

**PUBLISHED BY
KOLKER & KOLKER, INC.
FOR**

**TOWN OF INOLA, OKLAHOMA
FINANCIAL STATEMENTS**

JUNE 30, 2014

**LANGLEY & LITTLEFIELD
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
PRYOR, OKLAHOMA**

**TOWN OF INOLA
TABLE OF CONTENTS
FINANCIAL STATEMENTS
JUNE 30, 2014**

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Statement of Net position (Statement 1)	16
Statement of Activities (Statement 2)	17
Balance Sheet, Governmental Funds (Statement 3)	19
Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds (Statement 4)	20
Statement of Net position, Proprietary Fund (Statement 5)	22
Statement of Revenues, Expenses and Changes in Net position, Proprietary Fund (Statement 6)	23
Statement of Cash Flows, Proprietary Fund (Statement 7)	24
Notes to Basic Financial Statements - Index	26
Notes to Basic Financial Statements	27
Budgetary Comparison Schedule, General Fund	47
Other Supplementary Information	49
Combining Balance Sheet - Non-Major Governmental Funds	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds	51
Report on Internal Control over Financial Reporting and on Compliance of Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	52

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
6757 N 431, PRYOR, OK 74361
918-803-4868 OFFICE 918-803-4869 FAX

INDEPENDENT AUDITOR'S REPORT

To the Honorable Chairman and Board of Directors,
Town of Inola
Inola, OK 74036

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Inola, State Oklahoma as of and for the year ended June 30, 2014, which collectively comprise the Town of Inola'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Inola, State of Oklahoma, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 48 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Inola, State of Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Town of Inola, State of Oklahoma's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Inola, State of Oklahoma's internal control over financial reporting and compliance.



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

December 10, 2014

**TOWN OF INOLA, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2014**

The discussion and analysis of the Town of Inola's financial performance provides an overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2014. It should be read in conjunction with the accompanying basic financial statements. This discussion and analysis does not include comparative data for prior years, as this information is not available for the first year of implementation of Governmental Accounting Standards Board (GASB) Statement Number 34. Future years will include, when available, comparative analysis of government-wide data.

This discussion is divided into two parts. The first pertains to the entire Town of Inola overall with very little detail to the Inola Public Works Authority, a component unit of the Town of Inola. The second part pertains to the Inola Public Works Authority, which has the same board members as the Town.

WHO WE ARE

As of June 30, 2014 the mayor, council members, clerk and treasurer, all of whom are elected, consisted of the following:

Mayor	Cheryl Charles
Council Members	James Kilpatrick Larry Grigg Trent Bynum Claudin Plett
Treasurer	Glennie Spurlock
Clerk	Wilma Cargil

The governing board, Clerk and Treasurer for the Inola Public Works Authority are the same as the Town.

FINANCIAL HIGHLIGHTS

- The total assets of the Town for its governmental and business-type activities exceeded its liabilities as of June 30, 2014 by \$4,246,702 as reflected in Statement 1. This excess is summarized as follows:

Invested in capital assets, net of related debt	\$2,863,319
Restricted for various purposes	183,197
Unrestricted	<u>1,200,186</u>
	<u>\$4,246,702</u>

- The Town's Net Position for all funds increased \$49,878 during the current fiscal year, representing a 1.2% increase. This is reflected in Statement 2.
- The Town's General Fund balance as reflected in the "Statement of Revenues, Expenditures, and Changes in Fund Balances" (Statement 4) increased by \$101,644, a 22.1% increase. This is further discussed later in this report.
- All governmental funds of the Town increased \$140,610 during the current fiscal year, which is a 17.9% increase. (Statement 4)
- The Town's governmental capital assets (net of depreciation) increased \$88,854 during the current year, a 19.2% increase. Details on this are in Note 3.D. to the financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the Town's basic financial statements. In accordance with Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Managements' Discussion and Analysis - for State and Local Governments," ("GASB 34"), the Town's basic financial statements include three components: government-wide financial statements; fund financial statements; and notes to the basic financial statements. The major features of these financial statements are summarized as follows:

	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Scope	Entire Town government and the Town's component units	The activities of the Town that are not proprietary, such as police, fire, library, streets, etc.	Activities of the Inola Public Works Authority consisting of water, sewer and trash services
Required financial statements	-Statement of Net Position -Statement of activities	-Balance sheet -Statement of revenues, expenditures, and changes in fund balances	-Statement of Net Position -Statement of revenues, expenses, and changes in Net Position -Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to statements of a private-sector business.

The statement of net position presents information on all the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include public safety activities, streets, cemetery, library and parks activities and general government activities. The business-type activities of the Town include certain utilities.

A component unit is included in the basic financial statements and consists of a legally separate entity for which the Town is financially accountable and that has the same governing board as the Town. This blended component unit is the Inola Public Works Authority.

The government-wide financial statements can be found on Statements 1 and 2 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town, excluding the Inola Public Works Authority, are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures and changes in fund balance provide a reconciliation to the government-wide financial statements in order to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 11 individual governmental funds for financial reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Volunteer Fire Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non major governmental funds is provided in the non major funds supplementary section of this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund in the basic financial statements.

The governmental funds financial statements can be found on Statements 3 and 4 of this report.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements but in more detail. The proprietary fund financial statements provide information for the Inola Public Works Authority. The proprietary fund financial statements can be found at Statements 5, 6, and 7 of this report.

Notes To The Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 27 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town and its component unit, assets exceeded liabilities by \$4,246,702 at the close of the current fiscal year.

As shown on Table 1, the largest portion of the Town's net position, \$2,863,319, reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The Town and its component unit uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Town's net position, \$40,712 represents cash that is reserved to repay the debt on capital assets. \$67,105 is restricted legally for cemetery use and \$75,379 is legally restricted for Street and Alley purposes.

Included in current assets for Governmental Activities is \$874,643 of cash. None of this is reserved for any special purpose.

At the end of the fiscal year ended June 30, 2014, The Town reported positive balances in all three categories of net position, both for the Town as a whole, as well as for its separate governmental and business-type activities.

TABLE 1
SUMMARY OF NET POSITION
JUNE 30, 2014 and 2013

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current assets	\$1,143,848	\$ 807,208	\$ 630,047	\$ 992,687	\$1,773,895	\$1,799,895
Capital assets	552,507	463,563	4,058,574	3,820,018	4,611,081	4,283,581
Restricted assets	<u>--</u>	<u>--</u>	<u>90,820</u>	<u>85,091</u>	<u>90,820</u>	<u>85,091</u>
Total assets	<u>1,696,355</u>	<u>1,270,771</u>	<u>4,779,441</u>	<u>4,897,796</u>	<u>6,475,796</u>	<u>6,168,567</u>
Current and other liabilities	219,487	28,642	316,050	150,983	535,537	179,625
Long-term liabilities	<u>--</u>	<u>--</u>	<u>1,693,557</u>	<u>1,792,208</u>	<u>1,693,557</u>	<u>1,792,208</u>
Total liabilities	<u>219,487</u>	<u>28,642</u>	<u>2,009,607</u>	<u>1,943,191</u>	<u>2,229,094</u>	<u>1,971,833</u>
Net position						
Invested in capital assets, net of related debt	552,507	458	2,310,812	1,971,066	2,863,319	2,429,444
Restricted	142,485	131,728	40,712	9,040	183,197	140,768
Unrestricted	<u>781,876</u>	<u>652,023</u>	<u>418,310</u>	<u>974,499</u>	<u>1,200,186</u>	<u>1,626,522</u>
Total net position	<u>\$1,476,868</u>	<u>\$1,242,129</u>	<u>\$2,769,834</u>	<u>\$2,954,605</u>	<u>\$4,246,702</u>	<u>\$4,196,734</u>

TABLE 2
Changes in Net position
Year Ended June 30, 2014 and 2013

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program revenues						
Charges for services	\$ 75,733	\$ 65,943	\$ 628,731	\$ 622,126	\$ 704,464	\$ 688,069
Operating grants & contributions	33,739	29,710	--	426	33,739	30,136
Capital grants & contributions	96,932	--	--	--	96,932	--
General revenues:						
Sales tax	345,208	288,324	172,604	144,162	517,812	432,486
Other taxes	157,911	354,504	--	--	157,911	354,504
Other general revenues	29,397	8,181	8,239	10,765	37,636	18,946
Transfers - internal activity	<u>228,259</u>	<u>47,851</u>	<u>(228,259)</u>	<u>(47,851)</u>	<u>--</u>	<u>--</u>
Total revenues	<u>967,179</u>	<u>794,513</u>	<u>581,315</u>	<u>729,628</u>	<u>1,548,494</u>	<u>1,524,141</u>
Expenses						
Administrative and accounting	303,439	106,659	--	--	303,439	106,659
Public safety	324,768	340,189	--	--	324,768	340,189
Street	18,574	23,182	--	--	18,574	23,182
Cultural, recreation & library	85,749	65,636	--	--	85,749	65,636
Utilities	<u>--</u>	<u>--</u>	<u>766,086</u>	<u>719,833</u>	<u>766,086</u>	<u>719,833</u>
Total expenses	<u>732,530</u>	<u>535,666</u>	<u>766,086</u>	<u>719,833</u>	<u>1,498,616</u>	<u>1,255,499</u>
Increase in net position	<u>\$ 234,649</u>	<u>\$ 258,847</u>	<u>\$ (184,771)</u>	<u>\$ 9,795</u>	<u>\$ 49,878</u>	<u>\$ 268,642</u>

Governmental Activities. Governmental activities increased the Town's net position by \$234,649 for the current fiscal year, an 18.9% increase in the net position of the Town's Governmental Funds. This growth was due to changes in the fund balances of the various funds as follows:

General Fund	\$ 101,644
Library Savings	(256)
Street and Alley	13,073
Cemetery Fund	(2,316)
Volunteer Fire Fund	30,782
Police Fund	(1,872)
Park	(813)
Library Grant	<u>368</u>
	<u>\$ 140,610</u>

The remainder of the changes are in the reconciliation at the end of Statement 4.

Business-type Activities. Business-type activities, i.e. the Inola Public Works Authority, had an decrease in net position of \$184,771 and is discussed further later in this report.

FINANCIAL ANALYSIS OF THE TOWN'S MAJOR FUNDS

As noted earlier, the Town uses fund accounting to demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financial requirements. In particular unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$561,999, constituting 100% of the fund balance, which was \$101,644 or 22.08% more than the prior year's General Fund balance. Revenues were higher than the previous year.

Street and Alley Fund

The Street and Alley Fund increased its fund balance by \$13,073. This is up \$15,839 from the previous year. Tax revenues increased, while expenses decreased from the prior year.

Inola Public Works Authority

The highlights of the fiscal year ending June 30, 2014 are as follows:

- The Authority's net position decreased by \$184,771 during the year. This is mainly due to excess, one-time transfers to the General Fund.
- Cash decreased \$373,114 for the year (Statement of Cash Flows). Unrestricted cash decreased \$375,714. Cash decreased because of water and sewer line construction to Inola's new grocery store.
- Long-term debt decreased \$101,190 due to normally scheduled debt retirements.

The Authority remains extremely solvent considering current requirements. Current assets are \$630,047 compared to current liabilities of \$316,050. Operating income (before non-operating revenues and expenses) was a loss of \$80,165. Included in the operating results is \$128,282 of depreciation and amortization for the current year, an increase of \$788 from the prior year. As noted in the highlights, unrestricted cash decreased \$375,714 and total cash decreased \$373,114.

GENERAL FUND BUDGETARY

The following Table 3 presents a summary analysis of the General Fund budget and actuals for the current fiscal year.

TABLE 3
SUMMARY ANALYSIS OF GENERAL BUDGET
FISCAL YEAR ENDING JUNE 30, 2014

<u>Category</u>	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budget Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
Revenue				
Sales tax	\$ 260,228	\$ 260,228	\$ 316,129	\$ 55,901
All other taxes	288,642	288,642	128,709	(159,933)
All other revenues	<u>52,921</u>	<u>52,921</u>	<u>273,422</u>	<u>220,501</u>
Total revenues	<u>601,791</u>	<u>601,791</u>	<u>718,260</u>	<u>116,469</u>
Expenditures				
Administrative & accounting	99,734	99,734	128,023	(28,289)
Public safety (1)	306,400	306,400	266,882	39,518
Other	<u>596,094</u>	<u>596,094</u>	<u>244,975</u>	<u>351,119</u>
Total expenditures	<u>1,002,228</u>	<u>1,002,228</u>	<u>639,880</u>	<u>362,348</u>
Total excess (deficiency) of revenues over expenditures	(400,437)	(400,437)	78,380	478,817
Beginning fund balance	<u>400,437</u>	<u>400,437</u>	<u>400,437</u>	<u>--</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 478,817</u>	<u>\$ 478,817</u>

(1) Includes Municipal Court and Police

The basis of accounting for budgetary purposes for the General Fund is the cash basis, i. e., revenues are recognized when received and expenses are recognized when paid.

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the beginning of the fiscal year plus 90% of its revenues for the year just ended.

The budgetary fund balance is reconciled to the balance sheet fund balance in the Required Supplementary Information.

Generally, the Town attempts to prepare a budget that will result in a small positive increased in the fund balance. Generally, this is accomplished by only budgeting 90% of the prior year revenues and budgeting amounts, primarily in General Government, that will not be expended.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of June 30, 2014 amounted to \$4,611,081 (net of accumulated depreciation) This investment, detailed in Table 4, in a broad range of capital assets includes land, structures and improvements and equipment.

TABLE 4
CAPITAL ASSETS (NET OF DEPRECIATION)
June 30, 2014 and 2013

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Infrastructure	\$ 88,536	\$ --	\$ --	\$ --	\$ 88,536	\$ --
Land	58,013	58,013	104,193	104,193	162,206	162,206
Buildings	75,696	79,196	--	--	75,696	79,196
Machinery and equipment	330,262	326,444	11,398	15,970	341,660	342,414
Utility property	<u>--</u>	<u>--</u>	<u>3,942,983</u>	<u>3,699,855</u>	<u>3,942,983</u>	<u>3,699,855</u>
Capital assets, net	<u>\$ 552,507</u>	<u>\$ 463,653</u>	<u>\$4,058,574</u>	<u>\$3,820,018</u>	<u>\$4,611,081</u>	<u>\$4,283,671</u>

Some of the Town's and Authority's major capital assets events in the current fiscal year were:

- Depreciation for governmental assets was \$57,622 for the current year.
- Depreciation for business assets was \$128,282.
- Street and Alley infrastructure built at a cost of \$90,132
- Utility systems built to new grocery store at a cost of \$368,106

Debt Administration

The Town's long term debt decreased from \$5,185 at the beginning of the year to \$ -0- at year end. This was the result of scheduled debt retirement of \$5,185.

The Authority's long-term debt decreased \$101,190 during the year.

Details concerning long-term debt notes are in Note 3.F to the financial statements.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET

The Town's major governmental revenue, sales tax, increased somewhat from the prior year reversing a recent trend. This local economic trend generally mirrored the similar economic effects experienced at the national and state levels. As a result of the increased fund balance in most of the funds, the Town is more confident of the future.

Also see Note 3.J for significant events after the end of the year.

The long-term economic forecast for the Town is quite good.

The Authority, like any other utility, will ultimately have to replace its utility systems. The Authority is not funding its depreciation to provide future replacement funds. Although a one cent sales tax is allocated the Authority, it is being used to retire debt and operate the Authority.

The Board is fully aware that the issue of replacing the current water and sewer systems needs to be addressed at some point in the future.

Other than a probable increase in the acquisition of capitalized assets, no major changes are expected in either income or expenses for the next year.

CONTACTING THE TOWN'S FINANCE DEPARTMENT

This managements' discussion and analysis is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions or need additional financial information, please contact the Town of Inola at (918) 543-7631.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2014**

Statement 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 874,643	\$ 511,780	\$1,386,423
Taxes receivable	86,074	37,465	123,539
Accounts receivable (net)	--	71,402	71,402
Receivable from other funds	183,131	--	183,131
Due from restricted assets	<u>--</u>	<u>9,400</u>	<u>9,400</u>
Total current assets	<u>1,143,848</u>	<u>630,047</u>	<u>1,773,895</u>
Noncurrent assets:			
Restricted assets:			
Cash, including time deposits	--	100,220	100,220
Due (to) general obligations	--	(9,400)	(9,400)
Capital assets (net)	<u>552,507</u>	<u>4,058,574</u>	<u>4,611,081</u>
Total noncurrent assets	<u>552,507</u>	<u>4,149,394</u>	<u>4,701,901</u>
Total assets	<u>1,696,355</u>	<u>4,779,441</u>	<u>6,475,796</u>
LIABILITIES			
Current liabilities			
Accounts payable	214,419	28,202	242,621
Accrued wages and taxes	5,068	404	5,472
Current portion of long-term debt	--	104,313	104,313
Due to other funds	<u>--</u>	<u>183,131</u>	<u>183,131</u>
Total current liabilities	<u>219,487</u>	<u>316,050</u>	<u>535,537</u>
Noncurrent liabilities:			
Notes payable, less current portion	--	1,643,449	1,643,449
Utility deposits	<u>--</u>	<u>50,108</u>	<u>50,108</u>
Total noncurrent liabilities	<u>--</u>	<u>1,693,557</u>	<u>1,693,557</u>
Total liabilities	<u>219,487</u>	<u>2,009,607</u>	<u>2,229,094</u>
NET POSITION			
Invested in capital assets, net of related debt	552,507	2,310,812	2,863,319
Restricted for:			
CDBG Grant	1	--	1
Cemetery	67,105	--	67,105
Street & Alley	75,379	--	75,379
Debt service	--	40,712	40,712
Unrestricted	<u>781,876</u>	<u>418,310</u>	<u>1,200,186</u>
Total net position	<u>\$ 1,476,868</u>	<u>\$ 2,769,834</u>	<u>\$ 4,246,702</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Statement 2

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government					
Administrative and Accounting Council	\$ 297,479	\$ 7,809	\$ --	\$ --	\$(289,670)
	<u>5,960</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(5,960)</u>
Total general government	<u>303,439</u>	<u>7,809</u>	<u>--</u>	<u>--</u>	<u>(295,630)</u>
Public safety and judiciary					
Town Attorney and Court	2,257	--	--	--	(2,257)
Police	242,637	20,089	2,408	--	(220,140)
Fire	79,075	25,024	24,866	--	(29,185)
Emergency management	<u>799</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(799)</u>
Total public safety and judiciary	<u>324,768</u>	<u>45,113</u>	<u>27,274</u>	<u>--</u>	<u>(252,381)</u>
Transportation					
Street	<u>18,574</u>	<u>--</u>	<u>--</u>	<u>96,932</u>	<u>78,358</u>
Total transportation	<u>18,574</u>	<u>--</u>	<u>--</u>	<u>96,932</u>	<u>78,358</u>
Cultural, parks and recreation					
Cemetery	10,528	20,478	--	--	9,950
Parks	17,354	--	--	--	(17,354)
Library	<u>57,867</u>	<u>2,333</u>	<u>6,465</u>	<u>--</u>	<u>(49,069)</u>
Total cultural, parks and recreation	<u>85,749</u>	<u>22,811</u>	<u>6,465</u>	<u>--</u>	<u>(56,473)</u>
Total governmental activities	<u>732,530</u>	<u>75,733</u>	<u>33,739</u>	<u>96,932</u>	<u>(526,126)</u>
Business-type activities:					
Water and sewer	723,094	573,718	--	--	(149,376)
Trash	<u>42,992</u>	<u>55,013</u>	<u>--</u>	<u>--</u>	<u>12,021</u>
Total business-type activities	<u>766,086</u>	<u>628,731</u>	<u>--</u>	<u>--</u>	<u>(137,355)</u>
Total	<u>\$ 1,498,616</u>	<u>\$ 704,464</u>	<u>\$ 33,739</u>	<u>\$ 96,932</u>	<u>\$(663,481)</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense) /revenue	\$(526,126)	\$(137,355)	\$(663,481)
General Revenues			
Taxes:			
Sales tax	345,208	172,604	517,812
Use tax	81,870	--	81,870
Alcohol beverage tax	10,622	--	10,622
Cigarette tax	5,896	--	5,896
Gasoline tax	5,175	--	5,175
Motor vehicle tax	13,819	--	13,819
Franchise taxes	40,529	--	40,529
Investment income	3,666	3,272	6,938
Miscellaneous	25,731	4,967	30,698
Transfers - internal activity	<u>228,259</u>	<u>(228,259)</u>	<u>--</u>
Total general revenues	<u>760,775</u>	<u>(47,416)</u>	<u>713,359</u>
Change in net position	234,649	(184,771)	49,878
Net position - beginning	<u>1,242,219</u>	<u>2,954,605</u>	<u>4,196,824</u>
Net position - ending	<u>\$ 1,476,868</u>	<u>\$ 2,769,834</u>	<u>\$ 4,246,702</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash, including time deposits	\$ 496,638	\$ 74,200	\$ 303,805	\$ 874,643
Taxes receivable	83,181	2,893	--	86,074
Due from other fund	<u>193,813</u>	<u>--</u>	<u>--</u>	<u>193,813</u>
Total assets	<u>\$ 773,632</u>	<u>\$ 77,093</u>	<u>\$ 303,805</u>	<u>\$1,154,530</u>
Liabilities				
Accounts payable	\$ 206,565	\$ 1,714	\$ 6,140	\$ 214,419
Accrued expenses	5,068	--	--	5,068
Due other funds	<u>--</u>	<u>--</u>	<u>10,682</u>	<u>10,682</u>
	<u>211,633</u>	<u>1,714</u>	<u>16,822</u>	<u>230,169</u>
Fund Balances				
Unassigned	561,999	--	--	561,999
Assigned	--	--	219,877	219,877
Restricted	<u>--</u>	<u>75,379</u>	<u>67,106</u>	<u>142,485</u>
Total fund balance	<u>561,999</u>	<u>75,379</u>	<u>286,983</u>	924,361
Total liabilities and fund balances	<u>\$ 773,632</u>	<u>\$ 77,093</u>	<u>\$ 303,805</u>	

Amounts reported for governmental activities in the Statement of Net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$822,200.

552,507

Other assets not reported in the balance sheet as they are not considered "measurable and available" to pay current period expenditures

Net position of governmental activities

\$ 1,476,868

The notes to the financial statements are an integral part of this statement.

TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Sales tax	\$ 345,208	\$ --	\$ --	\$ 345,208
Other taxes	98,389	18,993	--	117,382
Fines and forfeits	20,089	--	--	20,089
Fire run/contracts	--	--	23,475	23,475
Licenses and permits	7,809	--	--	7,809
Franchise taxes	40,529	--	--	40,529
Interest	2,070	355	1,241	3,666
Library	2,333	--	--	2,333
Miscellaneous	25,730	--	22,028	47,758
Grants and contributions	<u>--</u>	<u>96,932</u>	<u>33,739</u>	<u>130,671</u>
Total revenues	<u>542,157</u>	<u>116,280</u>	<u>80,483</u>	<u>738,920</u>
Expenditures				
Current				
General government				
Administrative and accounting	293,177	--	--	293,177
Council	<u>5,960</u>	<u>--</u>	<u>--</u>	<u>5,960</u>
Total general government	<u>299,137</u>	<u>--</u>	<u>--</u>	<u>299,137</u>
Parks and recreation				
Library	49,676	--	6,360	56,036
Parks	<u>--</u>	<u>--</u>	<u>17,354</u>	<u>17,354</u>
Total parks and recreation	<u>49,676</u>	<u>--</u>	<u>23,714</u>	<u>73,390</u>
Public safety and judiciary:				
Town attorney and court	2,257	--	--	2,257
Police	228,138	--	2,603	230,741
Emergency management	799	--	--	799
Fire	<u>--</u>	<u>--</u>	<u>46,014</u>	<u>46,014</u>
Total public safety and judiciary	<u>231,194</u>	<u>--</u>	<u>48,617</u>	<u>279,811</u>
Transportation				
Street	<u>--</u>	<u>13,075</u>	<u>--</u>	<u>13,075</u>
Cemetery	<u>--</u>	<u>--</u>	<u>9,194</u>	<u>9,194</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Debt service				
Principal	\$ 5,185	\$ --	\$ --	\$ 5,185
Interest and other charges	<u>301</u>	<u>--</u>	<u>--</u>	<u>301</u>
Total	<u>5,486</u>	<u>--</u>	<u>--</u>	<u>5,486</u>
Capital outlay	<u>40,654</u>	<u>90,132</u>	<u>15,690</u>	<u>146,476</u>
Total expenditures	<u>626,147</u>	<u>103,207</u>	<u>97,215</u>	<u>826,569</u>
Excess (deficiency) of revenues over expenditures	<u>(83,990)</u>	<u>13,073</u>	<u>(16,732)</u>	<u>(87,649)</u>
Other financing sources (uses)				
Transfers in	200,634	--	42,625	243,259
Transfers out	<u>(15,000)</u>	<u>--</u>	<u>--</u>	<u>(15,000)</u>
Total other financing sources (uses)	<u>185,634</u>	<u>--</u>	<u>42,625</u>	<u>228,259</u>
Net change in fund balances	101,644	13,073	25,893	140,610
Fund balances - beginning	<u>460,355</u>	<u>62,306</u>	<u>261,090</u>	<u>783,751</u>
Fund balances - ending	<u>\$ 561,999</u>	<u>\$ 75,379</u>	<u>\$ 286,983</u>	<u>\$ 924,361</u>

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities

Net change in fund balances - total governmental funds \$ 140,610

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 of the life of the assets:

Capital asset purchase capitalized	146,476
Depreciation expenses	<u>(57,622)</u>
	<u>88,854</u>

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net position:

Lease with purchase contracts	<u>5,185</u>
-------------------------------	--------------

Change in net position of governmental activities	<u>\$ 234,649</u>
---	-------------------

The notes to the financial statements are an integral part of this statement.

TOWN OF INOLA, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
JUNE 30, 2014

ASSETS		
Current assets		
Cash and cash equivalents	\$ 511,780	
Accounts receivable	71,402	
Due from restricted assets	9,400	
Taxes receivable	<u>37,465</u>	
Total current assets		<u>630,047</u>
Noncurrent assets:		
Restricted assets		
Cash and cash equivalents	100,220	
Due to general operations	(9,400)	
Capital assets (net of depreciation)	<u>4,058,574</u>	
Total noncurrent assets		<u>4,149,394</u>
Total assets		<u>4,779,441</u>
LIABILITIES		
Current liabilities		
Accounts payable	28,202	
Accrued expenses	404	
Due other funds	183,131	
Current portion of long-term debt	<u>104,313</u>	
Total current liabilities		<u>316,050</u>
Noncurrent liabilities		
Payable from restricted assets		
Utility deposits	50,108	
Long-term debt		
Notes payable, less current portion	<u>1,643,449</u>	
Total noncurrent liabilities		<u>1,693,557</u>
Total liabilities		<u>2,009,607</u>
NET POSITION		
Investment in capital assets, net of related debt	2,310,812	
Restricted for debt retirement	40,712	
Retained earnings - unreserved	<u>418,310</u>	
Total net position		<u>\$2,769,834</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2014**

Operating revenues	
Utility charges	\$ 628,731
Miscellaneous	<u>4,967</u>
Total operating revenues	<u>633,698</u>
Operating expenses	
Purchase of water	181,703
Purchase of trash services	42,992
Office and general expense	61,633
Salaries and benefits	146,768
Plant and distribution expenses	145,482
Bad debts	7,003
Depreciation	<u>128,282</u>
Total operating expense	<u>713,863</u>
Net operating income (loss)	<u>(80,165)</u>
Nonoperating revenue (expenses)	
Interest expense	(52,223)
Sales tax revenue	172,604
Investment income	<u>3,272</u>
Total nonoperating revenue (expenses)	<u>123,653</u>
Net income before operating transfers	43,488
Operating transfers out	<u>(228,259)</u>
Net income (loss)	<u>(184,771)</u>
Net position - beginning of year	<u>2,954,605</u>
Net position - end of year	<u>\$2,769,834</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities:	
Receipts from customers	\$ 625,032
Payments to suppliers	(264,502)
Payments to employees and benefits	(152,133)
Receipts over refunds of customer meter deposits	<u>5,663</u>
Net cash provided (used) by operating activities	<u>214,060</u>
Cash flows from noncapital financing activities:	
Sales tax	158,064
Operating transfers to/from other funds (net)	<u>(228,259)</u>
Net cash provided by noncapital financing activity	<u>(70,195)</u>
Cash flows from capital and related financing activities:	
Payments on long-term debt	(101,190)
Interest paid	(52,223)
Purchase of capital assets, net	<u>(366,838)</u>
Net cash provided (used) by capital and related financing activities	<u>(520,251)</u>
Cash flows from investing activities	
Interest	<u>3,272</u>
Net cash provided (used) by investing activities	<u>3,272</u>
Net increase (decrease) in cash and cash equivalents	(373,114)
Balances - beginning of the year	<u>985,114</u>
Balances - end of the year	<u>\$ 612,000</u>
Cash, including time deposits	511,780
Restricted cash, including time deposits	<u>100,220</u>
Total cash and cash equivalents, end of year	<u>\$ 612,000</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of operating income (loss) to net
cash provided (used) by operating activities

Operating income (loss)	\$(80,165)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows in other categories:	
Depreciation and amortization expense	128,282
Change in assets and liabilities:	
Increase in receivables	(1,663)
(Decrease) in accounts payable	(6,725)
Increase in customer meter deposits payable	5,663
(Decrease) in accrued expenses	(5,365)
(Decrease) in due to other funds	<u>174,033</u>
	<u>\$ 214,060</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF INOLA, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
TABLE OF CONTENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants
- E. Fund Equity Restrictions

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Accounts Payable
- F. Long-term Debt
- G. Employment Retirement System
- H. Due to/from Operating and Capital Transfers
- I. Net position
- J. Risk Management

TOWN OF INOLA, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Inola operates under an elected Town Board of Trustees form of government. The Town's major operations include public safety (police and fire), provision and maintenance of streets and drainage, library and general administrative services. In addition, the Town exercises sufficient control over another governmental agency that provides water and sewer services that is included as part of the Town's reporting entity.

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The Town is required to implement the new financial reporting requirements of GASB Statement Nos. 33 and 34 for the year ended June 30, 2004. As a result, an entirely new financial presentation format has been implemented.

1.A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity comprises the following:

Primary Government:	Town of Inola
Blended Component Units:	Inola Public Works Authority

In determining the financial reporting entity, The Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the Town appointed a voting majority of the units' board; the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose 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's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

Blended Component Unit

Component Unit	Brief Description/Inclusion Criteria	Reporting
Inola Public Works Authority	The Authority, which has the same Board Members as the Town, provides water, sewer and trash services to citizens of the Town. The Authority is dependent on the Town, as a major source of revenues is sales tax. The Town is the beneficiary of the Authority.	Proprietary

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. 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 for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental category. The Inola Public Works Authority is the only proprietary type

activity of the reporting entity and is considered a major fund. 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 accounting for in other funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally or council restricted to expenditures for certain purposes.

Capital Project Funds

The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the Town other than debt service payments made by other funds. The Town has no debt service funds.

Proprietary Fund

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 Inola Public Works Authority is the only enterprise fund.

Major and Non major Funds

The funds are further classified as major or non major as follows:

Fund	Brief Description
Major:	
General	See above for description
Volunteer Fire Fund	Accounts for revenues raised by the volunteer firefighters and the expending of such funds.
Proprietary Fund: Inola Public Works Authority	Accounts for activities of providing water, sewer, and trash services to the public.
Non major:	
Special Revenue Funds:	
Street and Alley	Provides funds for the construction, repair and maintenance of streets and alleys. Funded primarily by motor vehicle and gas excise taxes.
CDBG Grant Fund	Accounts for grant funds used for street and utility projects
Cemetery Fund	Accounts for revenues and expenditures of maintaining the two town cemeteries
Library Savings Fund	Accounts for revenues raised by the Town Library and the expending of such funds
Library Grant	Accounts for grants received by the Town library and the expending of such funds
Park Fund	Provides for the maintenance and upkeep of Town parks. Funded solely by transfers from other funds
Police Fund	Accounts for donations and grants to the police department

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

On the government-wide Statement of Net position and the Statement of Activities, both governmental and businesslike activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus 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) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The effect of this change is as follows:

1. Government-wide Statement of Net position and Statement of Activities
 - a. Proprietary Fund - Inola Public Works Authority - In the current year, sales tax received in July and August, 2014 (representing sales tax collection in May and June, 2014) has been reflected.

- b. Governmental Funds - Two months of sales tax revenues are being reflected as discussed under proprietary fund. Fixed assets are reported net of depreciation and depreciation expense is reflected in the statement of activities. Debt related to the acquisition of fixed assets is also now reflected on the statement of activities. Franchise taxes are being reported on the accrual basis. Expenditures are now recognized when a liability is incurred.

Infrastructure is being reported on a prospective basis and, accordingly, only reflects additions in the current year, of which there were none.

2. Fund Financial Statements- Two months of tax revenues and franchise taxes, representing receivables at year end, are reflected as income and expenses are recognized when incurred.
3. Budget Basis of Accounting - No Change

In the government-wide Statement of Net position and Statement of Activities, both governmental and businesslike activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Specifically taxes received in July and August after the year end are accrued when such taxes pertain to the period being reported.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, asset acquisitions and repayment of debt are expensed and depreciation is not reflected.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Budget Basis of Accounting

Formal budgetary accounting is employed as a management control for the governmental funds of the Town. Annual operating budgets are adopted only for the general fund. The basis of accounting for budgetary purposes for all funds is the cash basis, i.e., revenues are recognized when received and expenditures are recognized when paid. The Inola Public Works Authority also adopts a budget and revenues are recognized when earned and billed and expenditures are recognized when incurred.

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the end of the fiscal year plus 90% of its

revenues for the year just ended. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposit of the Town. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit.

Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

The Inola Public Works Authority is the only fund that has receivables that are essentially subject to bad debts. An allowance for uncollectible accounts has been established, as is more fully explained in Note 3.C. Such receivables consist of utility charges to customers.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

The capitalization policy of the Town is to capitalize assets which are expected to last past the end of the current year with a cost of \$500 or more. The policy of the Authority was to capitalize all such assets, regardless of cost, until June 30, 2002. Beginning July 1, 2002, the policy is to capitalize those assets with a cost of \$500 or more.

Government-wide statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

As of June 30, 2014, the governmental funds' infrastructure assets have not been capitalized, which, in accordance with GASB 34, is not required.

Depreciation of all exhaustible fixed assets 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. The range of estimated useful lives by type of asset is as follows:

	<u>Government</u>	<u>Proprietary</u>
Buildings	20 - 40 years	10 - 40 years
Machinery and Equipment	5 - 25 years	5 - 10 years
Utility System	--	5 - 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to charter and third party required reserves and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consist primarily of notes and leases payable, and customer meter deposits.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The restricted net position are funds set aside for the payment of long-term debt as required by bond indentures, funds held for utility deposits, and funds restricted for capital improvements. All are reflected in the Inola Public Works Authority.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

A 3 cent sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. Two cents of the sales tax is allocated to the general fund and one cent to the Inola Public Works Authority. The one cent to the Authority is for the construction of water and sewer treatment and distribution systems, operations and maintenance of said system, and/or the retirement of current debt related to such improvements.

Use Tax

The Town levies a 3 cent use tax on personal property purchased outside the city limits but stored, used, or consumed within the city. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities:

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Operating/non-operating Revenues - Proprietary Funds

Operating revenues for the Authority consist only of revenues derived from the providing of utility and services to its customers. Nonoperating revenues consist of all other revenues and consist of sales tax revenues and interest earned.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town of Inola's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the Town include the following:

Fund	Required By
Street and Alley	State Law
Cemetery Fund	State Law
Public Works Authority	Trust Indenture

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U. S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A. Section 1823 (e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee.

2.C. REVENUE RESTRICTIONS

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Sales Tax	See Note 1.E.
Gasoline Excise & Commercial Vehicle Tax	Street and Alley Purposes
Water, Sewer, and Trash Revenue	Debt Service & Utility Operations

For the year ended June 30, 2014, the Town complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Article 10, Sections 26 and 27, for the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for nonutility or nonstreet purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2014, the Town complied with this provision.

Other Long-term Debt

Except as noted in the preceding paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. For the year ended June 30, 2014, the Town incurred no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Title 11, Section 17-211, of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town of Inola complied with this statute in all material respects for the year ended June 30, 2014.

NOTE 3. DETAIL NOTES ON TRANSACTION 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.

3.A. CASH AND INVESTMENTS

Deposits

The Town's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2014. The categories of credit risk are defined as follows:

Category 1 - Insured by 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 or Authority's name; or collateralized with no written or approved collateral agreement.

Type of Deposits	Total Bank Balance	Category 1	Credit Risk 2	Category 3	Total Carrying Value
PWA	\$ 613,576	\$250,000	\$ 363,576	\$ --	\$ 612,000
Town	<u>887,812</u>	<u>250,000</u>	<u>637,812</u>	<u>--</u>	<u>874,643</u>
Total deposits	<u>\$ 1,501,388</u>	<u>\$500,000</u>	<u>\$1,001,388</u>	<u>\$ --</u>	<u>\$1,486,643</u>
Reconciliation to Government-wide Statement of Net position:					
Unrestricted cash, including time deposits					\$1,386,423
Restricted cash, including time deposits					<u>100,220</u>
					<u>\$1,486,643</u>

3.B. RESTRICTED NET POSITION

The following is a summary of the restricted assets, which consist of cash and money market funds and related liabilities at June 30, 2014:

Amounts reserved from retained earnings:

OWRB Loan Sinking Fund	27,290
U.S. Department of Agriculture	<u>\$ 13,422</u>
Total reserved from retained earnings	<u>40,712</u>
Amounts due for utility deposits:	
Cash in bank	59,508
Less: Due general operations	<u>(9,400)</u>
	<u>50,108</u>
Total restricted assets	<u>\$ 90,820</u>

The debt reserve for the Oklahoma Water Resources Board is fully funded.

The reserve for utility deposits represents deposits for utilities by customers and is not refunded until the customer no longer is receiving utilities from the Authority. As of June 30, 2014 this fund had an excess of \$9,400 over the utility deposits outstanding. This is the result of interest earned and depositing revenues to this fund in error

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable and are reported at their gross value. All accounts have utility deposits with the Authority which can be applied to any unpaid balances. Management feels that such deposits will cover most accounts that might become uncollectible.

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental activities:				
Infrastructure	\$ --	\$ 90,132	\$ --	\$ 90,132
Land	58,013	--	--	58,013
Buildings	200,000	--	--	200,000
Machinery and equipment	<u>970,218</u>	<u>56,344</u>	<u>--</u>	<u>1,026,562</u>
Totals at historical cost	<u>1,228,231</u>	<u>146,476</u>	<u>--</u>	<u>1,374,707</u>
Less accumulated depreciation				
Infrastructure	--	(1,596)	--	(1,596)
Buildings	(120,804)	(3,500)	--	(124,304)
Machinery and equipment	<u>(643,774)</u>	<u>(52,526)</u>	<u>--</u>	<u>(696,300)</u>
Total accumulated depreciation	<u>(764,578)</u>	<u>(57,622)</u>	<u>--</u>	<u>(822,200)</u>
Governmental activities capital assets, net	<u>\$ 463,653</u>	<u>\$ 88,854</u>	<u>\$ --</u>	<u>\$ 552,507</u>
Business-type activities:				
Land	104,193	--	--	104,193
Machinery and equipment	168,140	--	(7,310)	160,830
Utility property	<u>5,764,611</u>	<u>368,106</u>	<u>--</u>	<u>6,132,717</u>
Totals at historical cost	<u>6,036,944</u>	<u>368,106</u>	<u>(7,310)</u>	<u>6,397,740</u>
Less accumulated depreciation:				
Machinery and equipment	(152,170)	(3,304)	6,042	(149,432)
Utility property	<u>(2,064,756)</u>	<u>(124,978)</u>	<u>--</u>	<u>(2,189,734)</u>
Total accumulated depreciation	<u>(2,216,926)</u>	<u>(128,282)</u>	<u>6,042</u>	<u>(2,339,166)</u>
Business-type capital assets, net	<u>\$ 3,820,018</u>	<u>\$ 239,824</u>	<u>\$ (1,268)</u>	<u>\$ 4,058,574</u>

*Depreciation expense was charged to governmental activities as follows:

General government:	
Administrative and accounting	\$ 4,302
Total general government	<u>4,302</u>
Public safety and judiciary:	
Police	11,595
Fire	<u>33,061</u>
Total public safety and judiciary	<u>44,656</u>
Streets	<u>5,499</u>
Cultural, parks and recreation:	
Library	1,831
Cemetery	<u>1,234</u>
Total cultural, parks and recreation	<u>3,165</u>
Total depreciation expense	<u>\$ 57,622</u>

The capitalization of infrastructure is reported on a prospective basis beginning with the current year. No such additions were made in the current year.

3.E. ACCOUNTS PAYABLE

Payables in all funds are composed of payables to vendors only. Accrued expenses consist mainly of accrued payroll and benefits and additionally for the Inola Public Works Authority, accrued interest.

3.F. LONG-TERM DEBT

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

Governmental Activities

The following is a summary of the Town's (excluding Proprietary Funds) long-term debt transactions for the year ended June 30, 2014:

Debt outstanding, July 1, 2013	\$ 5,185
Retirements	<u>(5,185)</u>
Debt outstanding, June 30, 2014	<u>\$ 00</u>

Business-Type Activities

The following is a summary of the Inola Public Works Authority's long-term debt transactions for the year ended June 30, 2014.

Debt outstanding July 1, 2013	\$ 1,848,952
Retirements	<u>(101,190)</u>
Debt outstanding June 30, 2014	<u>\$ 1,747,762</u>

The following is a summary of the Authority's long-term debt for the year ended June 30, 2014:

	<u>Total</u>	<u>Due Within One Year</u>
Advances on a note in the amount of \$2,000,000, dated June 2, 2013. Payments will begin after construction of a waste water treatment facility is completed. Stated interest rate is 2.18%	\$1,511,782	\$ 68,524
A note in the amount of \$625,000 dated April 29, 1997. Interest and administrative fees totaling 3.683% per annum is to be paid semiannually beginning September 15, 1997. Payments of principal, which will commence no later than September 15, 1997, are due semiannually in an amount sufficient to amortize the loan over 20 years	<u>235,980</u>	<u>35,789</u>
	1,747,762	<u>\$104,313</u>
Less current portion	<u>104,313</u>	
	<u>\$1,643,449</u>	

Long-term debt maturities, including interest, until retired are as follows:

	<u>Principal</u> *	<u>Interest</u> *
Year ended June 30, 2015	104,313	49,107
Year ended June 30, 2016	107,413	46,007
Year ended June 30, 2017	110,859	42,561
Year ended June 30, 2018	114,290	39,128
Year ended June 30, 2019	117,829	35,590
Five year period ending June 30, 2024	457,052	132,943
Five year period ending June 30, 2029	473,936	71,796
Four year period ending June 30, 2032	262,070	10,796

3.G EMPLOYEE RETIREMENT SYSTEM

Oklahoma Firefighters' Pension and Retirement System

Plan Description

All volunteer firemen of the Town of Inola, Oklahoma are covered by the Oklahoma Firefighters' Pension and Retirement System, which is a cost-sharing multiple-employer PERS.

All volunteer firemen, except those under 18 years of age or an employee who was hired after reaching age 45 unless he or she has prior service and will have completed twenty years of service by age 65, are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after accumulating 20 years of service with the Town or another entity covered by the State PERS. Benefits vest after 10 years of service. Employees who retire with 20 or more years of service are entitled to pension payments beginning at age 50 equal to \$5.33 per month times their number of years of service up to a maximum of 30 years.

Pension provisions include deferred allowances whereby a volunteer firefighter may terminate with the Town after accumulating 10 years of service but not before reaching the age of 50. The volunteer firefighter is entitled to all pension benefits upon reaching the age of 50 or by the time he or she would have completed 20 years of service, whichever is later.

Pension provisions include death and disability benefits, whereby the disabled volunteer firefighter or surviving spouse is entitled to receive the same as a normal retirement with 20 years of service.

Both the Town's current-year covered payroll and its total current-year payroll for all employees amount to \$.00, as contributions and benefits for volunteer firemen are not based on payroll.

Contributions Required and Made

Volunteer firefighters of the Town do not make contributions to the pension plan. The Town makes annual contributions of \$60 to the pension plan for each active volunteer firefighter, which amounted to \$1,200 for the year ended June 30, 2014.

The Town made all required contributions to the plan for the year, and no contributions are required from the firefighters. Total contributions are allocated between the municipality and the state. The contribution amounts for municipalities are set by state statutes. Therefore, the remainder of required contributions must be made by the state.

Funding Status and Progress

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB-5 that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits which will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among other PERS and among other employers.

Total unfunded pension benefit obligation of the State PERS as of July 1, 2013 was as follows:

Total pension benefit obligations (actuarial accrued liability)	\$2,886,400,000
Net assets available for pension benefits, at actuarial value	<u>1,759,100,000</u>
Unfunded actuarial benefit obligation	<u>\$1,127,300,000</u>

The measurement of the total pension benefit obligation is based on actuarial valuation as of June 30, 2013. Net assets available to pay pension benefits were valued as of the same date.

The Town's 2014 required contribution to the State PERS represents approximately .01% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

Ten-year historical trend information is presented in the State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

3.H. DUE TO/FROM OPERATING TRANSFERS

As of June 30, 2014, interfund receivables and payables which resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$193,813	\$ --
Library Savings	--	198
Library Grant	--	246
Cemetery	--	8,066
CDBG	--	2,172
Inola Public Works Authority	<u>--</u>	<u>183,131</u>
	<u>\$193,813</u>	<u>\$193,813</u>

- a. Due to/Due from - Monthly, the Town of Inola pays vendors and employees that are suppliers and employees of both the Authority and the Town, and then bills the Authority and other appropriate funds.
- b. Operating Transfers - The Authority, in its operating budget, approved the transfer of funds to the Town for the benefit of its fire department and General Fund. Such transfers were \$26,125 to the Fire Department, \$21,134 to the General Fund and \$1,500 to the Park Fund. The General Fund transferred \$15,000 to the Park Fund for a study regarding future park plans. A one time transfer from the Authority to the General Fund of \$179,500 was accrued to cover a settlement of a suit brought against the Town.

3.I. NET FUND BALANCE

The net position at June 30, 2014 consist of:

	<u>Unassigned</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Total</u>
General Fund	\$561,999	\$ --	--	\$ --	\$561,999
Volunteer Fire Fund	--	--	--	206,847	206,847
Grant Fund	--	1	--	--	1
Cemetery	--	67,105	--	--	67,105
Police	--	--	--	11,913	11,913
Library Savings	--	--	--	582	582
Library Grant	--	--	--	438	438
Park	--	--	--	97	97
Street & Alley	<u>--</u>	<u>75,379</u>	<u>--</u>	<u>--</u>	<u>75,379</u>
	<u>\$561,999</u>	<u>\$142,485</u>	<u>\$ --</u>	<u>\$219,877</u>	<u>\$924,361</u>

3.J. RISK MANAGEMENT/CONTINGENT LIABILITY

The Town is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Town manages these various risks through the purchase of commercial insurance with varying deductibles. These deductibles are well below materiality levels for the Town. During the last three years no claim has been settled for amounts in excess of insurance coverage.

There is currently pending litigation for which trial dates have not been set. At this time the cases are unsettled and management disputes and denies the allegations. No amounts are probably at this time.

4.J. SALES TAX REBATE AGREEMENT

The Town of Inola entered into a Sales Tax Rebate agreement with Harp's Food Store, Inc. to persuade them to bring a grocery store to the town limits of Inola. The Town currently assesses a 3 cent sales tax. The agreement specifies that Inola will reimburse Harp's 1.5 cents of the sales tax generated by the new store for the first 5 years of the agreement. For the next 5 years, Inola will reimburse Harp's 1 cent of the sales tax generated.

All funds will be payable from the General Fund, which normally collects 2 cents of the 3 cents assessed. The PWA collects the other 1 cent, but is not a party to this agreement. Harp's submits reimbursement invoices on a quarterly basis, and will be paid out of current sales tax earnings. While Harp's calculates the amount owed, Inola is allowed to audit the records if desired.

Harp's began operation in April, 2014, thus only one calendar quarter of expense has been recorded in the current year. Future expenses will be based solely on the performance of the new store.

**TOWN OF INOLA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Beginning budgetary fund balance	\$ 400,437	\$ 400,437	\$ 400,437	\$ --
Resources (inflows)				
Taxes				
Franchise taxes	34,870	34,870	40,529	5,659
Use tax	253,772	253,772	88,180	(165,592)
Sales tax	<u>260,228</u>	<u>260,228</u>	<u>316,129</u>	<u>55,901</u>
Total taxes	<u>548,870</u>	<u>548,870</u>	<u>444,838</u>	<u>(104,032)</u>
Intergovernmental				
Alcoholic beverage tax	9,120	9,120	10,542	1,422
Cigarette tax	5,084	5,084	5,482	398
Grants and donations	<u>180</u>	<u>180</u>	<u>1</u>	<u>(179)</u>
Total intergovernmental	<u>14,384</u>	<u>14,384</u>	<u>16,025</u>	<u>1,641</u>
Fines and forfeitures				
Police fines	<u>11,098</u>	<u>11,098</u>	<u>20,089</u>	<u>8,991</u>
Total fines and forfeitures	<u>11,098</u>	<u>11,098</u>	<u>20,089</u>	<u>8,991</u>
Licenses and permits				
Various licenses	<u>4,703</u>	<u>4,703</u>	<u>7,809</u>	<u>3,106</u>
Total licenses and permits	<u>4,703</u>	<u>4,703</u>	<u>7,809</u>	<u>3,106</u>
Library	<u>2,315</u>	<u>2,315</u>	<u>2,333</u>	<u>18</u>
Intra-governmental - Transfers in	<u>16,066</u>	<u>16,066</u>	<u>199,366</u>	<u>183,300</u>
Investment income	<u>978</u>	<u>978</u>	<u>2,070</u>	<u>1,092</u>
Miscellaneous	<u>3,377</u>	<u>3,377</u>	<u>25,730</u>	<u>22,353</u>
Total miscellaneous	<u>3,377</u>	<u>3,377</u>	<u>25,730</u>	<u>22,353</u>
Amounts available for appropriation	<u>1,002,228</u>	<u>1,002,228</u>	<u>1,118,697</u>	<u>116,469</u>
Charges to appropriations (outflows)				
Administration and accounting				
Personal services	66,209	66,209	72,253	(6,044)
Maintenance and operation	26,625	26,625	41,424	(14,799)
Capital outlay	<u>--</u>	<u>--</u>	<u>8,386</u>	<u>(8,386)</u>
Total General Government	<u>92,834</u>	<u>92,834</u>	<u>122,063</u>	<u>(29,229)</u>

**TOWN OF INOLA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Council				
Personal services	6,400	6,400	5,960	440
Maintenance and operation	<u>500</u>	<u>500</u>	<u>--</u>	<u>500</u>
	<u>6,900</u>	<u>6,900</u>	<u>5,960</u>	<u>940</u>
Police				
Personal services	234,100	234,100	201,146	32,954
Maintenance and operation	28,240	28,240	27,219	1,021
Capital outlay	<u>40,000</u>	<u>40,000</u>	<u>36,259</u>	<u>3,741</u>
Total Police	<u>302,340</u>	<u>302,340</u>	<u>264,624</u>	<u>37,716</u>
Municipal Court				
Personal services	3,710	3,710	2,258	1,452
Maintenance and operation	<u>350</u>	<u>350</u>	<u>--</u>	<u>350</u>
Total Municipal Court	<u>4,060</u>	<u>4,060</u>	<u>2,258</u>	<u>1,802</u>
Library				
Personal services	28,760	28,760	31,472	(2,712)
Maintenance and operation	<u>18,350</u>	<u>18,350</u>	<u>18,204</u>	<u>146</u>
Total Library	<u>47,110</u>	<u>47,110</u>	<u>49,676</u>	<u>(2,566)</u>
Other				
Unallocated capital outlay	<u>548,984</u>	<u>548,984</u>	<u>195,299</u>	<u>353,685</u>
Total Other	<u>548,984</u>	<u>548,984</u>	<u>195,299</u>	<u>353,685</u>
Total Charges to Operations	<u>1,002,228</u>	<u>1,002,228</u>	<u>639,880</u>	<u>362,348</u>
Ending Budgetary Fund Balances	<u>\$ --</u>	<u>\$ --</u>	478,817	<u>\$ 478,817</u>
Adjustments to reconcile to balance sheet				
Increase in beginning fund balance			59,918	
Increase (decrease) in taxes receivable, including franchise			<u>23,264</u>	
Fund Balance			<u>\$ 561,999</u>	

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds

**TOWN OF INOLA, OKLAHOMA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	<u>Library Savings Fund</u>	<u>Library Grant Fund</u>	<u>Cemetery Fund</u>	<u>Park Fund</u>	<u>CDBG Grant Fund</u>	<u>Police Fund</u>	<u>Fire Dept Fund</u>	<u>Total</u>
Assets								
Cash, including time deposits	\$780	\$684	\$75,171	\$4,329	\$2,173	\$11,913	\$208,755	\$303,805
Taxes receivable	--	--	--	--	--	--	--	--
Total assets	<u>\$780</u>	<u>\$684</u>	<u>\$75,171</u>	<u>\$4,329</u>	<u>\$2,173</u>	<u>\$11,913</u>	<u>\$208,755</u>	<u>\$303,805</u>
Liabilities								
Accounts payable	--	--	--	4,232	--	--	1,908	6,140
Due to other fund	198	246	8,066	--	2,172	--	--	10,682
Total liabilities	<u>198</u>	<u>246</u>	<u>8,066</u>	<u>4,232</u>	<u>2,172</u>	<u>--</u>	<u>1,908</u>	<u>16,822</u>
Fund Balances								
Assigned	582	438	--	97	--	11,913	206,847	219,877
Restricted	--	--	67,105	--	1	--	--	67,106
Total fund balances	<u>582</u>	<u>438</u>	<u>67,105</u>	<u>97</u>	<u>1</u>	<u>11,913</u>	<u>206,847</u>	<u>286,983</u>
Total liabilities and fund balances	<u>\$780</u>	<u>\$684</u>	<u>\$75,171</u>	<u>\$4,329</u>	<u>\$2,173</u>	<u>\$11,913</u>	<u>\$208,755</u>	<u>\$303,805</u>

**TOWN OF INOLA, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Library Savings Fund	Library Grant Fund	Cemetery Fund	Park Fund	CDBG Grant Fund	Police Fund	Fire Dept Fund	Total
Revenues								
Fire Run/Contracts	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$23,475	\$23,475
Grants and contributions	986	5,479	--	--	--	2,408	24,866	33,739
Interest	2	5	358	40	--	55	781	1,241
Miscellaneous	--	--	20,478	1	--	--	1,549	22,028
Total revenues	<u>988</u>	<u>5,484</u>	<u>20,836</u>	<u>41</u>	<u>--</u>	<u>2,463</u>	<u>50,671</u>	<u>80,483</u>
Expenditures								
Current								
Police	--	--	--	--	--	2,603	--	2,603
Cemetery	--	--	9,194	--	--	--	--	9,194
Library	1,244	5,116	--	--	--	--	--	6,360
Park	--	--	--	17,354	--	--	--	17,354
Fire	--	--	--	--	--	--	46,014	46,014
Capital outlay	--	--	13,958	--	--	1,732	--	15,690
Total expenditures	<u>1,244</u>	<u>5,116</u>	<u>23,152</u>	<u>17,354</u>	<u>--</u>	<u>4,335</u>	<u>46,014</u>	<u>97,215</u>
Excess (deficiency) of revenues over expenditures	<u>(256)</u>	<u>368</u>	<u>(2,316)</u>	<u>(17,313)</u>	<u>--</u>	<u>(1,872)</u>	<u>4,657</u>	<u>(16,732)</u>
Other financing sources (uses)								
Transfers in	--	--	--	16,500	--	--	26,125	42,625
Transfers (out)	--	--	--	--	--	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>16,500</u>	<u>--</u>	<u>--</u>	<u>26,125</u>	<u>42,625</u>
Net change in fund balances	<u>(256)</u>	<u>368</u>	<u>(2,316)</u>	<u>(813)</u>	<u>--</u>	<u>(1,872)</u>	<u>30,782</u>	<u>25,893</u>
Fund balances - beginning of year	<u>838</u>	<u>70</u>	<u>69,421</u>	<u>910</u>	<u>1</u>	<u>13,785</u>	<u>176,065</u>	<u>261,090</u>
Fund balances - end of year	<u><u>\$582</u></u>	<u><u>\$438</u></u>	<u><u>\$67,105</u></u>	<u><u>\$97</u></u>	<u><u>\$1</u></u>	<u><u>\$11,913</u></u>	<u><u>\$206,847</u></u>	<u><u>\$286,983</u></u>

**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***

Honorable Chairman and Board of Directors
Town of Inola
Inola, State of Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Inola, State of Oklahoma, as of and for the year ended June 30, 2014, which collectively comprise the Town of Inola, State of Oklahoma's basic financial statements and have issued our report thereon dated December 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Town of Inola, State of Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Inola, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Inola, State of Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Town of Inola, State of Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Town of Inola, State of Oklahoma's updated response to findings identified in prior year is described in the accompanying schedule of findings and responses. We did not audit Town of Inola, State of Oklahoma's response and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

DECEMBER 10, 2014