Net position - July 1	1,054,199	1,024,424	2,164,542	2,009,639	3,218,741	3,034,063
Net position - June 30	1,077,631	1,024,424	2,278,136	2,164,542	3,355,767	3,218,740

**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'S DISCUSSION AND ANALYSIS  
PAGE 7 (Unaudited)**

For the year ended June 30, 2013, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$442,236. Of these total expenses, taxpayers and other general revenues funded \$316,763, while those directly benefiting from the program funded \$8,597 from grants and other contributions and \$140,308 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 \$95,328 and \$4,065 respectively. The sewer includes interest expense of \$10,780 and the non-cash system depreciation of \$126,831 and amortization of \$3,164. The sanitation service is operated under private contract and the net revenue of \$12,337 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 \$316,346 and expenditures of \$304,241 resulting in an increase in fund balance of \$12,105.
- On the modified cash basis of accounting, the Street and Alley reported an increase in fund balance of \$40,830.
- On the modified cash basis of accounting, the Fire Fund reported an increase in fund balance of \$22,390.

**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, 2013, General Fund expenditures were \$19,219 under final appropriations, while actual resources available for appropriation were \$6,754 under the final budgeted amount.

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

CAPTIAL ASSET AND DEBT ADMINISTRATION

Capital Assets—Modified Cash Basis

At June 30, 2013, the Town had \$2,311,586 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 \$103,775 or 4.30 percent, under last year.

This year's more significant capital assets additions include:

General Fund - General Government - Sidewalk	\$ 4,077
Street Fund - 2012 Mower	4,297
Municipal Authority - Water Construction in Process	42,409
Municipal Authority - Sewer Construction in Process	42,409

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	10,000	10,000	16,000	16,000	26,000	26,000
Const. In Progress	0	0	386,166	301,348	386,166	301,348
Buildings	89,182	90,486	16,461	17,166	105,643	107,652
Equipment	341,302	381,336	59,201	77,686	400,503	459,022
Improvements	0	0	1,220,250	1,321,531	1,220,250	1,321,531
Infrastructure	173,024	199,808	0	0	173,024	199,808
Total	<u>613,508</u>	<u>681,630</u>	<u>1,698,078</u>	<u>1,733,731</u>	<u>2,311,586</u>	<u>2,415,361</u>

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

**Long-Term Debt—Modified Cash Basis**

At June 30, 2013, 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, 2013. At June 30, 2013, \$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>2012</u>	<u>2013</u>
Governmental debt:		
Lease purchase to Capital corp	\$ 3,427	\$ -
Lease purchase to Welch St Bank	148,007	135,205
Total business-type debt	<u>151,434</u>	<u>135,205</u>
Business-type debt:		
Refundable utility deposits	\$ 52,842	\$ 55,150
OWRB note payable	220,000	165,000
OWRB note payable	169,752	156,541
RUS note payable	-	27,313
Total business-type debt	<u>442,594</u>	<u>404,004</u>
Total all debt	<u>\$ 446,021</u>	<u>\$ 404,004</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Town's elected officials and staff considers many factors in setting the 2013-2014 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 continue water system improvements of approximately \$3,474,687 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 POSITION - MODIFIED CASH BASIS**

**JUNE 30, 2013**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash, and cash equivalents	\$602,366	\$974,388	\$1,576,754
Due from other Governments		1,225	1,225
Capital assets (Note 2.C.):			
Land and construction in progress	10,000	402,166	412,166
Other capital assets, net of accumulated depreciation	603,508	1,295,912	1,899,420
Loan application cost, net of accumulated amortization		8,702	8,702
<b>Total assets</b>	<b>1,215,874</b>	<b>2,682,393</b>	<b>3,898,267</b>
<b>LIABILITIES</b>			
Payroll taxes payable	809	253	1,062
Due to other governments	2,229		2,229
Refundable deposits		55,150	55,150
Long term liabilities (Note 2.D.)			
Due within one year	13,247	96,041	109,288
Due in more than one year	121,958	252,813	374,771
<b>Total Liabilities</b>	<b>138,243</b>	<b>404,257</b>	<b>542,500</b>
<b>NET ASSETS</b>			
Net investment in capital assets	478,303	1,357,926	1,836,229
Restricted for:			
Street and Alley	402,830		402,830
Fire Department	156,676		156,676
Debt service		118,980	118,980
Unrestricted	39,822	801,230	841,052
<b>Total Net Position</b>	<b>\$1,077,631</b>	<b>\$2,278,136</b>	<b>\$3,355,767</b>

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, 2013

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	
<b>Primary Government:</b>							
Governmental Activities							
General Government	\$31,853	\$7,061	\$4,113		(\$20,679)		(\$20,679)
Total general government	31,853	7,061	4,113	0	(20,679)	0	(20,679)
Public Safety:							
Police	270,709	130,542			(140,167)		(140,167)
Fire	60,827	2,000	4,484		(54,343)		(54,343)
Animal Control	3,734				(3,734)		(3,734)
Emergency Management	3,661				(3,661)		(3,661)
Total Public safety	338,931	132,542	4,484	0	(201,905)	0	(201,905)
Transportation:							
Streets	69,350	705			(68,645)		(68,645)
Total transportation	69,350	705	0	0	(68,645)	0	(68,645)
Cultural, Parks and Recreation:							
Library	2,102				(2,102)		(2,102)
Total cultural, parks and recreation	2,102	0	0	0	(2,102)	0	(2,102)
Total governmental activities	442,236	140,308	8,597	0	(293,331)	0	(293,331)
<b>Business-type activities:</b>							
Water	283,315	378,642				95,327	95,327
Sewer	264,576	268,641				4,065	4,065
Sanitation	69,455	81,792				12,337	12,337
Total business-type activities	617,346	729,075	0	0	0	111,729	111,729
<b>Total primary government</b>	<b>\$1,059,582</b>	<b>\$869,383</b>	<b>\$8,597</b>	<b>\$0</b>	<b>(\$293,331)</b>	<b>\$111,729</b>	<b>(\$181,602)</b>
					Governmental	Business-Type	Total
					(\$293,331)	\$111,729	(\$181,602)
<b>General revenues:</b>							
Taxes:							
Sales Tax					152,931		152,931
Use Tax					36,294		36,294
Franchise and public service taxes					69,187		69,187
Cigarette Tax					2,136		2,136
Intergovernmental revenue not restricted to specific programs					33,207		33,207
Interest income					1,259	1,865	3,124
Gain (loss) on sale of assets					0		0
Miscellaneous					21,749		21,749
Transfers internal activity							
Total general revenues and transfers					316,763	1,865	318,628
Charge in net position					23,432	113,594	137,026
Net position-beginning					1,054,199	2,164,542	3,218,741
Net position- ending					\$1,077,631	\$2,278,136	\$3,355,767

See accompanying notes to the basic financial statements.

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

JUNE 30, 2013

	General Fund	Street & Alley Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash, and cash equivalents	\$40,189	\$403,437	\$156,679	\$2,061	602,366
Due from Street Fund	576				576
Total assets	40,765	403,437	156,679	2,061	\$602,942
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payroll taxes payable	775	31	3		809
Due to other governments	1,004				1,004
Due to General Fund		576			576
Due to AMA	1,225				1,225
Total Liabilities	3,004	607	3	0	3,614
Fund Balances:					
Restricted for:					
Street and Alley		402,830			402,830
Fire Department			156,676		156,676
Assigned	10,301				10,301
Unassigned	27,460			2,061	29,521
Total Fund Balances	37,761	402,830	156,676	2,061	599,328
Total Liabilities and Fund Balances	\$40,765	\$403,437	\$156,679	\$2,061	

**Reconciliation to Statement of Net Position:**

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

Capital assets used in governmental activities of \$ 1,707,913 net of accumulated depreciation of \$ 1,094,405 are not financial resources and, therefore, are not reported in funds 613,508

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. (135,205)

Net position of governmental activities \$1,077,631

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, 2013

	General Fund	Street & Alley Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	132,974	63,787	63,787		260,548
Intergovernmental	19,489	17,831	4,484		41,804
Charges for services	379	705	2,000		3,084
Fines and forfeitures	130,542				130,542
Licenses and permits	6,682				6,682
Interest income	259	707	293		1,259
Miscellaneous	20,021	220	1,508		21,749
Total Revenues	<u>310,346</u>	<u>83,250</u>	<u>72,072</u>	<u>0</u>	<u>465,668</u>
<b>Expenditures:</b>					
Current:					
General Government:	25,973				25,973
Public Safety:					
Police	261,845				261,845
Fire			24,390		24,390
Emergency Management	430				430
Animal Control	3,641				3,641
Street and Public Works:					
Streets		37,340			37,340
Culture and Recreation:					
Library	1,117				1,117
Capital Outlay	7,574	5,080	1,343		13,997
Debt Service	3,661		17,949		21,610
Total Expenditures	<u>304,241</u>	<u>42,420</u>	<u>43,682</u>	<u>0</u>	<u>390,343</u>
Excess (deficiency) of revenues over expenditures	6,105	40,830	28,390	0	75,325
<b>Other Financing Sources (Uses):</b>					
Transfers in	6,000				6,000
Transfers out			(6,000)		(6,000)
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>0</u>	<u>(6,000)</u>	<u>0</u>	<u>0</u>
Net change in fund balances	12,105	40,830	22,390	0	75,325
Fund balances - beginning	25,656	362,000	134,286	2,061	524,003
Fund balances - ending	<u>37,761</u>	<u>402,830</u>	<u>156,676</u>	<u>2,061</u>	<u>599,328</u>

Reconciliation to the Statement of Activities:

Net change in fund balances -total governmental funds \$75,325

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	13,997
Depreciation expense	(82,119)
Debt service principal payments are not considered expenditures in the governmental activities report	<u>16,229</u>
	<u>(51,893)</u>

Change in Net Position of Governmental Activities \$23,432

See accompanying notes to the basic financial statements.

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

June 30, 2013

	<u>Arkoma Municipal Authority</u>
<b>ASSETS</b>	
Current Assets:	
Cash, and cash equivalents	\$645,983
Due from other governments	1,225
Total current assets	<u>647,208</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	328,405
Land and construction-in-progress	402,166
Other capital assets, net of accumulated depreciation	1,295,912
Loan application cost, net of accumulated amortization	8,702
Total noncurrent assets	<u>2,035,185</u>
Total Assets	<u>2,682,393</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Payroll taxes payable	253
Notes payable - current portion	96,041
Total current liabilities	<u>96,294</u>
Noncurrent Liabilities:	
Refundable deposits	55,150
Notes payable - long-term portion	252,813
Total noncurrent liabilities	<u>307,963</u>
Total Liabilities	<u>404,257</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,357,926
Restricted for debt service	118,980
Unrestricted	801,230
Total net position	<u>2,278,136</u>

See accompanying notes to combined financial statements.

**TOWN OF ARKOMA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION**  
**MODIFIED CASH BASIS PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Arkoma Municipal Authority Enterprise Fund</u>
<b>Operating Revenues:</b>	
Charges for services:	
Water	\$360,140
Sewer	254,755
Sanitation	78,059
Penalties	16,413
Water & Sewer Taps	2,975
Reconnect Fees	4,651
Other	12,082
Total Operating Revenues	<u>729,075</u>
<b>Operating Expenses:</b>	
Administration/general	47,167
Water	229,971
Sewer	135,329
Sanitation	64,104
Depreciation	126,831
Amortization	3,164
Total Operating Expenses	<u>606,566</u>
Net Operating Income (Loss)	122,509
<b>Non-Operating Revenue (Expense):</b>	
Investment income	1,865
Interest expense and fiscal agent fees	(10,780)
Total Non-Operating Revenue (Expense)	<u>(8,915)</u>
Net Income (Loss) Before Operating Transfers	113,594
Changes in net position	113,594
Total Net Position-Beginning	2,164,542
Total Net Position-Ending	<u>\$2,278,136</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, 2013**

	<u>Arkoma Municipal Authority Enterprise Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$729,075
Payments to suppliers	(411,791)
Payments to employees	(64,780)
Receipts of customer utility deposits	23,644
Refunds of customer utility deposits	(21,336)
Net Cash Provided by Operating Activities	<u>254,812</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Increase in payroll taxes payable	33
Net Cash Provided (Used) by Operating Activities	<u>33</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(91,178)
Principal paid on capital debit	(68,211)
Interest and fiscal agent fees paid on capital debit	(10,780)
Net Cash Used in Capital and Related Financing Activities	<u>(170,169)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	1,865
Note Proceeds	27,313
Net Cash Provided by Investing Activities	<u>29,178</u>
Net Increase in Cash and Cash Equivalents	113,854
Balance- beginning of the year	860,534
Balance- end of the year	<u><u>\$974,388</u></u>
<b>Reconciliation of operating income (loss) to net cash provided</b>	
<b>by operating activities:</b>	
Operating income (loss)	\$122,509
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	126,831
Amortization expense	3,164
Change in assets and liabilities:	
Refundable deposits	2,308
Net cash provided by operating activities	<u><u>\$254,812</u></u>

See accompanying notes to combined financial statements.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

**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.

**I.A. FINANCIAL REPORTING ENTITY**

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

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

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

**BLENDED 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:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Fund Included In</u>
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**  
**YEAR ENDED JUNE 30, 2013**

**1.B. BASIS OF PRESENTATION**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of Net Position 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**  
**YEAR ENDED JUNE 30, 2013**

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:

<i>Fund</i>	<i>Brief Description</i>
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:

Fund	Brief Description
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**  
**YEAR ENDED JUNE 30, 2013**

MEASUREMENT FOCUS

In the government-wide Statement of Net Position 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 position (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 position.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Position 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 position/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 YEAR ENDED JUNE 30, 2013

#### 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 POSITION 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 Position. 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  
YEAR ENDED JUNE 30, 2013**

**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 Position. 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 position and displayed in three components:

- a. Net investment in capital assets - 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**Government-Wide Statements, (Cont.)**

- b. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources 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**  
**YEAR ENDED JUNE 30, 2013**

**1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES**

In the process of aggregating the financial information for the government-wide Statement of Net Position 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 Position, 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**  
**YEAR ENDED JUNE 30, 2013**

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**  
**YEAR ENDED JUNE 30, 2013**

**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, 2013. 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			Total Carrying Value
		1	2	3	
Insured deposits	250,000	250,000	-	-	
Uninsured deposits					
Collateralized	1,248,054	-	1,248,054	-	
Uncollateralized	-	-	-	-	
Total Deposits	1,498,054	250,000	1,248,054	-	1,495,034
Petty Cash					400
					<u>1,495,434</u>

Reconciliation to Government-Wide Statements of Net Position:

	Cash and cash equivalents	1,576,754
Less:	Investments in mutual funds recorded as	
	Cash and cash equivalents	<u>(81,320)</u>
		<u>1,495,434</u>

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

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, 2013 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, 2013 the carrying value and fair value of the money-market mutual fund investments totaled \$81,695. For purposes of the Statement of Net Position 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 \$76,397 and the amount of mutual funds held in trustee accounts on behalf of the OWRB promissory note trust accounts in the amount of \$81,320. Additionally a certificate of deposit is held for debt service on the OWRB promissory note in the amount of \$15,000. Also, the amounts held to comply with the RUS water and sewer project debt service requirements are \$120,576 in the debt reserve account and \$35,112 in the short lived asset reserve account.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

**2.C. CAPITAL ASSETS**

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

	<i>Balance at July 1, 2012</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at June 30, 2013</i>
<b>Governmental activities:</b>				
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	4,851	0	209,418
Vehicles	54,678	3,000	0	57,678
Machinery and equipment	885,382	6,146	0	891,528
Infrastructure	539,289	0	0	539,289
Total other capital assets at historical cost	<u>1,683,916</u>	<u>13,997</u>	<u>0</u>	<u>1,697,913</u>
Less accumulated depreciation for:				
Buildings	114,081	6,155	0	120,236
Vehicles	52,371	2,227	0	54,598
Machinery and equipment	506,353	46,953	0	553,306
Infrastructure	339,481	26,784	0	366,265
Total accumulated depreciation	<u>1,012,286</u>	<u>82,119</u>	<u>0</u>	<u>1,094,405</u>
Other capital assets, net	<u>671,630</u>	<u>(68,122)</u>	<u>0</u>	<u>603,508</u>
Governmental activities capital assets, net	<u>681,630</u>	<u>(68,122)</u>	<u>0</u>	<u>613,508</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	16,000	0	0	16,000
Construction-in-process	301,348	84,818	0	386,166
Total capital assets not being depreciated	<u>317,348</u>	<u>84,818</u>	<u>0</u>	<u>402,166</u>
Other capital assets:				
Buildings	22,370	0	0	22,370
Machinery and equipment	191,246	3,029	0	194,275
Utility property & improvements	3,972,747	3,331	0	3,976,078
Total other capital assets at historical cost	<u>4,186,363</u>	<u>6,360</u>	<u>0</u>	<u>4,192,723</u>
Less accumulated depreciation for:				
Buildings	5,204	705	0	5,909
Machinery and equipment	113,560	21,514	0	135,074
Utility property & improvements	2,651,216	104,612	0	2,755,828
Total accumulated depreciation	<u>2,769,980</u>	<u>126,831</u>	<u>0</u>	<u>2,896,811</u>
Other capital assets, net	<u>1,416,383</u>	<u>(120,471)</u>	<u>0</u>	<u>1,295,912</u>
Business-type activities capital assets, net	<u>1,733,731</u>	<u>(35,653)</u>	<u>0</u>	<u>1,698,078</u>

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

<b>Primary Government</b>	
Government Activities:	
General Government	5,878
Police	8,864
Fire	31,290
Street & Alley	32,011
Animal Control	93
Library	985
Emergency Management	2,998
Total depreciation expense for governmental activities	<u>82,119</u>
<b>Business-Type Activities:</b>	
Administration	338
Water	28,655
Sewer	97,838
Total depreciation expense for business-type activities	<u>126,831</u>

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

**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, 2013, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

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. \$ 135,205

Total Lease Purchases Outstanding \$ 135,205

Current portion \$ 13,247

Non-current portion 121,958

Total Notes Payable \$ 135,205

BUSINESS-TYPE ACTIVITIES

As of June 30, 2013, 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.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

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. \$ 165,000

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. 156,541

Note due to Rural Utilities Service Department of Agriculture in the amount of \$3,241,000. Currently the note is being funded beginning May 30, 2013. The note is for the purpose of providing a portion of the cost of acquiring and constructing of Arkoma Municipal Authority water and sewer improvements. The original principal amount of \$3,241,000 will have a fixed interest rate of 2.125% with 480 monthly payments of principal and interest of \$10,048 due June 2053. 27,313

Total Notes Payable Outstanding \$ 348,854

Current portion	\$ 96,041
Non-current portion	<u>252,813</u>
Total Notes Payable	<u>\$348,854</u>

Below is a summary of changes in long term debt

The advance of \$27,313 from Rural Utilities Service Department of Agriculture is a partial funding of the total projected note of \$3,241,000. The balance will be advanced as necessary to complete the water and sewer project in process. The Town began making regular scheduled debt payments of \$10,048 in July 2013.

Refundable Deposits:

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

Utility Deposits –Refundable	\$ <u>55,150</u>
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**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

<u>Type of Debt</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amount Due Within One Year</u>
Government Activities:					
Capital Debt Obligations	151,434		16,229	135,205	13,247
Business-Type Activities:					
Refundable Deposits	52,842	23,644	21,336	55,150	
Notes Payable	<u>389,752</u>	<u>27,313</u>	<u>68,211</u>	<u>348,854</u>	96,041
Total Business-Type Activities:	<u>594,028</u>	<u>50,957</u>	<u>105,776</u>	<u>539,209</u>	<u>109,288</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, 2013, 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>
2014	13,246.99	4,701.89	96,041.41	7,938.72
2015	13,737.30	4,211.58	69,074.10	5,946.78
2016	14,245.76	3,703.12	69,427.43	3,946.20
2017	14,773.06	3,175.82	14,789.64	2,760.36
2018	15,319.86	2,629.02	15,160.94	2,389.06
2019-2023	<u>63,881.65</u>	<u>4,638.15</u>	<u>84,359.40</u>	<u>5,900.35</u>
Total	<u>135,204.62</u>	<u>23,059.58</u>	<u>348,852.92</u>	<u>28,881.47</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, 2013 the Authority's debt service coverage percentage is 245% and the reserve balance is \$118,980, both meet the promissory note requirements.

The Municipal Authority's RUS Promissory Notes are collateralized by the revenue of the Arkoma Municipal Authority Water and Sewer System. The Authority is required to set aside at least 100% of the annual debt service in a debt reserve account. The Authority has fully funded the amount of the debt reserve account in the amount of \$120,576. The Authority is required to monthly deposit \$1,255 beginning June 2013 into a short lived asset reserve account until a balance of \$316,853 is reached. The Authority has allocated \$35,112 to the short lived asset reserve account as of June 30, 2013.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**2.E. INTERFUND TRANSFERS AND BALANCES**

INTERFUND TRANSFERS

Transfers between funds of the primary government for the year ended June 30, 2013, were as follows:

<u>MAJOR FUNDS:</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
<b>GENERAL:</b>		
Fire Fund	\$ 6,000	\$ -
Total General Fund	<u>6,000</u>	<u>-</u>
<b>FIRE FUND:</b>		
General Fund	-	6,000
Total Fire Fund	<u>-</u>	<u>6,000</u>
GRAND TOTALS	<u>\$ 6,000</u>	<u>\$ 6,000</u>

INTERFUND BALANCES

At June 30, 2013, 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 \$4,484 from the Oklahoma Department of Agriculture Forestry Services for a fire calls.

KEDDO Grant - The Town was awarded and received a Special grant from the Kiamichi Economic Development District of Oklahoma (KEDDO) in the amount \$4,113 for the purpose of making the sidewalks handicap accessible. These funds were expended and received in the 2012-13 fiscal year.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

**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, 2012 thru June 30, 2013 the Town of Arkoma Fire Department had a beginning balance of \$6,243.42, the department has been appropriated \$28,446.49 for its benefit and has expended \$6,734.50 leaving a balance of \$27,955.41 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.

**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

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013**

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.)**

Eligibility and benefits for distribution (volunteer)	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.
Deferred retirement option	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Provisions for: Cost of living adjustments (normal retirement)	Yes, 20 years credited with continued service for a maximum of 30 or more years
Provisions for: Death (duty, non-duty, post retirement)	Yes, if vested by 5/83
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:

2011	\$ 960
2012	\$ 960
2013	\$ 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.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**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 among current plan participants.

The Town's total payroll in the fiscal year 2013 was \$266,781. The Town's contributions were calculated using the base salary amount of \$233,717. 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 \$7,032. The covered employees required contributions amounted to \$2,337 and additional voluntary contributions above the required 1% totaled \$5,013 for total plan employee/employer contributions of \$14,382.

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, 2013, 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.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

**3.D. RISK MANAGEMENT, (Cont.)**

The Town manages these various risks of loss as follows:

<b>Type of Loss</b>	<b>Method Managed</b>	<b>Risk Retained</b>
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

(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.

**3.E. COMMITMENTS AND CONTINGENCIES**

COMMITMENTS

At June 30, 2013, 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, 2013, can be summarized as follows:

	<u>Town</u>	<u>Street &amp; Alley</u>	<u>AMA</u>	<u>Total</u>
Vacation	\$ 2,892	\$ 0	\$ 737	\$ 3,629

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2013**

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.

**3.F. SUBSEQUENT EVENTS**

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

## **SUPPLEMENTARY INFORMATION**

Supplementary information includes financial information and disclosures that provide 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”).

TOWN OF ARKOMA, OKLAHOMA

BUDGETARY COMPARISON SCHEDULE  
 MODIFIED CASH BASIS  
 GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	25,656	25,656	25,656	-
Revenues:				
Taxes				
Sales tax	47,400	47,400	50,977	3,577
Use tax	9,000	9,000	12,098	3,098
Franchise tax	65,000	65,000	69,187	4,187
Cigarette tax	600	600	712	112
Total Taxes	<u>122,000</u>	<u>122,000</u>	<u>132,974</u>	<u>10,974</u>
Intergovernmental:				
Alcoholic beverage tax	13,000	13,000	15,376	2,376
Grants	<u>0</u>	<u>0</u>	<u>4,113</u>	<u>4,113</u>
Total Intergovernmental	<u>13,000</u>	<u>13,000</u>	<u>19,489</u>	<u>6,489</u>
Charges for services	<u>100</u>	<u>100</u>	<u>379</u>	<u>279</u>
Fines and forfeitures				
Court Fines	<u>168,000</u>	<u>168,000</u>	<u>130,542</u>	<u>(37,458)</u>
Total Fines and Forfeitures	<u>168,000</u>	<u>168,000</u>	<u>130,542</u>	<u>(37,458)</u>
Licenses and Permits	<u>4,500</u>	<u>4,500</u>	<u>6,682</u>	<u>2,182</u>
Interest Income	<u>500</u>	<u>500</u>	<u>259</u>	<u>(241)</u>
Miscellaneous:				
Oil & Gas Royalties	0	0	240	240
Donations	0	0	1,073	1,073
Misc. Revenue	<u>15,000</u>	<u>15,000</u>	<u>18,708</u>	<u>3,708</u>
Total Miscellaneous	<u>15,000</u>	<u>15,000</u>	<u>20,021</u>	<u>5,021</u>
Other Financing Sources:				
Transfers from other funds	<u>0</u>	<u>0</u>	<u>6,000</u>	<u>6,000</u>
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>6,000</u>	<u>6,000</u>
Amounts available for appropriation	<u>348,756</u>	<u>348,756</u>	<u>342,002</u>	<u>(6,754)</u>

TOWN OF ARKOMA, OKLAHOMA

BUDETARY COMPARISON SCHEDULE  
 MODIFIED CASH BASIS  
 GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges to Appropriations (Outflows):				
General Government				
Personal services	17,901	17,901	19,129	(1,228)
Materials and supplies	500	500	551	(51)
Other services and charges	6,000	6,000	6,293	(293)
Capital outlay	0	4,076	4,077	(1)
Total General Government	<u>24,401</u>	<u>28,477</u>	<u>30,050</u>	<u>(1,573)</u>
Police:				
Personal services	207,136	207,136	207,583	(447)
Materials and supplies	20,300	20,300	17,003	3,297
Other services and charges	49,100	49,100	37,259	11,841
Capital outlay	6,000	6,000	3,497	2,503
Total Police	<u>282,536</u>	<u>282,536</u>	<u>265,342</u>	<u>17,194</u>
Animal Control:				
Personal services	4,147	4,147	2,780	1,367
Materials and supplies	1,500	1,500	477	1,023
Other services and charges	1,250	1,250	384	866
Total Animal Control	<u>6,897</u>	<u>6,897</u>	<u>3,641</u>	<u>3,256</u>
Library:				
Materials and supplies	200	200	0	200
Other services and charges	1,100	1,100	1,117	(17)
Total Library	<u>1,300</u>	<u>1,300</u>	<u>1,117</u>	<u>183</u>
Emergency Management:				
Other services and charges	500	500	430	70
Debt service	3,750	3,750	3,661	89
Total Emergency Management	<u>4,250</u>	<u>4,250</u>	<u>4,091</u>	<u>159</u>
Other Financing Sources:				
Transfers to other funds	0	0	0	0
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Charges to Appropriations</b>	<b>319,384</b>	<b>323,460</b>	<b>304,241</b>	<b>19,219</b>
<b>Ending Budgetary Fund Balance</b>	<b><u>29,372</u></b>	<b><u>25,296</u></b>	<b><u>37,761</u></b>	<b><u>12,465</u></b>

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>SPECIAL REVENUE FUNDS</b>				
<b>STREET AND ALLEY</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Beginning Budgetary Fund Balance	362,000	362,000	362,000	0
Resources (Inflows):				
Taxes	57,000	57,000	63,787	6,787
Intergovernmental	14,500	14,500	17,831	3,331
Charges for services	0	0	705	705
Interest	500	500	707	207
Miscellaneous	10,000	10,000	220	(9,780)
Amounts available for appropriation	<u>444,000</u>	<u>444,000</u>	<u>445,250</u>	<u>1,250</u>
Charges to appropriations (Outflows):				
Street:				
Personal services	23,612	23,612	16,448	7,164
Materials and supplies	15,400	15,400	10,991	4,409
Other services and charges	13,800	13,800	9,901	3,899
Capital outlay	75,000	75,000	5,080	69,920
Total Street	<u>127,812</u>	<u>127,812</u>	<u>42,420</u>	<u>85,392</u>
Total Charges to Appropriations	127,812	127,812	42,420	85,392
Ending Budgetary Fund Balance	<u>316,188</u>	<u>316,188</u>	<u>402,830</u>	<u>86,642</u>
<b>SPECIAL REVENUE FUNDS</b>				
<b>FIRE</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Beginning Budgetary Fund Balance	134,286	134,286	134,286	0
Resources (Inflows):				
Taxes	57,000	57,000	63,787	6,787
Intergovernmental	0	0	4,484	4,484
Charges for services	500	500	2,000	1,500
Interest	300	300	293	(7)
Miscellaneous	30,000	30,000	1,508	(28,492)
Amounts available for appropriation	<u>222,086</u>	<u>222,086</u>	<u>206,358</u>	<u>(15,728)</u>
Charges to appropriations (Outflows):				
Fire:				
Personal services	15,909	14,109	10,143	3,966
Materials and supplies	3,300	5,100	4,721	379
Other services and charges	16,600	15,600	9,526	6,074
Capital outlay	25,000	25,000	1,343	23,657
Debt service	18,000	18,000	17,949	51
Total Fire	<u>78,809</u>	<u>77,809</u>	<u>43,682</u>	<u>34,127</u>
Other Financing Uses:				
Transfers to other funds	0	0	(6,000)	(6,000)
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>(6,000)</u>	<u>6,000</u>
Total Charges to Appropriations	78,809	77,809	49,682	40,127
Ending Budgetary Fund Balance	<u>143,277</u>	<u>144,277</u>	<u>156,676</u>	<u>24,399</u>

## TOWN OF ARKOMA, OKLAHOMA

### NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2013

#### 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 presented for purposes of additional analysis

**TOWN OF ARKOMA, OKLAHOMA**  
**COMBINING BALANCE SHEET-MODIFIED CASH BASIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2013**

**SPECIAL REVENUE FUNDS**

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

TOWN OF ARKOMA, OKLAHOMA

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
NONMAJOR GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

# 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 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

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## 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis 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 year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Arkoma, Oklahoma's basic financial statements, and have issued our report thereon dated June 3, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Arkoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Town of Arkoma's internal control.

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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
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WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

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and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

## Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 3, 2014