

**TOWN OF ARKOMA, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2014**

**TOWN OF ARKOMA, OKLAHOMA**

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**TOWN OF ARKOMA, OKLAHOMA**

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**TOWN OF ARKOMA, OKLAHOMA**

**LIST OF PRINCIPAL OFFICIALS**

**Board of Trustees**

Floyd Lawrence	Mayor
Gene Earls	Member
Billy Miller	Member
Ray Foster	Member

**Town Clerk & Treasurer**

Dottie Smith

**Town Attorney**

Ronald H. Lawson

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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, 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 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, 2014, 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 taken as a whole. The management's discussion and analysis, budgetary comparison schedules, introductory section and other supplementary information, including the accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements of the Town of Arkoma, Oklahoma.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

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opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2015, on our consideration of the Town of Arkoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* 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

May 22, 2015

# 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, 2014, 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 \$180,516 for the year, resulting in an increase in total net position of 5.37 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	603,114	602,366	821,302	975,613	1,424,416	1,577,979
Capital Assets	674,248	613,508	5,032,285	1,706,780	5,706,533	2,320,288
Total Assets	<u>1,277,362</u>	<u>1,215,874</u>	<u>5,853,587</u>	<u>2,682,393</u>	<u>7,130,949</u>	<u>3,898,267</u>
Long term liabilities	121,971	135,205	3,412,277	348,854	3,534,248	484,059
Other liabilities	2,875	3,038	57,543	55,403	60,418	58,441
Total Liabilities	<u>124,846</u>	<u>138,243</u>	<u>3,469,820</u>	<u>404,257</u>	<u>3,594,666</u>	<u>542,500</u>
Net Position:						
Net investment in capital assets						
net of related debt	552,277	478,303	1,620,008	1,357,926	2,172,285	1,836,229
Restricted	560,266	559,506	361,260	118,980	921,526	678,486
Unrestricted	39,973	39,822	402,499	801,230	442,472	841,052
Total Net Position	<u>1,152,516</u>	<u>1,077,631</u>	<u>2,383,767</u>	<u>2,278,136</u>	<u>3,536,283</u>	<u>3,355,767</u>

The Town's combined net position, resulting from modified cash basis transactions, increased from approximately \$3,355,767 to \$3,536,283 between fiscal years 2013 and 2014. Looking at the net position and net expenses of governmental and business-type activities separately, governmental activities had an increase of \$74,885 and business-type activities increased by \$105,631.

Net position of the Town's governmental activities increased 6.94 percent to \$1,152,516. However, \$1,112,543 of those net position either are restricted as to the purposes they can be used for or are invested in capital assets. Consequently, unrestricted net position showed only \$39,973 at the end of this year. The net position of Town's business-type activities increased to \$2,383,767. However, \$1,981,268 of the net position was restricted as to the purposes they can be used for or are invested in capital assets. Consequently, the unrestricted position was \$402,499 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>						
Program Revenues:						
Fees, fines and charges for services	129,360	140,308	706,891	729,075	836,251	869,383
Operating grants and contributions	4,474	8,597	181,134		185,608	8,597
General revenues:						
Sales tax	131,598	152,931			131,598	152,931
Use tax	48,860	36,294			48,860	36,294
Franchise tax	67,324	69,187			67,324	69,187
Cigarette tax	1,538	2,136			1,538	2,136
Intergovt. Revenue	33,301	33,207			33,301	33,207
Investment earnings	1,414	1,259	1,840	1,865	3,254	3,124
Gain (loss) on sale of assets	0	0			0	0
Miscellaneous	28,286	21,749			28,286	21,749
<b>Total revenues</b>	<b>446,155</b>	<b>465,668</b>	<b>889,865</b>	<b>730,940</b>	<b>1,336,020</b>	<b>1,196,608</b>
<b>Expenses:</b>						
General government and administration	29,252	31,853			29,252	31,853
Public safety	367,488	338,931			367,488	338,931
Transportation	78,551	69,350			78,551	69,350
Cultural and recreational	1,970	2,102			1,970	2,102
Interest on long term debt						
Water and Sewer			593,702	547,891	593,702	547,891
Sanitation			84,540	69,455	84,540	69,455
<b>Total expenses</b>	<b>477,261</b>	<b>442,236</b>	<b>678,243</b>	<b>617,346</b>	<b>1,155,504</b>	<b>1,059,582</b>
Increases in net position before transfers	(31,106)	23,432	211,622	113,594	180,516	137,026
Transfers	105,991		(105,991)			
<b>Net position - July 1</b>	<b>1,077,631</b>	<b>1,054,199</b>	<b>2,278,136</b>	<b>2,164,542</b>	<b>3,355,767</b>	<b>3,218,741</b>
<b>Net position - June 30</b>	<b>1,152,516</b>	<b>1,024,424</b>	<b>2,383,767</b>	<b>2,278,136</b>	<b>3,536,283</b>	<b>3,355,767</b>

**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, 2014, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$477,261. Of these total expenses, taxpayers and other general revenues funded \$418,312, while those directly benefiting from the program funded \$4,474 from grants and other contributions and \$129,360 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 \$105,135 and \$99,248 respectively. The water includes interest expense of \$37,494, the sewer includes interest expense of \$20,943 and the non-cash system depreciation of \$121,965 and amortization of \$3,164. The sanitation service is operated under private contract and the net revenue of \$5,398 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 \$414,435 and expenditures of \$414,284 resulting in an increase in fund balance of \$151.
- On the modified cash basis of accounting, the Street and Alley reported an increase in fund balance of \$30,510.
- On the modified cash basis of accounting, the Fire Fund reported a decrease in fund balance of \$29,750.

**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, 2014, General Fund expenditures were \$7,117 under final appropriations, while actual resources available for appropriation were \$5,665 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, 2014, the Town had \$5,700,996 invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. This represents a net increase of \$3,389,410 or 246.62 percent, over last year.

This year's more significant capital assets additions include:

General Fund - Police - City Hall Roof	\$ 11,983
General Fund - Police - 2014 Ford Utility Truck	35,132
General Fund - Police - 2013 Ford Sedan	31,552
General Fund - Police - 2013 Ford Sedan	31,529
Fire Fund - Bunker Gear	38,281
Municipal Authority - Water - 2014 Ford F150	18,193
Municipal Authority - Water - 2014 Ford F150	18,193
Municipal Authority - Water and Sewer Construction in Process	3,408,394

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

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	10,000	10,000	16,000	16,000	26,000	26,000
Const. In Progress	0	0	3,794,560	386,166	3,794,560	386,166
Buildings	94,949	89,182	15,756	16,461	110,705	105,643
Equipment	421,106	341,302	82,701	59,201	503,808	400,503
Improvements	0	0	1,117,731	1,220,250	1,117,731	1,220,250
Infrastructure	148,193	173,024	0	0	148,193	173,024
<b>Total</b>	<u>674,248</u>	<u>613,508</u>	<u>5,026,748</u>	<u>1,698,078</u>	<u>5,700,997</u>	<u>2,311,586</u>

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

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

At June 30, 2014, the Town as a whole had \$3,591,605 in long term debt arising from modified cash basis transactions compared to \$539,209 at June 30, 2014. At June 30, 2014, \$121,971 of the debt is related to governmental activities and \$3,469,634 related to business-type activities. (See table below).

**Primary Government Long-Term Debt – Modified Cash Basis**

	<u>2013</u>	<u>2014</u>
Governmental debt:		
Lease purchase to Welch St Bank	\$ 135,205	\$ 121,971
Total business-type debt	<u>135,205</u>	<u>121,971</u>
Business-type debt:		
Refundable utility deposits	\$ 55,150	\$ 57,357
OWRB note payable	165,000	110,000
OWRB note payable	156,541	142,925
RUS note payable	27,313	3,159,352
Total business-type debt	<u>404,004</u>	<u>3,469,634</u>
Total all debt	<u>\$ 539,209</u>	<u>\$ 3,591,605</u>

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

The Town's elected officials and staff considers many factors in setting the 2014-2015 budget, tax rates and service rates being the main sources and personal services and utility costs being the main uses of funds. The Town with approximately \$80,000 in remaining expenditures will complete the 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 placed in service 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, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash, and cash equivalents	\$603,114	\$820,077	\$1,423,191
Due from other Governments		1,225	1,225
Capital assets (Note 2.C.):			
Land and construction in progress	10,000	3,810,560	3,820,560
Other capital assets, net of accumulated depreciation	664,248	1,216,188	1,880,436
Loan application cost, net of accumulated amortization		5,537	5,537
<b>Total assets</b>	<b>1,277,362</b>	<b>5,853,587</b>	<b>7,130,949</b>
<b>LIABILITIES</b>			
Payroll taxes payable	646	186	832
Due to other governments	2,229		2,229
Refundable deposits		57,357	57,357
Long term liabilities (Note 2.D.)			
Due within one year	13,737	123,488	137,225
Due in more than one year	108,234	3,288,789	3,397,023
<b>Total Liabilities</b>	<b>124,846</b>	<b>3,469,820</b>	<b>3,594,666</b>
<b>NET ASSETS</b>			
Net investment in capital assets	552,277	1,620,008	2,172,285
Restricted for:			
Street and Alley	433,340		433,340
Fire Department	126,926		126,926
Debt service		216,475	216,475
Other purposes		144,785	144,785
Unrestricted	39,973	402,499	442,472
<b>Total Net Position</b>	<b>\$1,152,516</b>	<b>\$2,383,767</b>	<b>\$3,536,283</b>

TOWN OF ARKOMA, OKLAHOMA

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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>							
<b>Governmental Activities</b>							
General Government	\$29,252	\$6,242			(\$23,010)		(\$23,010)
Total general government	29,252	6,242	0	0	(23,010)	0	(23,010)
<b>Public Safety:</b>							
Police	289,722	123,118			(166,604)		(166,604)
Fire	70,594		4,474		(66,120)		(66,120)
Animal Control	4,174				(4,174)		(4,174)
Emergency Management	2,998				(2,998)		(2,998)
Total Public safety	367,488	123,118	4,474	0	(239,896)	0	(239,896)
<b>Transportation:</b>							
Streets	78,551				(78,551)		(78,551)
Total transportation	78,551	0	0	0	(78,551)	0	(78,551)
<b>Cultural, Parks and Recreation:</b>							
Library	1,970				(1,970)		(1,970)
Total cultural, parks and recreation	1,970	0	0	0	(1,970)	0	(1,970)
Total governmental activities	477,261	129,360	4,474	0	(343,427)	0	(343,427)
<b>Business-type activities:</b>							
Water	343,684	358,252		90,567		105,135	105,135
Sewer	250,018	258,700		90,567		99,248	99,248
Sanitation	84,540	89,938				5,398	5,398
Total business-type activities	678,243	706,891	0	181,134	0	209,782	209,782
<b>Total primary government</b>	<b>\$1,155,503</b>	<b>\$836,251</b>	<b>\$4,474</b>	<b>\$181,134</b>	<b>(\$343,427)</b>	<b>\$209,782</b>	<b>(\$133,645)</b>
					Governmental	Business-Type	Total
					(\$343,427)	\$209,782	(\$133,645)
<b>General revenues:</b>							
<b>Taxes:</b>							
Sales Tax					131,598		131,598
Use Tax					48,860		48,860
Franchise and public service taxes					67,324		67,324
Cigarette Tax					1,538		1,538
Intergovernmental revenue not restricted to specific programs					33,301		33,301
Interest income					1,414	1,840	3,254
Gain (loss) on sale of assets					0		0
Miscellaneous					28,286		28,286
Transfers internal activity					105,991	(105,991)	0
Total general revenues and transfers					418,312	(104,151)	314,161
Charge in net position					74,885	105,631	180,516
Net position-beginning					1,077,631	2,278,136	3,355,767
Net position- ending					\$1,152,516	\$2,383,767	\$3,536,283

See accompanying notes to the basic financial statements.

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

JUNE 30, 2014

	General Fund	Street & Alley Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash, and cash equivalents	\$42,511	\$432,780	\$125,762	\$2,061	603,114
Due from General Fund		589	1,164		1,753
Total assets	<u>42,511</u>	<u>433,369</u>	<u>126,926</u>	<u>2,061</u>	<u>\$604,867</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payroll taxes payable	617	29			646
Due to other governments	1,004				1,004
Due to Street Fund	589				589
Due to Fire Fund	1,164				1,164
Due to AMA	1,225				1,225
Total Liabilities	<u>4,599</u>	<u>29</u>	<u>0</u>	<u>0</u>	<u>4,628</u>
Fund Balances:					
Restricted for:					
Street and Alley		433,340			433,340
Fire Department			126,926		126,926
Assigned					0
Unassigned	37,912			2,061	39,973
Total Fund Balances	<u>37,912</u>	<u>433,340</u>	<u>126,926</u>	<u>2,061</u>	<u>600,239</u>
Total Liabilities and Fund Balances	<u>\$42,511</u>	<u>\$433,369</u>	<u>\$126,926</u>	<u>\$2,061</u>	

**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 \$ 1,856,390 net of accumulated depreciation of \$ 1,182,142 are not financial resources and, therefore, are not reported in funds 674,248

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. (121,971)

Net position of governmental activities \$1,152,516

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, 2014

	General Fund	Street & Alley Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	127,990	60,665	60,665		249,320
Intergovernmental	15,995	17,306	4,474		37,775
Charges for services	608				608
Fines and forfeitures	123,118				123,118
Licenses and permits	5,634				5,634
Interest income	247	855	312		1,414
Miscellaneous	25,856	2,180	250		28,286
Total Revenues	<u>299,448</u>	<u>81,006</u>	<u>65,701</u>	<u>0</u>	<u>446,155</u>
<b>Expenditures:</b>					
Current:					
General Government:	24,626				24,626
Public Safety:					
Police	274,395				274,395
Fire			33,221		33,221
Emergency Management					0
Animal Control	4,081				4,081
Street and Public Works:					
Streets		47,500			47,500
Culture and Recreation:					
Library	986				986
Capital Outlay	110,196		38,281		148,477
Debt Service			17,949		17,949
Total Expenditures	<u>414,284</u>	<u>47,500</u>	<u>89,451</u>	<u>0</u>	<u>551,235</u>
Excess (deficiency) of revenues over expenditures	(114,836)	33,506	(23,750)	0	(105,080)
<b>Other Financing Sources (Uses):</b>					
Transfers in	114,987				114,987
Transfers out		(2,996)	(6,000)		(8,996)
Total Other Financing Sources (Uses)	<u>114,987</u>	<u>(2,996)</u>	<u>(6,000)</u>	<u>0</u>	<u>105,991</u>
Net change in fund balances	151	30,510	(29,750)	0	911
Fund balances - beginning	37,761	402,830	156,676	2,061	599,328
Fund balances - ending	<u>37,912</u>	<u>433,340</u>	<u>126,926</u>	<u>2,061</u>	<u>600,239</u>
Reconciliation to the Statement of Activities:					
Net change in fund balances -total governmental funds					\$911
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					148,477
Depreciation expense					(87,737)
Debt service principal payments are not considered expenditures in the governmental activities report					13,234
					<u>73,974</u>
Change in Net Position of Governmental Activities					<u>\$74,885</u>

See accompanying notes to the basic financial statements.

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

June 30, 2014

	<u>Arkoma Municipal Authority</u>
<b>ASSETS</b>	
Current Assets:	
Cash, and cash equivalents	\$401,460
Due from other governments	1,225
Total current assets	<u>402,685</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	418,617
Land and construction-in-progress	3,810,560
Other capital assets, net of accumulated depreciation	1,216,188
Loan application cost, net of accumulated amortization	5,537
Total noncurrent assets	<u>5,450,902</u>
Total Assets	<u>5,853,587</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Payroll taxes payable	186
Notes payable - current portion	123,488
Total current liabilities	<u>123,674</u>
Noncurrent Liabilities:	
Refundable deposits	57,357
Notes payable - long-term portion	3,288,789
Total noncurrent liabilities	<u>3,346,146</u>
Total Liabilities	<u>3,469,820</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,620,008
Restricted for debt service	216,475
Restricted for other purposes	144,785
Unrestricted	402,499
Total net position	<u><u>2,383,767</u></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, 2014**

	<u>Arkoma Municipal Authority Enterprise Fund</u>
<b>Operating Revenues:</b>	
Charges for services:	
Water	\$341,942
Sewer	247,215
Sanitation	85,946
Penalties	15,705
Water & Sewer Taps	425
Reconnect Fees	4,750
Other	10,907
Total Operating Revenues	<u>706,890</u>
<b>Operating Expenses:</b>	
Administration/general	48,578
Water	253,767
Sewer	114,018
Sanitation	78,313
Depreciation	121,965
Amortization	3,164
Total Operating Expenses	<u>619,805</u>
Net Operating Income (Loss)	87,085
<b>Non-Operating Revenue (Expense):</b>	
Investment income	1,840
Grant income	181,134
Interest expense and fiscal agent fees	(58,437)
Total Non-Operating Revenue (Expense)	<u>124,537</u>
Net Income (Loss) Before Operating Transfers	211,622
Transfers Out	<u>(105,991)</u>
Changes in net position	105,631
Total Net Position-Beginning	<u>2,278,136</u>
Total Net Position-Ending	<u>\$2,383,767</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, 2014**

	<u>Arkoma Municipal Authority Enterprise Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$706,890
Payments to suppliers	(425,250)
Payments to employees	(69,426)
Receipts of customer utility deposits	14,937
Refunds of customer utility deposits	(12,730)
Net Cash Provided by Operating Activities	<u>214,421</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Decrease in payroll taxes payable	(66)
Transfers to other funds	(105,991)
Net Cash Provided (Used) by Operating Activities	<u>(106,057)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(3,450,635)
Principal paid on capital debit	(150,264)
Interest and fiscal agent fees paid on capital debit	(58,437)
Net Cash Used in Capital and Related Financing Activities	<u>(3,659,336)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	1,840
Grant Income	181,134
Note Proceeds	3,213,687
Net Cash Provided by Investing Activities	<u>3,396,661</u>
Net Increase in Cash and Cash Equivalents	(154,311)
Balance- beginning of the year	<u>974,388</u>
Balance- end of the year	<u><u>\$820,077</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$87,085
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	121,965
Amortization expense	3,164
Change in assets and liabilities:	
Refundable deposits	2,207
Net cash provided by operating activities	<u><u>\$214,421</u></u>

See accompanying notes to combined financial statements.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

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

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

**1.A. FINANCIAL REPORTING ENTITY**

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

Primary Government:	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, 2014**

**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, 2014**

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, 2014

#### 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, 2014**

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, 2014**

**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, 2014**

**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, 2014**

**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, 2014**

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, 2014**

**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, 2014. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

- Category 1-- Insured by Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town (or public trust) or by its agent in its name.
- Category 2-- Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- Category 3-- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Town's name; or properly collateralized with no written and approved collateral agreement.

*Custody Credit Risk Category*

Type of Deposits	Balance	Total Bank			
		1	2	3	
Insured deposits	250,000	250,000	-	-	
Uninsured deposits					
Collateralized	982,835	-	982,835	-	
Uncollateralized	-	-	-	-	
<b>Total Deposits</b>	<b>1,232,835</b>	<b>250,000</b>	<b>982,835</b>	<b>-</b>	<b>1,341,901</b>
Petty Cash					400
					<u><b>1,342,301</b></u>

Reconciliation to Government-Wide Statements of Net Position:

	Cash and cash equivalents	1,423,191
Less:	Investments in mutual funds recorded as Cash and cash equivalents	(80,890)
		<u><b>1,342,301</b></u>

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

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, 2014 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, 2014 the carrying value and fair value of the money-market mutual fund investments totaled \$80,890. 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 \$78,769 and the amount of mutual funds held in trustee accounts on behalf of the OWRB promissory note trust accounts in the amount of \$80,890. 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 \$120,585 in the debt reserve account and \$123,373 in the short lived asset reserve account.

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**2.C. CAPITAL ASSETS**

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

	<i>Balance at July 1, 2013</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance at June 30, 2014</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	209,418	11,983	0	221,401
Vehicles	57,678	98,213	0	155,891
Machinery and equipment	891,528	38,281	0	929,809
Infrastructure	539,289	0	0	539,289
Total other capital assets at historical cost	<u>1,697,913</u>	<u>148,477</u>	<u>0</u>	<u>1,846,390</u>
Less accumulated depreciation for:				
Buildings	120,236	6,216	0	126,452
Vehicles	54,598	9,414	0	64,012
Machinery and equipment	553,306	47,276	0	600,582
Infrastructure	366,265	24,831	0	391,096
Total accumulated depreciation	<u>1,094,405</u>	<u>87,737</u>	<u>0</u>	<u>1,182,142</u>
Other capital assets, net	<u>603,508</u>	<u>60,740</u>	<u>0</u>	<u>664,248</u>
Governmental activities capital assets, net	<u>613,508</u>	<u>60,740</u>	<u>0</u>	<u>674,248</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	16,000	0	0	16,000
Construction-in-process	386,166	3,408,394	0	3,794,560
Total capital assets not being depreciated	<u>402,166</u>	<u>3,408,394</u>	<u>0</u>	<u>3,810,560</u>
Other capital assets:				
Buildings	22,370	0	0	22,370
Machinery and equipment	194,275	42,241	0	236,516
Utility property & improvements	3,976,078	0	0	3,976,078
Total other capital assets at historical cost	<u>4,192,723</u>	<u>42,241</u>	<u>0</u>	<u>4,234,964</u>
Less accumulated depreciation for:				
Buildings	5,909	705	0	6,614
Machinery and equipment	135,074	18,741	0	153,815
Utility property & improvements	2,755,828	102,519	0	2,858,347
Total accumulated depreciation	<u>2,896,811</u>	<u>121,965</u>	<u>0</u>	<u>3,018,776</u>
Other capital assets, net	<u>1,295,912</u>	<u>(79,724)</u>	<u>0</u>	<u>1,216,188</u>
Business-type activities capital assets, net	<u>1,698,078</u>	<u>3,328,670</u>	<u>0</u>	<u>5,026,748</u>

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

<b>Primary Government</b>	
Government Activities:	
General Government	4,627
Police	15,326
Fire	32,658
Street & Alley	31,050
Animal Control	93
Library	985
Emergency Management	2,998
Total depreciation expense for governmental activities	<u>87,737</u>
<b>Business-Type Activities:</b>	
Administration	338
Water	27,646
Sewer	93,981
Total depreciation expense for business-type activities	<u>121,965</u>

**TOWN OF ARKOMA, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014**

**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, 2014, 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. \$ 121,971

Total Lease Purchases Outstanding \$ 121,971

Current portion \$ 13,737

Non-current portion 108,234

Total Notes Payable \$ 121,971

BUSINESS-TYPE ACTIVITIES

As of June 30, 2014, 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, 2014**

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 two GMAC loans, issuance cost, and establish debt service reserve fund. \$ 110,000

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. 142,925

Note due to Rural Utilities Service Department of Agriculture in the amount of \$3,241,000. The note was completely funded on April 9, 2014. 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. 3,159,352

Total Notes Payable Outstanding \$ 3,412,277

Current portion \$ 123,488

Non-current portion 3,288,789

Total Notes Payable \$ 3,412,277

Below is a summary of changes in long term debt

The advances of \$3,213,687 for the period ended 6-30-2014 from Rural Utilities Service Department of Agriculture is the remaining funding of the total projected note of \$3,241,000. 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 \$ 57,357

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Type of Debt	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amount Due Within One Year
Government Activities:					
Capital Debt Obligations	135,205		13,234	121,971	13,737
Business-Type Activities:					
Refundable Deposits	55,150	14,937	12,730	57,357	
Notes Payable	348,854	3,213,687	150,264	3,412,277	123,488
Total Business-Type Activities:	<u>539,209</u>	<u>3,228,624</u>	<u>176,228</u>	<u>3,591,605</u>	<u>137,225</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, 2014, are as follows:

Year Ended June 30,	Capital Debt Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2015	13,736.79	4,212.09	123,487.85	72,109.03
2016	14,245.24	3,703.64	124,555.54	69,394.09
2017	14,772.49	3,176.39	71,100.71	67,025.29
2018	15,319.29	2,629.59	72,680.32	65,445.68
2019	15,886.30	2,062.58	74,295.19	63,830.81
2020-2024	48,011.32	2,574.26	382,192.07	293,680.17
2025-2029			348,328.03	254,551.97
2030-2034			387,339.16	215,540.84
2035-2039			430,719.29	172,160.71
2040-2044			478,957.92	123,922.08
2045-2049			532,598.98	70,281.02
2050-2054			386,021.41	14,098.98
Total	<u>121,971.43</u>	<u>18,358.55</u>	<u>3,412,276.47</u>	<u>1,482,040.67</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 OWRB 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, 2014 the Authority's meets the debt service coverage percentage. The Authority's reserve balance for the OWRB debt is \$49,001 and RUS debt is \$120,585 both meeting the promissory note requirements.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

DEBT SERVICE COVERAGE AND RESERVE REQUIREMENT, (Cont.)

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 10% 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 \$120,585. The Authority is required to monthly deposit \$1,255 beginning April 2014 into a short lived asset reserve account until a balance of \$316,853 is reached. The Authority began the year with \$35,112 has added a lump sum of 120,585 and since April 2014 added monthly deposits of 3,765 and interest of \$297 less expenditures for replacement assets of \$36,386 leaving a ending balance of \$123,373 in the short lived asset reserve account as of June 30, 2014.

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

INTERFUND TRANSFERS

Transfers between funds of the primary government for the year ended June 30, 2014, were as follows:

<u>MAJOR FUNDS:</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
<b>GENERAL:</b>		
Fire Fund	\$ 6,000	\$ -
Street Fund	2,996	-
AMA	105,991	-
Total General Fund	114,987	-
<b>STREET FUND:</b>		
General Fund	-	2,996
Total Fire Fund	-	2,996
<b>FIRE FUND:</b>		
General Fund	-	6,000
Total Fire Fund	-	6,000
<b>AMA:</b>		
General Fund	-	105,991
Total AMA	-	105,991
<b>GRAND TOTALS</b>	<b>\$ 114,987</b>	<b>\$ 114,987</b>

## TOWN OF ARKOMA, OKLAHOMA

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

#### INTERFUND BALANCES

At June 30, 2014, the General Fund owed the Street Fund \$589, the Fire Fund \$1,164 and the Arkoma Municipal Authority \$1,225.

#### **NOTE 3. OTHER NOTES**

##### **3. A. GRANTS AND CONTRACTS**

Rural Fire Defense Grant - The Town received a grant of \$4,474 from the Oklahoma Department of Agriculture Forestry Services for a fire calls.

Rural Utilities Service - The Town received a grant of not more than \$261,000 from the United States of America acting thru the Rural Utilities Service, Department of Agricultural for improvement of the wastewater system. The grant will help defray the cost of the total waste water system project estimated at \$3,562,000 and is in conjunction with a loan from Rural Utilities Service of \$3,241,000. As of June 30, 2015 grant funds of \$181,134 have been advanced to Arkoma Municipal Authority and expended on the project.

##### **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, 2013 thru June 30, 2014 the Town of Arkoma Fire Department had a beginning balance of \$27,955.41, the department has been appropriated \$28,823.20 for its benefit and has expended \$9,749.99 leaving a balance of \$47,028.62 for future use. Funds requested must be used in accordance with County purchasing policies and procedures as outlined in the resolution.

##### **3.C. EMPLOYEE PENSION AND OTHER BENEFIT PLANS**

#### FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

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

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

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

**A. Eligibility Factors, Contribution Methods, and Benefit Provisions**

	<b>Oklahoma Firefighter's Pension and <u>Retirement System</u></b>
Obtaining separately issued financial statements	Firefighters Pension & Retirement 4545 N. Lincoln Blvd. Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate	N/A
Town's contribution rate (\$60 per volunteer)	\$60
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	20 years of service
Eligibility and benefits for distribution (full-time)	20 years credited service, 2 ½% of Final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested; at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years
Provisions for: Cost of living adjustments (normal retirement)	Yes, if vested by 5/83

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

FIREFIGHTER’S PENSION AND RETIREMENT SYSTEMS. (Cont.)

Provisions for:	
Death (duty, non-duty, post retirement)	Yes
Disability (duty, non-duty)	Yes
Cost of living allowances	Yes

**Contributions and Trend Information**

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

2012	\$ 960
2013	\$ 960
2014	\$ 960

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

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

**Agent Multiple-Employer, Defined Contribution Plan**

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

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

The Town’s total payroll in the fiscal year 2014 was \$264,995. The Town’s contributions were calculated using the base salary amount of \$216,626. 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 \$6,497. The covered employees required contributions amounted to \$2,166 and additional voluntary contributions above the required 1% totaled \$4,867 for total plan employee/employer contributions of \$13,540.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

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, 2014, the System held no related-party investments of the Town or of its component units.

**3.D. RISK MANAGEMENT**

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

The Town manages these various risks of loss as follows:

<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, 2014, 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.

**TOWN OF ARKOMA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

The compensated absences commitment of \$5,645 at June 30, 2014, can be summarized as follows:

	<u>Town</u>	<u>Street &amp; Alley</u>	<u>AMA</u>	<u>Total</u>
Vacation	\$ 4,404	\$ 290	\$ 951	\$ 5,645

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, 2014.

## **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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	37,761	37,761	37,761	-
Revenues:				
Taxes				
Sales tax	49,300	49,300	43,866	(5,434)
Use tax	10,000	10,000	16,287	6,287
Franchise tax	65,000	65,000	67,324	2,324
Cigarette tax	700	700	513	(187)
Total Taxes	<u>125,000</u>	<u>125,000</u>	<u>127,990</u>	<u>2,990</u>
Intergovernmental:				
Alcoholic beverage tax	14,000	14,000	15,995	1,995
Grants	0	0	0	0
Total Intergovernmental	<u>14,000</u>	<u>14,000</u>	<u>15,995</u>	<u>1,995</u>
Charges for services	<u>100</u>	<u>100</u>	<u>608</u>	<u>508</u>
Fines and forfeitures				
Court Fines	156,000	156,000	123,118	(32,882)
Total Fines and Forfeitures	<u>156,000</u>	<u>156,000</u>	<u>123,118</u>	<u>(32,882)</u>
Licenses and Permits	<u>4,500</u>	<u>4,500</u>	<u>5,634</u>	<u>1,134</u>
Interest Income	<u>500</u>	<u>500</u>	<u>247</u>	<u>(253)</u>
Miscellaneous:				
Oil & Gas Royalties	0	0	152	152
Donations	0	0	1,200	1,200
Misc. Revenue	20,000	120,000	24,504	(95,496)
Total Miscellaneous	<u>20,000</u>	<u>120,000</u>	<u>25,856</u>	<u>(94,144)</u>
Other Financing Sources:				
Transfers from other funds	0	0	114,987	114,987
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>114,987</u>	<u>114,987</u>
Amounts available for appropriation	<u>357,861</u>	<u>457,861</u>	<u>452,196</u>	<u>(5,665)</u>

**TOWN OF ARKOMA, OKLAHOMA**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<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	18,709	(808)
Materials and supplies	500	500	83	417
Other services and charges	6,000	6,000	5,834	166
Capital outlay	0	0	0	0
<b>Total General Government</b>	<u>24,401</u>	<u>24,401</u>	<u>24,626</u>	<u>(225)</u>
Police:				
Personal services	208,703	208,703	216,272	(7,569)
Materials and supplies	20,300	20,300	18,322	1,978
Other services and charges	48,100	49,100	39,801	9,299
Capital outlay	10,000	110,000	110,196	(196)
<b>Total Police</b>	<u>287,103</u>	<u>388,103</u>	<u>384,591</u>	<u>3,512</u>
Animal Control:				
Personal services	4,147	4,147	2,450	1,697
Materials and supplies	1,500	1,500	594	906
Other services and charges	1,250	1,250	1,037	213
<b>Total Animal Control</b>	<u>6,897</u>	<u>6,897</u>	<u>4,081</u>	<u>2,816</u>
Library:				
Materials and supplies	200	200	0	200
Other services and charges	1,100	1,100	986	114
<b>Total Library</b>	<u>1,300</u>	<u>1,300</u>	<u>986</u>	<u>314</u>
Emergency Management:				
Other services and charges	700	700	0	700
<b>Total Emergency Management</b>	<u>700</u>	<u>700</u>	<u>0</u>	<u>700</u>
Other Financing Sources:				
Transfers to other funds	0	0	0	0
<b>Total Other Financing Sources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 <b>Total Charges to Appropriations</b>	 <u>320,401</u>	 <u>421,401</u>	 <u>414,284</u>	 <u>7,117</u>
 <b>Ending Budgetary Fund Balance</b>	 <u><u>37,460</u></u>	 <u><u>36,460</u></u>	 <u><u>37,912</u></u>	 <u><u>1,452</u></u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<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	402,830	402,830	402,830	0
Resources (Inflows):				
Taxes	60,000	60,000	60,665	665
Intergovernmental	14,500	14,500	17,306	2,806
Interest	500	500	855	355
Miscellaneous	10,000	10,000	2,180	(7,820)
Amounts available for appropriation	<u>487,830</u>	<u>487,830</u>	<u>483,836</u>	<u>(3,994)</u>
Charges to appropriations (Outflows):				
Street:				
Personal services	23,664	23,664	22,940	724
Materials and supplies	15,400	15,400	9,736	5,664
Other services and charges	13,800	13,800	14,824	(1,024)
Capital outlay	75,000	75,000	0	75,000
Total Street	<u>127,864</u>	<u>127,864</u>	<u>47,500</u>	<u>80,364</u>
Other Financing Uses:				
Transfers to other funds	0	0	(2,996)	(2,996)
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>(2,996)</u>	<u>(2,996)</u>
Total Charges to Appropriations	127,864	127,864	50,496	83,360
Ending Budgetary Fund Balance	<u>359,966</u>	<u>359,966</u>	<u>433,340</u>	<u>79,366</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	156,676	156,676	156,676	0
Resources (Inflows):				
Taxes	60,000	60,000	60,665	665
Intergovernmental	0	0	4,474	4,474
Charges for services	500	0	0	0
Interest	300	300	312	12
Miscellaneous	5,000	5,500	250	(5,250)
Amounts available for appropriation	<u>222,476</u>	<u>222,476</u>	<u>222,377</u>	<u>(99)</u>
Charges to appropriations (Outflows):				
Fire:				
Personal services	15,909	15,909	5,504	10,405
Materials and supplies	4,500	4,500	3,248	1,252
Other services and charges	16,100	28,100	24,469	3,631
Capital outlay	40,000	40,000	38,281	1,719
Debt service	18,000	18,000	17,949	51
Total Fire	<u>94,509</u>	<u>106,509</u>	<u>89,451</u>	<u>17,058</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	94,509	106,509	95,451	11,058
Ending Budgetary Fund Balance	<u>127,967</u>	<u>115,967</u>	<u>126,926</u>	<u>10,959</u>

## TOWN OF ARKOMA, OKLAHOMA

### NOTES TO BUDGETARY COMPARISON SCHEDULE JUNE 30, 2014

#### 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, 2014**

**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, 2014**

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

## TOWN OF ARKOMA, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<b>USDA Rural Development:</b>			
Loan (93-01):			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 3,241,000	\$ 3,213,687
Grant:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 261,000	\$ 181,134
<b>Total</b>		<u><u>\$ 3,502,000</u></u>	<u><u>\$ 3,394,821</u></u>

## TOWN OF ARKOMA, OKLAHOMA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Town of Arkoma (the "Town").

The Town's reporting entity is defined in Note 1 to the Town's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

**NOTE 2 - BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the Town's basic financial statements.

**NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards revenues are reported in the Town's basic financial statements as follows:

Federal Sources

General	<u>\$ 3,394,821</u>
Total	<u><u>\$ 3,394,821</u></u>

**NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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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, 2014, 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 May 22, 2015.

### 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 and corrected on a timely basis. A significant deficiency is a

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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

May 22, 2015

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees  
Town of Arkoma, Oklahoma

### Report on Compliance for Each Major Federal Program

We have audited the Town of Arkoma, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Arkoma, Oklahoma's major federal programs for the year ended June 30, 2014. The Town of Arkoma, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Arkoma, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Arkoma, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a

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comprehensive basis of accounting other than U.S. generally accepted accounting principles.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of Arkoma, Oklahoma's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Town of Arkoma, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the Town of Arkoma, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Arkoma, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Arkoma, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant

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deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

May 22, 2015

TOWN OF ARKOMA, OKLAHOMA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

*FINANCIAL STATEMENTS*

Type of auditor's report issue: Unmodified

Internal control over financial reporting:  
 Material weaknesses identified? \_yes \_no

Significant deficiencies identified  
 that are not considered to be material  
 weaknesses? \_yes \_none reported

Noncompliance material to financial  
 statements noted? \_yes \_no

*FEDERAL AWARDS*

Internal control over major programs:  
 Material weaknesses identified? \_yes \_no

Significant deficiencies identified  
 that are not considered to be  
 material weaknesses? \_yes \_none reported

Type of auditor's report issued on compliance  
 for major programs: Unmodified

Any audit findings disclosed that are required  
 to be reported in accordance with  
 section 510(a) of Circular A-133? \_yes \_no

Identification of major programs:  
 #10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between  
 type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_yes \_no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TOWN OF ARKOMA, OKLAHOMA  
SUMMARY STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2014

There were no findings for the year ending June 30, 2013.