# TOWN OF MILL CREEK, OKLAHOMA

## Report on Audit of Financial Statements

## For the period ending June 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Town of Mill Creek, Oklahoma

**Report on the Financial Statements**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 modified cash-basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Mill Creek, as of June 30, 2013, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

**Other Matters**

**Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2014, on our consideration of the Town of Mill Creek's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Mill Creek's internal control over financial reporting and compliance.

**Basis of Accounting**

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

Oklahoma City, Oklahoma
December 18, 2014

# Town of Mill Creek, Oklahoma
## Statement of Net Assets - Modified Cash Basis
## June 30, 2014

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash in bank - unrestricted | 22,348.02 | 54,358.89 | 76,706.91 |
| Cash in bank - restricted | 20,955.11 | 39,789.84 | 60,744.95 |
| Total current assets | 43,303.13 | 94,148.73 | 137,451.86 |
| Noncurrent assets: | | | |
| Net capital assets | - | 1,190,202.45 | 1,190,202.45 |
| Total noncurrent assets | - | 1,190,202.45 | 1,190,202.45 |
| Total assets | $ 43,303.13 | $ 1,284,351.18 | $ 1,327,654.31 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Meter deposits | - | 8,901.13 | 8,901.13 |
| Current portion long term debt | - | 14,281.03 | 14,281.03 |
| Total current liabilities | - | 23,182.16 | 23,182.16 |
| Noncurrent liabilities: | | | |
| Loans payable | - | 90,727.86 | 90,727.86 |
| Total noncurrent liabilities | - | 90,727.86 | 90,727.86 |
| Total liabilities | - | 113,910.02 | 113,910.02 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | - | 1,085,193.56 | 1,085,193.56 |
| Restricted | - | 30,888.71 | 30,888.71 |
| Unrestricted | 43,303.13 | 54,358.89 | 97,662.02 |
| Total net assets | 43,303.13 | 1,170,441.16 | 1,213,744.29 |
| Total liabilities and net assets | $ 43,303.13 | $ 1,284,351.18 | $ 1,327,654.31 |

The accompanying notes are an integral part of these financial statements

# Town of Mill Creek, Oklahoma
## Statement of Activities - Modified Cash Basis
## For the Year Ending June 30, 2014

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets Primary Government: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets Primary Government: Business-Type Activities | Total |
|---|---|---|---|---|---|---|
| Primary government | | | | | | |
| Governmental activities: | | | | | | |
| General government | 105,113.95 | 16,752.00 | - | (88,361.95) | - | (88,361.95) |
| Fire department | 14,626.31 | - | - | (14,626.31) | - | (14,626.31) |
| Total governmental activities | 119,740.26 | 16,752.00 | - | (102,988.26) | - | (102,988.26) |
| Business-type activities | | | | | | |
| Water department | 87,630.09 | 68,170.16 | - | - | (19,459.93) | (19,459.93) |
| Sewer department | 53,708.77 | 11,959.67 | - | - | (41,749.10) | (41,749.10) |
| Garbage department | 26,660.40 | 39,466.95 | - | - | 12,806.55 | 12,806.55 |
| Total business-type activities | 167,999.26 | 119,596.78 | - | - | (48,402.48) | (48,402.48) |
| Total primary government | $ 287,739.52 | $ 136,348.78 | $ - | $ (102,988.26) | $ (48,402.48) | $ (151,390.74) |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Sales taxes | | | | 99,599.76 | - | 99,599.76 |
| Other taxes | | | | 35,470.73 | - | 35,470.73 |
| Interest income | | | | 7.16 | 3.19 | 10.35 |
| Transfers in/out | | | | (28,072.41) | 28,072.41 | - |
| Total general revenues | | | | 107,005.24 | 28,075.60 | 135,080.84 |
| Change in net assets | | | | 4,016.98 | (20,326.88) | (16,309.90) |
| Net assets - beginning | | | | 39,286.15 | 1,190,768.04 | 1,230,054.19 |
| Net assets - ending | | | | $ 43,303.13 | $ 1,170,441.16 | $ 1,213,744.29 |

The accompanying notes are an integral part of these financial statements

# Town of Mill Creek, Oklahoma
## Balance Sheet
## Governmental Funds - Modified Cash Basis
## June 30, 2014

| | General Fund | Total Governmental Funds |
|---|---|---|
| ASSETS | | |
| Cash in bank | 22,348.02 | 22,348.02 |
| Cash in bank - Restricted | 20,955.11 | 20,955.11 |
| Total assets | $ 43,303.13 | $ 43,303.13 |
| LIABILITIES AND FUND BALANCES | | |
| Liabilities: | | |
| Current Portion of Capital Lease | - | - |
| Fund Balances: | | |
| Unassigned | 43,303.13 | 43,303.13 |
| Total net assets | 43,303.13 | 43,303.13 |
| Total liabilities and net assets | $ 43,303.13 | $ 43,303.13 |

***Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities June 30, 2014***

| | |
|---|---|
| *Total Governmental Fund Balances* | $ 43,303.13 |
| *Amounts reported for governmental activities in the statement of net assets are different because:* | |
| *Capital assets used in governmental activities are not financial resources and therefore are not* | |
| *Long-term liabilities are not due and payable in the current period and therefore are note reported in funds:* | |
| *Capital lease obligations* | - |
| *Net Assets of Governmental Activities* | $ 43,303.13 |

The accompanying notes are an integral part of these financial statements

# Town of Mill Creek, Oklahoma
## Statement of Revenues, Expenditures and Changes in Fund Balances
## Governmental Funds - Modified Cash Basis
## For the Year Ended June 30, 2014

| | General Fund | Total Governmental Funds |
|---|---|---|
| Revenues: | | |
| Taxes | 135,070.49 | 135,070.49 |
| Charges for Servcies | 16,752.00 | 16,752.00 |
| Interest | 7.16 | 7.16 |
| Total revenues | 151,829.65 | 151,829.65 |
| Expenditures: | | |
| General government | 105,113.95 | 105,113.95 |
| Fire Department | 14,626.31 | 14,626.31 |
| Total expenditures | 119,740.26 | 119,740.26 |
| Excess revenues over (under) expenditures | 32,089.39 | 32,089.39 |
| Transfers In (Out) | (28,072.41) | (28,072.41) |
| Excess revenues over (under) expenditures after Transfers | 4,016.98 | 4,016.98 |
| Fund balances at beginning of year | 39,286.15 | 39,286.15 |
| Fund balances at end of year | $ 43,303.13 | $ 43,303.13 |

***Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmnetal Funds to the Statement of Activities for the Year Ended June 30, 2014***

| | |
|---|---|
| *Net change in fund balances-total government funds* | $ 4,016.98 |
| *Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide* | |
| *Capital financing payments recorded as an expense in the fund financial statements but not recorded in the* | |
| *Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements* | - |
| *Change in net assets of governmental activities* | $ 4,016.98 |

The accompanying notes are an integral part of these financial statements

# Town of Mill Creek, Oklahoma
## Statement of Net Assets - Modified Cash Basis
## Proprietary Funds
## June 30, 2014

| | |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash in bank - unrestricted | 54,358.89 |
| Cash in bank - restricted | 39,789.84 |
| Total current assets | 94,148.73 |
| Noncurrent assets: | |
| Net capital assets | 1,190,202.45 |
| Total noncurrent assets | 1,190,202.45 |
| Total assets | $ 1,284,351.18 |
| | |
| LIABILITIES | |
| Current liabilities: | |
| Meter deposits | 8,901.13 |
| Current portion long term debt | 14,281.03 |
| Total current liabilities | 23,182.16 |
| Noncurrent liabilities: | |
| Notes Payable | 90,727.86 |
| Total noncurrent liabilities | 90,727.86 |
| Total liabilities | 113,910.02 |
| | |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 1,085,193.56 |
| Restricted | 30,888.71 |
| Unrestricted | 54,358.89 |
| Total net assets | 1,170,441.16 |
| Total liabilities and net assets | $ 1,284,351.18 |

The accompanying notes are an integral part of these financial statements

# Town of Mill Creek, Oklahoma
## Statement of Revenues Over Expenditures and Changes in Net Assets
## Modified Cash Basis - Proprietary Fund Types
## For the Year Ended June 30, 2014

| | |
|---|---|
| Operating Revenues: | |
| Water sales | $ 68,170.16 |
| Sewer fees | 11,959.67 |
| Garbage fees | 39,466.95 |
| Total operating revenues | 119,596.78 |
| | |
| Operating Expenses: | |
| Water department | 87,630.09 |
| Sewer department | 53,708.77 |
| Garbage department | 26,660.40 |
| Total operating expenses | 167,999.26 |
| | |
| Operating income (loss) | (48,402.48) |
| | |
| Non-operating revenues (expenses): | |
| Transfers In (Out) | 28,072.41 |
| Interest income | 3.19 |
| Net non-operating revenues (expenses) | 28,075.60 |
| | |
| Change in net assets | (20,326.88) |
| Net assets at beginning of year | 1,190,768.04 |
| Net assets at end of year | $ 1,170,441.16 |

The accompanying notes are an integral part of these financial statements

# Mill Creek General Fund and PWA
# Statement of Cash Flows - Proprietary Fund
# Modified Cash Basis
# For the Year Ending June 30, 2014

| | | |
|---|---|---|
| Cash flows from operating activities | | |
| Cash received from customers | $ | 119,596.78 |
| Cash paid to employees | | (28,135.95) |
| Cash paid to suppliers | | (77,101.20) |
| Net cash provided by operating activities | | 14,359.63 |
| Cash flows from investing activities | | |
| Interest income | | 3.19 |
| Net cash provided by investing activities | | 3.19 |
| Cash flows from noncapital financing activities | | |
| Operating Transfers in (out) | | 28,072.41 |
| Net cash provided by noncapital financing activities | | 28,072.41 |
| Cash flows from capital and related financing activities | | |
| Increase (decrease) in meter deposit liability | | 1,500.72 |
| Principal paid on capital debt | | (13,129.25) |
| Net cash provided (used) for capital and related financing activities | | (11,628.53) |
| Net increase (decrease) in cash and cash equivalents | | 30,806.70 |
| Cash and cash equivalents at beginning of year | | 63,342.03 |
| Cash and cash equivalents at end of year | $ | 94,148.73 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | | (48,402.48) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation expense | | 62,762.11 |
| Net cash provided (used) by operating activities | $ | 14,359.63 |
| Reconciliation of Cash and Cash Equivalents | | |
| Cash - Unrestricted | $ | 54,358.89 |
| Cash - Restricted | | 39,789.84 |
| Total | $ | 94,148.73 |

The accompanying notes are an integral part of these financial statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

### 1.A. FINANCIAL REPORTING ENTITY

The Town of Mill Creek, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2013, the Town had one component units, the Mill Creek Public Works Authority.

### 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 within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or 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 a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds

within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or 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.

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or 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 subsequently:

**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 financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Cemetery Care.

**Proprietary Funds**

Enterprise Fund

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

## 1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

MEASUREMENT FOCUS

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

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. 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.

The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

## BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

## 1.D. FINANCIAL POSITION

### CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

### INVESTMENTS

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

### CAPITAL ASSETS

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

#### Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of $500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

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

#### Fund Financial Statements

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

## LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

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

## NET POSITION/FUND BALANCE CLASSIFICATIONS

### Government-Wide Statements

Net Position is classified and displayed in three components:

*Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

*Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

*Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

### Fund Financial Statements

#### Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

> **Nonspendable.** Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

**Restricted.** Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

**Committed.** Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

**Assigned.** Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

**Unassigned.** The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

**Proprietary Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

**1.E. REVENUES, EXPENDITURES, AND EXPENSES**

PROGRAM REVENUES

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

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

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services.

They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

GASB 34 IMPLEMENTATION

The Town has implemented the 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.

### 1.G. USE OF ESTIMATES

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

## NOTE 2. 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. The following instances of noncompliance are considered material to the financial statements.

## NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS

Deposits and investments made by the Town are summarized below. The deposits are classified as to credit risk within the following three categories:

| | |
|---|---|
| Category 1 | Insured or collateralized, with securities held by the Town or its agent in the Town's name. |
| Category 2 | Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name. |
| Category 3 | Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Town's name.) |

For the year ending June 30, 2014, the Town and its component units had category one deposits up to the FDIC insurance limits. The remaining account balances for the Town and its component units were category three.

### A. Restricted Assets

The Mill Creek Public Works Authority note payable to Rural Development includes restricted cash and investments for a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available to make debt service payments in a timely manner. Additionally, cash and investments held for refund to customers for water deposits are included as restricted assets. As of June 30, 2014 cash restricted for various purposes was $39,790 of which $10,016 was customer deposits.

**B. Deposits subject to refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2014, cash and investments included $10,016 available for refund of customer deposits, while the liability to customers was $8.901.

## NOTE 4. CAPITAL ASSETS AND DEPRECIATION

Capital asset balances and activities for the year ended June 30, 2013 were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Business-type activities** | | | | |
| Building and Land | 9,120 | - | - | 9,120 |
| Improvements | 17,542 | - | - | 17,542 |
| Equipment | 39,625 | - | - | 39,625 |
| Water and Sewer System | 1,758,002 | - | - | 1,758,002 |
| Total capital assets | 1,824,289 | - | - | 1,824,289 |
| Accumulated Depreciation | (571,325) | (62,762) | - | (634,087) |
| Net Assets | $ 1,252,964 | | | $ 1,190,202 |

## NOTE 5. NOTES PAYABLE

As of June 30, 2014, the Mill Creek Public Works Authority had six notes outstanding.

The first obligation has an outstanding balance of $34,756 as of June 30, 2014. The loan is due to mature in 2026 and carries an interest rate of 6.375%. The note requires monthly payments of $351 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for the year ending June 30, 2014 was $1,273 and $2,283 respectively. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 2,056 | 2,156 |
| 2015/2016 | 2,191 | 2,021 |
| 2016/2017 | 2,334 | 1,878 |
| 2017/2018 | 2,488 | 1,724 |
| 2018/2019 | 2,651 | 1,561 |
| 2019/2024 | 16,105 | 4,955 |
| 2024/2026 | 6,931 | 409 |
| Total | $ 34,756 | $ 14,704 |

| | |
|---|---|
| Balance, Beginning of Year | $ 36,029 |
| Prinicpal Paid | (1,273) |
| Balance, End of Year | $ 34,756 |

The second obligation has an outstanding balance of $7,055 as of June 30, 2014. The loan is due to mature in January 2019 and carries an interest rate of 5.00%. The note requires monthly payments of $163 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for

the year ending June 30, 2014 was $1,561 and $395 respectively. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 1,641 | 315 |
| 2015/2016 | 1,724 | 232 |
| 2016/2017 | 1,812 | 143 |
| 2017/2018 | 1,878 | 40 |
| Total | $ 7,055 | $ 730 |

| | |
|---|---|
| Balance, Beginning of Year | $ 8,616 |
| Principal Paid during year | (1,561) |
| Balance, End of Year | $ 7,055 |

The third obligation has an outstanding balance of $14,939 as of June 30, 2014. The loan is due to mature in January 2018 and carries an interest rate of 5.00%. The note requires monthly payments of $319 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for the year ending June 30, 2014 was $2,999 and $829 respectively. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 3,153 | 675 |
| 2015/2016 | 3,314 | 514 |
| 2016/2017 | 3,484 | 344 |
| 2017/2018 | 3,662 | 166 |
| 2018/2019 | 1,326 | 14 |
| Total | $ 14,939 | $ 1,713 |

| | |
|---|---|
| Balance, Beginning of Year | $ 17,938 |
| Principal Paid during year | (2,999) |
| Balance, End of Year | $ 14,939 |

The fourth obligation has an outstanding balance of $37,442 as of June 30, 2014. The loan is due to mature in 2021 and carries an interest rate of 0%. Principal paid on this obligation for the year ending June 30, 2014 was $6,250. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 6,250 | - |
| 2015/2016 | 6,250 | - |
| 2016/2017 | 6,250 | - |
| 2018/2019 | 6,250 | - |
| 2019/2020 | 6,250 | - |
| 2020 | 6,192 | - |
| Total | $ 37,442 | $ - |

| | |
|---|---|
| Balance, Beginning of Year | $ 43,692 |
| Principal Paid during year | (6,250) |
| Balance, End of Year | $ 37,442 |

The fifth obligation has an outstanding balance of $2,785 as of June 30, 2014. The loan is due to mature in 2022 and carries an interest rate of 6%. The loan requires monthly payments of $38. Principal and interest paid on this obligation for the year ending June 30, 2014 was $280 and 176 respectively. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 297 | 159 |
| 2015/2016 | 315 | 141 |
| 2016/2017 | 335 | 121 |
| 2017/2018 | 355 | 101 |
| 2018/2019 | 377 | 79 |
| 2019/2022 | 1,106 | 92 |
| | $ 2,785 | $ 693 |

| | |
|---|---|
| Balance, Beginning of Year | 3,065 |
| Principal Paid during Year | (280) |
| Balance, End of Year | $ 2,785 |

The sixth obligation has an outstanding balance of $8,031 as of June 30, 2014. The loan is due to mature in September 2022 and carries an interest rate of 6%. The note requires monthly payments of $112. Principal and interest paid on this obligation for the year ending June 30, 2014. Principal and interest paid on this obligation for the year ending June 30, 2014 was $834 and $509 respectively. Principal required to amortize this note till maturity is as follows:

| | Principal | Interest |
|---|---|---|
| 2014/2015 | 886 | 458 |
| 2015/2016 | 941 | 403 |
| 2016/2017 | 999 | 345 |
| 2017/2018 | 1,061 | 283 |
| 2018/2019 | 1,126 | 218 |
| 2019/2022 | 3,018 | 230 |
| | $ 8,031 | $ 1,937 |

| | |
|---|---|
| Balance, Beginning of Year | $ 8,866 |
| Principal Paid During Year | (835) |
| Balance, End of Year | $ 8,031 |

**NOTE 6. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has insurance for the major risks such as property and general liability, workers' compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to Town buildings and mobile equipment. Judgments against the Town may be paid by a property tax assessment over a three-year period.

**NOTE 8. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 18, 2014, which is the date the financial statements were issued.

**Casey J. Russell CPA, Inc.**

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

To the Board of Trustees
Town of Mill Creek

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Mill Creek, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Mill Creek's basic financial statements, and have issued our report thereon dated December 18, 2014.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Mill Creek'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 Mill Creek's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Mill Creek's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2014-1

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Mill Creek's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Town of Mill Creek's Response to Findings**

Town of Mill Creek's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Mill Creek's response was not subjected to the auditing procedures applied in the audit of the financial statements 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.

Casey J. Laurell CPA Inc.

Oklahoma City, Oklahoma
December 18, 2014

Town of Mill Creek, Oklahoma
Schedule of Findings and Questioned Costs
June 30, 2013

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### Current Year Findings

### 14-1 Segregation of Duties (Repeat Finding)

CONDITION: All accounting functions are performed by the same person.

CRITERIA: Proper internal control mandates segregation of duties for significant accounting functions.

CAUSE OF THE CONDITION: The Authority is small and has limited resources to use for the additional personnel necessary to the proper segregation of duties.

EFFECT OF THE CONDITION: The Authority's accounting records are vulnerable to misstatement and possible theft.

RECOMMENDATION: The Board of Trustees provide as much supervision of the expenditure process as possible. The Authority should also consider a policy of not accepting cash payments for utility billing payments. But to only accept checks, money orders and or cashiers checks.

MANAGEMENT RESPONSE: Management will consider the suggestion.