TOWN OF KIOWA, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR
ENDED JUNE 30, 2014

THE TOWN OF KIOWA, OKLAHOMA

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TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	3-4
Other Information - Management's Discussion and Analysis	5-10
The Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position (Modified Cash Basis)	12
Statement of Activities (Modified Cash Basis)	12
Governmental Funds Financial Statements:	
Balance Sheet (Modified Cash Basis)	14
Statement of Revenues, Expenditures, and Changes in Fund Balances (Modified Cash Basis)	15
Proprietary Funds Financial Statements:	
Statement of Net Position (Modified Cash Basis)	17
Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis)	17
Statement of Cash Flows (Modified Cash Basis)	18
Footnotes to the Basic Financial Statements	19-29
Supplementary and Other Information:	
Budgetary Comparison Information	
Budgetary Comparison Schedule (Modified Cash Basis) – General Fund	31-32
Footnotes to Budgetary Comparison Schedules	32
Combining Non-Major Governmental Fund Statements	
Combining Balance Sheet (Modified Cash Basis)	33
Combining Statement of Changes in Fund Balances (Modified Cash Basis)	33
Federal and State Awards Information	
Schedule of Expenditures of Federal and State Awards (Modified Cash Basis)	34
Footnotes to Schedule of Expenditures of Federal and State Awards	34
Internal Control and Compliance over Financial Reporting	
Independent Auditor's Report on Internal Control and Compliance	37-38

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the Town Board
Town of Kiowa, 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 the aggregate remaining fund information of the Town of Kiowa, Oklahoma (the "Town"), as of and for the year ended June 30, 2014, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, as of June 30, 2014, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which 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 that matter.

Other Matters – Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplemental combining fund schedules – modified cash basis, federal and state awards information, and the other information including management's discussion and analysis and budgetary comparison information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund schedules – modified cash basis, and federal and state awards information, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund schedules, and federal and state awards information are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1.

Management's discussion and analysis and budgetary comparison information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arledge & Associates, P.C.

November 11, 2014

The management of the Town of Kiowa is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the fiscal year ended June 30, 2014. Management of the Town is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The Town reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the Town's total net position decreased by $41,316 and the assets of the Town exceed its liabilities at June 30, 2014, by $895,144 (net position). Of this amount, $735,224 (unrestricted net position) is available to meet the government's ongoing needs.

- At June 30, 2014, the Town's governmental funds reported combined ending fund balances of $758,845.

- At the end of fiscal year 2014, unassigned fund balance for the General Fund was $646,851 or 59.4% of General Fund recurring revenues.

ABOUT THE TOWN

The Town of Kiowa is a statutory town form of government with a population of approximately 712 located in Pittsburg County in southeastern Oklahoma. The Town is governed by a five-member Board and operates under state law and Town ordinances through the three branches of democratic government:

- Legislative – the Town Board is a five-member governing body elected by the citizens at large
- Executive – the Town Mayor is the Chief Executive Officer and is elected by the Town Board
- Judicial – the Municipal Judge is a practicing attorney appointed by the Town Board

The Town provides typical municipal services such as public safety, street and alley maintenance, nutrition services, and certain utility services including water, sewer, and sanitation.

The Town's Financial Reporting Entity

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

The Town's financial reporting entity includes the primary government (Town of Kiowa) and a blended component unit as follows.

- **The Town of Kiowa** – that operates the public safety, parks and recreation, streets and highways, nutrition services, trash services, and administrative activities.

- **The Kiowa Public Works Authority** – that operates the water and sewer services of the Town through a public trust of which the Town is beneficiary. The Town Board serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the Town Board.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town of Kiowa (the "Town") and the Kiowa Public Works Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the Town using the modified cash basis of accounting. They present governmental and business type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. 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 funds.

Reporting the Town as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the Town's finances is, "Has the Town's overall financial condition improved, declined or remained steady 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. You will need to consider other non-financial factors, however, such as changes in the Town's sales tax base, the condition of the Town's roads, and quality of service to assess the overall health of the Town. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those Town assets and liabilities resulting from cash transactions.

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, administration, streets and sanitation. Sales taxes, franchise fees, fines, trash fees, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's water and sewer utilities are reported as business-type activities.

Reporting the Town's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the Town's most significant (major) funds -- not the Town as a whole. Some funds are required to be established by State law and by debt covenants. However, the Town Council may also establish 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 uses two kinds of funds – *governmental and proprietary:*

Governmental funds - All 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. Governmental funds report their activities on a modified cash basis of accounting. 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. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the Town, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The Town's proprietary fund is the Kiowa Public Works Authority that accounts for the operation of the water and sewer activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 19-28 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, Combining non-major Fund Statements, and Schedule of Federal and State Awards.

THE TOWN AS A WHOLE

For the year ended June 30, 2014, net position for the governmental and business-type activities decreased by $41,316. The results indicate the Town's financial condition, as a whole, decreased from the prior year. Following is a summary comparison of the change in net position from last year for the Town of Kiowa.

The Town of Kiowa's Net Position - Modified Cash Basis – In Thousands
June 30, 2014

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Current assets	$ 759	$ 808	-6%	$ 165	$ 154	7%	$ 924	$ 962	-4%
Total assets	759	808		165	154		924	962	
Current liabilities	-	-	-	29	26	-	29	26	-
Total liabilities	-	-		29	26		29	26	
Net position:									
Restricted	101	92	10%	59	46	28%	160	138	16%
Unrestricted	658	716	-8%	77	82	-7%	735	798	-8%
Total net position	$ 759	$ 808		$ 136	$ 128		$ 895	$ 936	

A portion of the Town's net position, $159,920, represents resources that are subject to external restrictions. The remaining balance of unrestricted net position, $735,224, may be used to meet the government's ongoing needs.

The Town of Kiowa's Revenue, Expenses and Changes in Net Position - Modified Cash Basis - In Thousands - Year Ended June 30, 2014

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Totals		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Revenues									
Charges for service	$ 783	$ 817	-4%	$ 359	$ 293	23%	$ 1,142	$ 1,110	3%
Operating grants and contributions	59	61	-3%	2	-	2%	61	61	-
Capital grants and contributions	48	-	48%	144	20	620%	192	20	860%
Taxes	186	144	29%	-	-	-	186	144	29%
Intergovernmental revenue	7	7	-	-	-	-	7	7	-
Investment income	4	5	-20%	-	-	-	4	5	-20%
Miscellaneous	100	90	11%	-	-	-	100	90	11%
Total revenues	1,187	1,124	6%	505	313	61%	1,692	1,437	18%
Expenses									
General government	403	372	8%	-	-	-	403	372	8%
Public safety	455	485	-6%	-	-	-	455	485	-6%
Streets	166	163	2%	-	-	-	166	163	2%
Sanitation	86	89	-3%	-	-	-	86	89	-3%
Nutrition	53	53	0%	-	-	-	53	53	0%
Community building	-	3	-100%	-	-	-	-	3	-100%
Principal on long-term debt	71	21	238%	-	-	-	71	21	238%
Interest on long-term debt	1	2	-50%	-	-	-	1	2	-50%
Water	-	-	-	282	237	19%	282	237	19%
Wastewater	-	-	-	216	133	62%	216	133	62%
Total expenses	1,235	1,188	4%	498	370	35%	1,733	1,558	11%
Excess (deficiency) before transfers	(48)	(64)	25%	7	(57)	112%	(41)	(121)	66%
Transfers	(1)	(2)	-50%	1	2	-50%	-	-	-
Change in net positon	(49)	(66)	26%	8	(55)	115%	(41)	(121)	66%
Beginning net position	808	874	-8%	128	183	-30%	936	1,057	-11%
Ending net position	$ 759	$ 808	-6%	$ 136	$ 128	6%	$ 895	$ 936	-4%

The town's governmental activities had a decrease in net position of $49,634. The decrease is due in part to a decrease in police fine revenue of $29,708, a decrease in charges for services of $33,421, an increase in liability insurance of $4,712, and an increase in professional fees of $8,632. The increase in the principal on long term debt is due to the refinance of the police vehicle loan at the local bank of Kiowa in the amount of $46,760. The sales tax increase is related to back taxes received in the amount $32,839.

Business-type activities capital grants and contributions increased $124,405 and wastewater operational expenses increased $83,127 due to grant revenue received and expenses related to the new Water Treatment Plant Improvements Plan. The business-type activities had a total increase in net position of $8,318.

Governmental and Business-Type Activities

TABLE 3
Governmental Activities

	Total Cost of Services		% Inc. (Dec.)	Net Cost of Services		% Inc. (Dec.)
	2014	2013		2014	2013	
General government	$ 403	373	8%	$ (401)	(371)	8%
Public safety	455	486	-6%	298	253	18%
Nutrition	53	53	-	(11)	(13)	-14%
Streets	166	163	2%	(159)	(157)	2%
Community Building	-	-	-	1	1	-
Sanitation	86	89	-4%	1	1	-
Principal on long-term debt	71	21	231%	(71)	(21)	231%
Interest on long-term debt	1	2	-50%	(1)	(2)	-50%
Total	$ 1,235	1,187	4%	$ (343)	(309)	11%

Business-Type Activities

	Total Cost of Services		% Inc. (Dec.)	Net Revenue (Expenses)		% Inc. (Dec.)
	2014	2013		2014	2013	
Water	$ 282	$ 237	19%	$ 24	$ 2	957%
Sewer	216	133	63%	(18)	(60)	-71%
Total	$ 498	$ 370	35%	$ 6	$ (58)	-110%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2014 fiscal year, the governmental funds reported a combined fund balance of $758,845, or a 6.14% decrease from the prior year.

Other fund highlights include:

- For the year ended June 30, 2014, the General Fund's total fund balance decreased by $52,868, and the other Governmental Fund's total fund balance increased by $3,234 or 3.39%.

General Fund Budgetary Highlights

For the year ended June 30, 2014, the General Fund reported actual budgetary basis revenues were under final estimates by $107,605 or an 8.9% negative variance. General Fund actual expenditures were under final appropriations by $254,848 or an 18.2% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- The Town's FY 2015 budget is consistent with the prior years.
- In June 2014, a 2% sales tax increase designated for street repairs was passed by the citizens. The Town began receiving this additional revenue in Oct 2014.

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 questions about this report or need additional financial information, contact the Town Clerk's or Treasurer's office at P.O. Box 69, Kiowa, Oklahoma 74553 or telephone at 918-432-5621.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position (Modified Cash Basis) – June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 290,420	$ 160,692	$ 451,112
Investments	443,180	4,666	447,846
Due from contractor	25,245	-	25,245
Total assets	758,845	165,358	924,203
LIABILITIES			
Deposits subject to refund	-	29,059	29,059
Total liabilities	-	29,059	29,059
NET POSITION			
Restricted for:			
Public safety	13,481	-	13,481
Streets	31,464	-	31,464
Cemetery	38,545	-	38,545
Community center	17,777	-	17,777
Debt service	-	58,653	58,653
Unrestricted	657,578	77,646	735,224
Total Net Position	$ 758,845	$ 136,299	$ 895,144

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2014

		Program Revenue			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	$ 403,026	$ 1,350	$ 631	$ -	$ (401,045)	$ -	$ (401,045)
Public Safety	454,850	695,832	9,394	47,781	298,157	-	298,157
Nutrition	52,574	-	41,141	-	(11,433)	-	(11,433)
Streets	166,149	-	6,771	-	(159,378)	-	(159,378)
Community Building	221	-	1,130	-	909	-	909
Sanitation	85,532	86,038	-	-	506	-	506
Debt Service							
Principal on Long-term debt	70,601	-	-	-	(70,601)	-	(70,601)
Interest on Long-term debt	1,259	-	-	-	(1,259)	-	(1,259)
Total governmental activities	1,234,212	783,220	59,067	47,781	(344,144)	-	(344,144)
Business-type activities:							
Water	281,976	304,253	1,850	-	-	24,127	24,127
Sewer	216,010	54,424	-	144,025	-	(17,561)	(17,561)
Total business-type activities	497,986	358,677	1,850	144,025	-	6,566	6,566
Total primary government	$ 1,732,198	$ 1,141,897	$ 60,917	$ 191,806	(344,144)	6,566	(337,578)
General revenues:							
Taxes:							
Sales and use tax					160,740	-	160,740
Franchise and public service taxes					20,062	-	20,062
Hotel / motel taxes					4,473	-	4,473
Intergovernmental revenue not restricted to specific programs					7,045	-	7,045
Investment income					3,928	261	4,189
Miscellaneous					99,753	-	99,753
Transfers - internal activity					(1,491)	1,491	-
Total general revenues and transfers					294,510	1,752	296,262
Change in net position					(49,634)	8,318	(41,316)
Net position - beginning					808,479	127,981	936,460
Net positon - ending					$ 758,845	$ 136,299	$ 895,144

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 243,986	$ 46,434	$ 290,420
Investments	416,346	26,834	443,180
Due from contractor	-	25,245	25,245
Total assets	$ 660,332	$ 98,513	$ 758,845
Fund balances:			
Restricted for:			
Street & alley purposes	-	31,464	31,464
Cemetery care	-	38,545	38,545
Community center	-	17,777	17,777
Public safety	13,481	-	13,481
Assigned for:			
Street & alley purposes	-	1,567	1,567
Cemetery care	-	3,045	3,045
Community center	-	3,384	3,384
Nutrition program	-	2,731	2,731
Unassigned	646,851	-	646,851
Total fund balances	660,332	98,513	758,845
Total fund balances	$ 660,332	$ 98,513	$ 758,845

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 185,275	$ -	$ 185,275
Intergovernmental	11,519	46,876	58,395
Charges for services	86,538	250	86,788
Fines and foreitures	695,832	-	695,832
Licenses and permits	600	-	600
Investment income	3,622	306	3,928
Miscellaneous	105,173	2,297	107,470
Total revenues	1,088,559	49,729	1,138,288
EXPENDITURES			
Current:			
General government	374,066	-	374,066
Public Safety	407,946	-	407,946
Cemetery	-	161	161
Streets	140,510	7,638	148,148
Nutrition	-	52,574	52,574
Community building	-	221	221
Sanitation	85,532	-	85,532
Capital Outlay	93,704	-	93,704
Debt Service:			
Principal on long term debt	70,601	-	70,601
Interest on long term debt	1,259	-	1,259
Total expenditures	1,173,618	60,594	1,234,212
Excess (deficiency) of revenues over expenditures	(85,059)	(10,865)	(95,924)
OTHER FINANCING SOURCES (USES)			
Capital debt proceeds	47,781	-	47,781
Transfers in	400	14,499	14,899
Transfers out	(15,990)	(400)	(16,390)
Total other financing sources and uses	32,191	14,099	46,290
Net change in fund balances	(52,868)	3,234	(49,634)
Fund balances - beginning	713,200	95,279	808,479
Fund balances - ending	$ 660,332	$ 98,513	$ 758,845

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2014

	Kiowa Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	$ 102,039
Restricted cash and cash equivalents	58,653
Investments	4,666
Total current assets	165,358
Total assets	165,358
LIABILITIES	
Deposits subject to refund	29,059
Total liabilities	29,059
NET POSITION	
Restricted for debt service	58,653
Unrestricted	77,646
Total net position	$ 136,299

Proprietary Fund Statement of Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2014

	Kiowa Public Works Authority
Operating Revenues:	
Charges for services:	
Water	$ 294,074
Sewer	52,339
Water taps	150
Sewer taps	300
Penalties	7,676
Miscellaneous	4,138
Total operating revenues	358,677
OPERATING EXPENSES	
Administration	97,539
Water	133,966
Sewer	201,273
Total Operating Expenses	432,778
Net operating income (loss)	(74,101)
NON-OPERATING REVENUES (EXPENSES)	
Investment income	261
Debt Service:	
Principal retirement	(19,595)
Interest expense	(45,613)
Capital grants and contributions	144,025
Operational grants and contributions	1,850
Total non-operating revenue (expenses)	80,928
Income before contributions and transfers	6,827
Transfers in - General Fund	1,491
Change in net position	8,318
Total net position - beginning	127,981
Total net position - ending	$ 136,299

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2014

	Kiowa Public Works Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 358,677
Payments to suppliers	(351,963)
Payments to employees	(80,815)
Receipts of customer meter deposits	5,700
Refunds of customer meter deposits	(2,945)
Net cash provided by (used in) operating activities	(71,346)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	1,491
Net cash provided by noncapital financing activities	1,491
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Federal grants received	145,875
Principal paid on debt	(19,595)
Interest and fiscal agent fees paid on debt	(45,613)
Net cash provided by capital and related financing activities	80,667
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(4,666)
Interest and dividends	261
Net cash provided by (used by) investing activities	(4,405)
Net increase in cash and cash equivalents	6,407
Balances - beginning of year	154,285
Balances - end of year	$ 160,692
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	$ 102,039
Restricted cash and cash equivalents - current	58,653
Total cash and cash equivalents, end of year	$ 160,692
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	$ (74,101)
Change in assets and liabilities:	
Deposits subject to refund	2,755
Net cash provided by (used in) operating activities	$ (71,346)

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town's financial reporting entity includes two separate legal entities reported as the primary government.

- **The Town of Kiowa** – that operates the public safety, parks and recreation, streets and highways, nutrition services, trash services, and administrative activities.

- **The Kiowa Public Works Authority** – that operates the water and sewer services of the Town through a public trust of which the Town is the beneficiary. The Town Board serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the Town Board.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity,* as amended by Statement No 61, and includes all component units for which the Town is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- cash-based inter-fund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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 accrued revenue and receivables) 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.

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities, but are normally reported as a commitment disclosure.

Program revenues within the statement of activities 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: License and permits, cemetery fees, operating and capital grants and contributions
- Public safety: Fine revenue, operating and capital grants and contributions
- Nutrition: Operating grants
- Streets: Gas excise and commercial vehicle taxes
- Community building: Operating contributions
- Sanitation: sanitation charges

Governmental Funds:

The Town's governmental funds are comprised of the following:

Major Fund:

- General Fund – accounts for all activities not accounted for in other special-purpose funds.

Non-Major Funds (Reported as Other Governmental Funds):

Special Revenue and Capital Project Funds:

- Community Building Fund – accounts for rental revenues and expenses related to the community building.
- Cemetery Care Fund – accounts for cemetery revenues and expenses.
- Nutrition Fund – accounts for revenues and expenses related to the nutrition program.
- Street and Alley Special Revenue Fund – accounts for state shared gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities arising from cash transaction are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Fund:

The Town's proprietary fund is comprised of the following:

- Kiowa Public Works Authority (KPWA) – an enterprise fund that accounts for the operation of the water and sewer activities.

The proprietary fund is reported on a modified cash basis, as defined above.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is in Note 8 of this report.

E. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. More information is provided in Note 3. These classifications are defined as:

a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance.
d. *Assigned* – includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by town board action or management decision when the town board has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the Town's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position: is displayed in two components:

a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
b. *Unrestricted net position* - All remaining net position that does not meet the definition of "restricted".

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

F. Internal and Interfund Balances and Transfers

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

2. Cash, Cash Equivalents, and Investments

For the year ended June 30, 2014, the Town recognized $4,189 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

At June 30, 2014, the primary government held the following deposits and investments:

	Carrying Value
Deposits:	
Demand deposits	$ 451,112
Time deposit	447,846
Total deposits and investments	$ 898,958
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	$ 451,112
Investments	447,846
	$ 898,958

Custody Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town is governed by the State Public Deposit Act which requires that the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust department or agent, but not in the government's name. As of June 30, 2014, the Town's deposits and investments were fully collateralized.

Investment Interest Rate Risk - the Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk - The Town has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. These investment limitations do not apply to the Town's public trusts. As of June 30, 2014, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Concentration of Investment Credit Risk - the Town places no limit on the amount it may invest in any one issuer.

Restricted cash and Investments – The amounts reported as restricted assets in the Statement of Net Position are comprised of amounts restricted for utility deposits or debt service. The restricted assets as of June 30, 2014 are as follows:

Type of Restricted Assets	Current Cash and cash Equivalents
Utility deposits	$ 29,059
RUD loans	$ 58,653
	$ 87,712

3. Restricted Net Position – Governmental Activities:

The following table shows the Net Position restricted for other purposes as shown in the Statement of Net Position:

	State Statutes	Enabling Legislation	Total
Governmental Activities:			
Street & Alley	$ 31,464	$ -	$ 31,464
Cemetery Care	38,545	-	38,545
Public Safety	-	13,481	13,481
Community Center	-	17,777	17,777
Total Restricted Net Position	$ 70,009	$ 31,258	$ 101,267

4. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the Town, of which the entire 3 cents is retained in the General Fund.

5. Property Tax Levy

The Town presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the Town.

6. Internal and Interfund Balances and Transfers

Balances:

The Town had no inter-fund receivables and payables at June 30, 2014.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2014, were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Nutrition Fund	11,517	Operating subsidy
General Fund	Cemetery Care Fund	1,491	Hotel/Motel Taxes
General Fund	Community Building Fund	1,491	Hotel/Motel Taxes
General Fund	KPWA	1,491	Hotel/Motel Taxes
Nutrition Fund	General Fund	400	Operating subsidy
Total		$ 16,390	

Reconciliation to Fund Financials and Statement of Activities:

	Transfer In	Transfer Out	Net Transfers
Governmental Funds	$ 14,899	$ (16,390)	$ (1,491)
Proprietary Funds	1,491	-	1,491
Total	$ 16,390	$ (16,390)	$ -

7. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Town manages these various risks of loss by securing commercial insurance for all risks. Management believes such insurance 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.

8. Commitments and Contingencies

For the year ended June 30, 2014, the reporting entity's long term debt changed as follows:

Type of Debt	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Capital lease payable	$ 46,760	$ 47,781	$ 70,601	$ 23,940	$ 23,940
Total Governmental Activities	$ 46,760	$ 47,781	$ 70,601	$ 23,940	$ 23,940
Business-Type Activities:					
Notes Payable	$ 1,302,503	$ -	$ 19,595	$ 1,282,908	$ 20,271
Total Business-Type Activities	1,302,503	-	19,595	1,282,908	20,271
Total Long-Term Debt	$ 1,349,263	$ 47,781	$ 90,196	$ 1,306,848	$ 44,211

Long-term Debt Commitments:

Governmental activities:

At June 30, 2014, *governmental activities* long-term debt payable from taxes and other general revenues include the following:

Capital Lease Payable:

$23,940 capital debt payable to First Bank of Kiowa, payable in one payment of $23,940 including principal and interest at 2.35%, due January 31, 2015.	
Balance Outstanding at June 30, 2014	$ 23,940

Business-type activities:

Notes Payable:

$752,953 Rural Development loan payable in monthly installments of $3,516 at 4.25% interest, final payment due July 10, 2049.	$ 752,953
$529,955 Rural Development loan, payable in monthly installments of $1,918 at 2.5% interest, final payment due June 22, 2050.	529,955
Balance Outstanding at June 30, 2014	$1,282,908

Long-term debt service requirements to maturity are as follows:

	Governmental Type Activities		Business Type Activities	
	Capital Lease Payments		Notes Payable	
Year Ending June 30,	Principal	Interest	Principal	Interest
2015	23,940	346	20,271	44,937
2016	-	-	20,972	44,236
2017	-	-	21,698	43,510
2018	-	-	22,451	42,757
2019	-	-	23,231	41,977
2020-2024	-	-	128,924	197,116
2025-2029	-	-	153,306	172,734
2030-2034	-	-	182,642	143,398
2035-2039	-	-	217,993	108,047
2040-2044	-	-	260,660	65,380
2045-2049	-	-	230,760	16,379
Totals	$ 23,940	$ 346	$ 1,282,908	$ 920,471

Capital lease obligations are paid from the General Fund. Notes payable are paid from the Kiowa Public Works Authority.

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2014, is summarized as follows:

- Town – accrued compensated absences $39,677
- KPWA – accrued compensated absences $11,604

Litigation:

The Town is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. These statutory provisions do not apply to the Town's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

The Town is currently involved in a lawsuit with Rural Water District No. 11, Pittsburg, County, OK for breach of contract related to water rates charged to the Rural Water District by the Town of Kiowa.

Federal and State Award Programs:

The Town of Kiowa participates in various federal or state grant/loan programs from year to year. In 2014, the Town's involvement in federal and state award programs was not material. 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. The Town has not been notified of any noncompliance with federal or state award requirements.

DEQ Consent Order:

The Town of Kiowa is currently under the Oklahoma Department of Environmental Quality consent order case number 06-146A and 06-14B related to the Town's Public Water Supply System. The Oklahoma Department of Environmental Quality has approved the Town's Corrective Action Plan for this consent order which is currently in progress.

The Town of Kiowa is currently under the Oklahoma Department of Environmental Quality consent order number 13-210 related to the Town's Waste Water Facility. Timely compliance with both of these consent orders is needed to avoid any fines.

9. Pension Plan Participation

The Town of Kiowa participates in two pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Simple IRA Plan

OFPRS:

Plan Summary Information. The Town of Kiowa, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The Town is required by state law to contribute $60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	$660	$660
2013	$720	$720
2014	$780	$780

Simple IRA Plan:

The Town of Kiowa participates in a Simple IRA plan for employees. This retirement plan was set up and enacted during the year ended June 30, 2005. The plan is administered by Woodman of the World Simple IRA. Plan assets are invested in American Funds at the direction of each employee that participates. The Town of Kiowa matches the required amount (3%) as designated by the plan policies.

The IRA contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2012	$4,030	$4,030
2013	$5,232	$5,232
2014	$6,815	$6,815

SUPPLEMENTARY AND OTHER INFORMATION

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	$ 185,511	$ 185,511	713,200	$ 527,689
Resources (Inflows):				
TAXES:				
Sales tax	95,000	127,838	146,212	18,374
Use tax	13,000	13,000	14,528	1,528
Franchise tax	16,500	16,500	20,062	3,562
Hotel and Motel Tax	6,000	6,000	4,473	(1,527)
Total taxes	130,500	163,338	185,275	21,937
INTERGOVERNMENTAL:				
Alcoholic beverage tax	5,000	5,000	5,342	342
Tobacco tax	1,450	1,450	1,703	253
Grants	-	148,499	4,474	(144,025)
Total Intergovernmental	6,450	154,949	11,519	(143,430)
CHARGES FOR SERVICES				
Cemetery	500	500	500	-
Trash Revenue	89,500	89,500	86,038	(3,462)
Total Charges for Services	90,000	90,000	86,538	(3,462)
FINES AND FORFEITURES	675,000	685,000	688,959	3,959
LICENSES AND PERMITS	150	150	600	450
INVESTMENT INCOME	4,000	4,000	3,622	(378)
MISCELLANEOUS:				
Donations	-	-	5,350	5,350
Drug and alcohol education	3,500	3,500	6,873	3,373
Miscellaneous	75,000	95,627	99,823	4,196
Total Miscellaneous	78,500	99,127	112,046	12,919
OTHER FINANCING SOURCES:				
Transfers from other funds	-	-	400	400
Total Other Financing Sources	-	-	400	400
Total Resources (Inflows)	984,600	1,196,564	1,088,959	(107,605)
Amount available for appropriation	1,170,111	1,382,075	1,802,159	420,084

(Continued)

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
GENERAL GOVERNMENT:				
Council	13,786	13,786	12,617	1,169
City Clerk	14,949	14,949	14,958	(9)
City Treasurer	15,255	15,255	15,261	(6)
City Attorney	12,000	12,000	12,000	-
General Government	353,570	543,506	348,029	195,477
TOTAL GENERAL GOVERNMENT	409,560	599,496	402,865	196,631
PUBLIC SAFETY:				
Police	415,583	436,210	410,308	25,902
Fire	67,550	67,550	65,021	2,529
Animal Control	3,000	3,000	-	3,000
Judge	3,600	3,600	3,600	-
TOTAL PUBLIC SAFETY	489,733	510,360	478,929	31,431
STREETS	161,175	169,176	158,511	10,665
SANITATION:				
Trash	89,500	89,500	85,532	3,968
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	20,143	28,143	15,990	12,153
Total other financing sources and uses	20,143	28,143	15,990	12,153
Total Charges to Appropriations	1,170,111	1,396,675	1,141,827	254,848
Ending Budgetary Fund Balance	$ -	$ (14,600)	$ 660,332	$ 165,236

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

2. The legal level of appropriation control is at the department level total within a function.

3. The modified cash basis differs from the modified accrual basis as shown in the schedule below:

	General Fund
Total budgetary resources (inflows)	$1,088,959
Add: Capital lease proceeds not budgeted	47,781
Total resources as recorded on the statement of revenues, expenditures, and changes in fund balances – governmental funds	$1,136,740

Total budgetary expenditures and transfers	$1,141,827
Add: Capital outlay of lease proceeds not budgeted	47,781
Total expenditures as recorded on the statement of revenues, expenditures, and changes in fund balances – governmental funds	$1,189,608

Combining Non-Major Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2014

	Street and Alley Fund	Cemetery Care Fund	Community Building Fund	Nutrition Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 7,786	$ 14,756	$ 21,161	$ 2,731	$ 46,434
Investments	-	26,834	-	-	26,834
Due from contractor	25,245	-	-	-	25,245
Total assets	$ 33,031	$ 41,590	$ 21,161	$ 2,731	$ 98,513
FUND BALANCES					
Fund balances:					
Restricted	31,464	38,545	17,777	-	87,786
Assigned	1,567	3,045	3,384	2,731	10,727
Total fund balances	33,031	41,590	21,161	2,731	98,513
Total fund balances	$ 33,031	$ 41,590	$ 21,161	$ 2,731	$ 98,513

Combining Non-Major Governmental Funds Statement of Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2014

	Street and Alley Fund	Cemetery Care Fund	Community Building Fund	Nutrition Fund	Total-Other Governmental Funds
REVENUES					
Intergovernmental	$ 6,771	$ -	$ -	$ 40,105	$ 46,876
Charges for services	-	250	-	-	250
Investment earnings	3	284	19	-	306
Miscellaneous	-	131	1,130	1,036	2,297
Total revenues	6,774	665	1,149	41,141	49,729
EXPENDITURES					
Current:					
Highways and roads	7,638	-	-	-	7,638
Cemetery	-	161	-	-	161
Nutrition	-	-	-	52,574	52,574
Community building	-	-	221	-	221
Total Expenditures	7,638	161	221	52,574	60,594
Excess (deficiency) of revenues over expenditures	(864)	504	928	(11,433)	(10,865)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	1,491	1,491	11,517	14,499
Transfers out	-	-	-	(400)	(400)
Total other financing sources and uses	-	1,491	1,491	11,117	14,099
Net change in fund balances	(864)	1,995	2,419	(316)	3,234
Fund balances - beginning	33,895	39,595	18,742	3,047	95,279
Fund balances - ending	$ 33,031	$ 41,590	$ 21,161	$ 2,731	$ 98,513

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2014

Federal/State Grantor/Pass Thru Agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Expenditures
FEDERAL AWARDS:				
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through to Oklahoma Department of Human Services and the Kiamichi Area of Nutrition Project:				
Special Program for the Aging-Title III, Part C - Nutrtion Services	10.550	N/A	$ 40,375	$ 40,375
US DEPARTMENT OF HOMELAND SECURITY:				
Passed Through to Oklahoma Department of Emergency Management:				
Public Assistance Grant	97.036	FEMA DR 4117	$ 1,850	$ 1,850
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through to Oklahoma Department of Commerce				
ODOC Community Development Block Grant	14.228	15574 CDBG 13	144,025	144,025
Total Federal Awards			$ 186,250	$ 186,250

State Grantor/Pass Thru Agency Grantor/Program Title	Pass Thru Grant #	Award Amount	Expenditures
STATE AWARDS:			
OKLAHOMA DEPARTMENT OF AGRICULTURE:			
Passed through Kiamichi Economic Development District of Oklahoma			
Forestry Services - Fire Defense Operational Grant	N/A	$ 4,474	$ 4,474
Total State Awards		$ 4,474	$ 4,474

Footnotes to Schedule of Expenditures of Federal and State Awards:

1. The Schedule of Expenditures of Federal and State Awards is prepared on the modified cash basis.

INTERNAL CONTROL AND COMPLIANCE INFORMATION

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Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and Members of the Town Board
Town of Kiowa, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kiowa, Oklahoma (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 11, 2014. Our report included an emphasis-of-a-matter paragraph related to the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. 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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal 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.

Arledge & Associates, P.C.

November 11, 2014