

Town of Billings
Billings, Oklahoma

Audit Report
June 30, 2015

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Independent Auditor's Report

Honorable Board of Town Council
Town of Billings
PO Box 216
Billings, Oklahoma 74630

Report on the Financial Statements

I have audited the accompanying 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 Billings, State of Oklahoma, as of and for the year ended June 30, 2015, 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 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinions

As discussed in Note I to the financial statements, the Town has not maintained complete capital asset records for purchases prior to 2012 to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. Also, the Town has elected to not report depreciation on any capital assets acquired prior to 2012. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

Qualified Opinions

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the Town of Billings, Oklahoma, as of June 30, 2015, 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 budgetary comparison information on page 39 and the notes on page 40 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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. My opinion on the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 my opinion, the schedule of expenditures for federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 6, 2015 on my consideration of the Town's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Linda S. Woodruff, CPA, P.C.

Linda S Woodruff CPA, PC
Oklahoma City, Oklahoma

January 6, 2016

Town of Billings
Billings, Oklahoma

Basic Financial Statements
June 30, 2015

Town of Billings
Statement of Net Position
June 30, 2015

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 289,442	\$ 243,485	\$ 532,927
Investments	115,086	-	115,086
Receivables	31,639	259,734	291,373
Internal Balances	-	-	-
Due from Other Funds	-	-	-
Inventories	-	-	-
Other assets	-	-	-
Capital Assets			
Land, improvements, and construction in progress	-	-	-
Infrastructure and infrastructure in progress	-	2,057,053	2,057,053
Buildings	-	144,208	144,208
Equipment and Furniture	531,751	479,300	1,011,051
Other Capital Assets	-	-	-
Less: Accumulated Depreciation	<u>(64,685)</u>	<u>(784,735)</u>	<u>(849,420)</u>
Total Capital Assets	<u>467,066</u>	<u>1,895,826</u>	<u>2,362,892</u>
Total Assets	<u>903,233</u>	<u>2,399,045</u>	<u>3,302,278</u>
Deferred Outflows of Resources:			
Deferred amounts related to pensions	8,940	-	8,940
Total Deferred Outflows	<u>8,940</u>	<u>-</u>	<u>8,940</u>
LIABILITIES			
Accounts payable and accrued expenses	-	1,154	1,154
Due to other governmental agencies	25,880	-	25,880
Deferred Revenues	-	-	-
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	-	12,323	12,323
Accrued interest	-	-	-
Compensated Absences	-	-	-
Claims and judgments	-	-	-
Due in more than one year			
Bonds, capital leases and contracts	-	678,159	678,159
Net pension liability	44,114	-	44,114
Compensated absences	-	-	-
Meter deposit payable	-	26,206	26,206
Total liabilities	<u>69,994</u>	<u>717,842</u>	<u>787,836</u>
Deferred Inflows of Resources:			
Deferred amounts related to pensions	16,830	-	16,830
Total Deferred Inflows	<u>16,830</u>	<u>-</u>	<u>16,830</u>
NET POSITION			
Invested in capital assets, net of related debt	467,066	1,205,344	1,672,410
Prior Period Adjustments	-	-	-
Restricted:			
Other projects	-	26,206	26,206
Unrestricted	<u>358,283</u>	<u>449,661</u>	<u>807,944</u>
Total net position	<u>\$ 825,349</u>	<u>\$ 1,681,211</u>	<u>\$ 2,506,552</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Activities and Changes in Net Position
for the Year Ended June 30, 2015

	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government						
Governmental Activities						
General Government	\$ 137,274	\$ -	\$ -	\$ (105,220)	\$ -	\$ (105,220)
Public Safety	101,630	4,484	-	(97,146)	-	(97,146)
Street and Alley	42,892	-	-	(37,144)	-	(37,144)
Health, Welfare and Sanitation	-	-	-	-	-	-
Culture and Recreation	-	4,366	-	4,366	-	4,366
Education	-	-	-	-	-	-
Interest on Long-term debt	-	-	-	-	-	-
Total governmental activities	281,796	4,484	-	(235,144)	-	(235,144)
Business-type activities:						
Public Works Authority	385,109	367,956	-	-	(17,153)	(17,153)
Industrial Development	867	4,900	-	-	4,033	4,033
Total business-type activities	385,976	372,856	-	-	(13,120)	(13,120)
Total primary government	667,772	4,484	-	(235,144)	(13,120)	(248,264)
Taxes:						
Franchise taxes				\$ 28,286	\$ -	\$ 28,286
Public service taxes				263,137	-	263,137
Grants and contributions not restricted to specific programs				-	-	-
Unrestricted investment earnings				-	6,253	6,253
Depreciation				(23,167)	-	(23,167)
Pension Changes				22,318	-	22,318
Transfers				4,161	(4,161)	-
Total general revenues, special items, and transfers				294,735	2,092	296,827
Change in net assets				59,591	(11,028)	48,563
Net position - beginning				840,080	1,692,239	2,532,319
Net position - ending				\$ 825,349	\$ 1,681,211	\$ 2,506,552

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Balance Sheet
Governmental Funds
June 30, 2015

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 289,442	\$ -	\$ 289,442
Investments	115,086	-	115,086
Taxes receivable, net	31,639	-	31,639
Other receivables	-	-	-
Prepaid expenses	-	-	-
Total assets	436,167	-	436,167
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Deferred revenue	-	-	-
Other accrued expenses	-	-	-
Other payables	25,880	-	25,880
Total liabilities	25,880	-	25,880
 Fund balances:			
Restricted for:			
Prior Period Adjustment	-	-	-
Committed to:	-	-	-
Unassigned	410,287	-	410,287
Total fund balances	410,287	-	410,287
Total liabilities and fund balances	\$ 410,287	\$ -	\$ 436,167

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
 Reconciliation of the Governmental Funds Balance Sheet to the
 Government-Wide Statement of Net Position
 June 30, 2015

Total fund balance, governmental funds	\$	410,287
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.</p>		531,751
Net pension liability		(44,114)
Pension related deferred outflows		8,940
Pension related deferred inflows		(16,830)
<p>The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. Prior Period Adjustment</p>		(41,518)
<p>Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation recorded in the current period.</p>		(23,167)

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	297,171	-	297,171
Fees and fines	3,447	-	3,447
Licenses and permits	70	-	70
Intergovernmental	-	-	-
Pool Receipts	4,366	-	4,366
Investment earnings	-	-	-
Miscellaneous and Grants	33,021	-	33,021
Total revenues	<u>338,075</u>	<u>-</u>	<u>338,075</u>
EXPENDITURES			
Current:			
General government	136,437	-	136,437
Public Safety	101,630	-	101,630
Public Works	42,892	-	42,892
Health and sanitation	-	-	-
Culture and recreation	-	-	-
Education	-	-	-
NODA Expense	837	-	837
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital Outlay	70,890	-	70,890
Total expenditures	<u>352,686</u>	<u>-</u>	<u>352,686</u>
Excess (deficiency) of revenues over expenditures	<u>(14,611)</u>	<u>-</u>	<u>(14,611)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt, net	-	-	-
Proceeds from capital leases	-	-	-
Other source	-	-	-
Other use	-	-	-
Transfers in	31,000	-	31,000
Transfers out	(26,839)	-	(26,839)
Total other financing sources and uses	<u>4,161</u>	<u>-</u>	<u>4,161</u>
SPECIAL ITEM			
Proceeds from sale of land	-	-	-
Net change in fund balances	<u>(10,450)</u>	<u>-</u>	<u>(10,450)</u>
Fund balances - beginning	420,737	-	420,737
Fund balances - ending	<u>\$ 410,287</u>	<u>\$ -</u>	<u>\$ 410,287</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
 Reconciliation of the Government-Wide Statement Governmental Funds of
 Revenues, Expenditures and Changes in Fund Balance to the
 Governmental Funds to the Statement of Activities and Changes in Net Position
 for the Year Ended June 30, 2015

Net change in fund balances - total governmental funds: \$ (10,450)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. 47,723

Government wide statement of activities report the cost of pension benefits earned net of employee contribution as a part of pension expense. The fund financial statements report pension contributions as an expenditure in the current period. 22,319

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. -

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. -

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:
 Accrued interest not reflected on Governmental funds -

Change in net position of governmental activities \$ 59,591

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Net Position
Proprietary Funds
June 30, 2015

	<u>Enterprise Funds</u>		
	<u>Public Works</u>	<u>Industrial</u>	
	<u>Authority</u>	<u>Development</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 181,490	\$ 61,994	\$ 243,484
Investments	-	-	-
Accounts Receivable, net	29,378	230,355	259,733
Other receivables	-	-	-
Inventories	-	-	-
Prepaid expenses	-	-	-
Total current assets	<u>210,868</u>	<u>292,349</u>	<u>503,217</u>
Non-current assets:			
Capital Assets:			
Land and improvements	-	-	-
Infrastructure	2,057,053	-	2,057,053
Utility System	-	-	-
Construction in Progress	-	-	-
Buildings	-	144,208	144,208
Equipment and Furniture	479,300	-	479,300
Less Accumulated depreciation	<u>(784,735)</u>	<u>-</u>	<u>(784,735)</u>
Total non-current assets	<u>1,751,618</u>	<u>144,208</u>	<u>1,895,826</u>
Total assets	<u>1,962,486</u>	<u>436,557</u>	<u>2,399,043</u>
Deferred Outflow of Resources:			
Total Deferred Outflows	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	(20)	-	(20)
Payroll and sales taxes payable	1,174	-	1,174
Accrued interest payable	-	-	-
Due to other funds	-	-	-
Payable to other governments	-	-	-
Meter deposit payable	26,206	-	26,206
Deferred revenue	-	-	-
Compensated absences	-	-	-
Bonds, notes and loans payable	12,323	-	12,323
Total current liabilities	<u>39,683</u>	<u>-</u>	<u>39,683</u>
Non-current liabilities:			
Compensated absences	-	-	-
Capital lease obligation	-	-	-
Claims and judgments	-	-	-
Bonds, notes and loans payable	678,159	-	678,159
Total non-current liabilities	<u>678,159</u>	<u>-</u>	<u>678,159</u>
Total liabilities	<u>717,842</u>	<u>-</u>	<u>717,842</u>
Deferred Inflows of Resources:			
Total Deferred Inflows	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Invested in capital assets, net of related debt	1,061,136	144,208	1,205,344
Restricted for other purposes	26,206	-	26,206
Prior Period Adjustment	-	409	409
Unrestricted	157,312	292,349	449,661
Total net position	<u>\$ 1,244,654</u>	<u>\$ 436,966</u>	<u>\$ 1,681,620</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
for the Year Ended June 30, 2015

	Business-Type Activities		
	Enterprise Funds		
	<u>Public Works</u> <u>Authority</u>	<u>Industrial</u> <u>Development</u>	<u>Total</u>
REVENUES			
Charges for services	\$ 359,847	\$ 4,900	\$ 364,747
Miscellaneous	8,110	-	8,110
Total operating revenues	<u>367,957</u>	<u>4,900</u>	<u>372,857</u>
OPERATING EXPENSES			
Personal services	120,774	-	120,774
Contractual services	-	-	-
Utilities	6,104	-	6,104
Repairs and maintenance	-	-	-
Other supplies and expenses	206,558	-	206,558
Insurance claims and expenses	-	-	-
Depreciation	47,492	-	47,492
Total operating expenses	<u>380,928</u>	<u>-</u>	<u>380,928</u>
Operating income (loss)	<u>(12,971)</u>	<u>4,900</u>	<u>(8,071)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	-	6,253	6,253
Donation	-	-	-
Operating grants and contributions	-	-	-
Interest expense	(4,182)	-	(4,182)
Miscellaneous expenses	-	(867)	(867)
Total non-operating revenue (expenses)	<u>(4,182)</u>	<u>5,386</u>	<u>1,204</u>
Income (loss) before contributions and transfers	<u>(17,153)</u>	<u>10,286</u>	<u>(6,867)</u>
Capital contributions	-	-	-
Transfers in	32,703	-	32,703
Transfers out	(36,864)	-	(36,864)
Special item - gain (loss)	-	-	-
Change in net position	<u>(21,314)</u>	<u>10,286</u>	<u>(11,028)</u>
Total net position - beginning of year	<u>1,264,431</u>	<u>426,680</u>	<u>1,691,111</u>
Total net position - end of year	<u>\$ 1,244,654</u>	<u>\$ 436,966</u>	<u>\$ 1,681,620</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Cash Flows
Proprietary Funds
for the Year Ended June 30, 2015

	Business-Type Activities - Enterprise Fund	
	Public Works Authority	Industrial Development Authority
Cash Flows from Operating Activities:		
Cash Received from Customers & Service Users	\$ 380,512	\$ 4,900
Cash Payments for Goods & Services & Employees	(336,033)	(51,214)
Net Cash Provided by Operating Activities	44,479	(46,314)
Cash Flows from Noncapital Financing Activities:		
Reconciliation Correction from Prior Year	376	(409)
Net Cash Provided (Used) for Noncapital Financing Activities	376	(409)
Cash Flows from Capital and Related Financing Activities:		
Purchase of Fixed Assets	(757,548)	-
Loan from USDA	716,470	-
Repayment of Principal on Loan	(25,988)	-
Transfer to Other Funds	(4,161)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(71,227)	-
Cash Flows from Investing Activities:		
Interest Income	-	6,253
Net Cash Provided by investing Activities	-	6,253
Net Increase (Decrease) in Cash & Cash Equivalents	(26,372)	(40,470)
Cash and Cash Equivalents - Beginning of Year	207,862	102,464
Cash and Cash Equivalents - End of Year	\$ 181,490	\$ 61,994
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ (17,153)	\$ 4,033
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	47,492	-
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	12,555	-
(Increase) Decrease in Loan Receivable	-	(50,347)
Increase (Decrease) in Accounts Payable	1,154	-
Increase (Decrease) in Meter Deposits	431	-
Total Adjustments	61,632	(50,347)
Net Cash Provided by Operating Activities	\$ 44,479	\$ (46,314)

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Account Policies

The Town of Billings, Oklahoma (the Town) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. Reporting Entity

The Town of Billings, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a town council. The Town provides the following services as authorized by its charter: general government, public safety (police), streets, and public works (water, sewer, and refuse).

As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government.

Blended Component Units:

In evaluating how to define the Town of Billings, Oklahoma, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Component units may be presented as either a blended component unit or a discretely presented component unit. A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. A discretely presented component in it is a separate legal entity that meets the component unit criteria but does not meet the criteria for blending.

The Town has no blended component units.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Account Policies -- Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes collected and held by the state at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following is the Town's major governmental fund:

General Fund – is the general operating fund of the Town. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Other governmental funds of the Town that are considered non-major funds include:

Special Revenue Funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including capital projects). The Town has no special revenue funds in 2015.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following are the Town's major enterprise funds:

Billings Public Works Authority – accounts for the operations of providing public works (water, gas, sewer and sanitation) to the Town.

Billings Industrial Development Authority – accounts for the operations of providing economic development for small businesses and affordable housing for the Town.

There are no enterprise funds of the Town that are considered a non-major funds.

Fiduciary Funds—account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The Town does not have a fiduciary fund.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

There are no restricted funds in the governmental funds.

Restricted cash and investments of the enterprise funds consists of customer meter deposits.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

3. Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The Town's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets and Infrastructure

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the propriety funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town does not maintain a capitalization threshold or a depreciation schedule. The Town's infrastructure consists of roads, bridges, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the Town.

Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in propriety funds as projects are constructed. Interest incurred during the construction phase of propriety fund capital assets is reflected in the capitalized value of the asset constructed, net of interests earned on the invested proceeds over the same period.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

7. Capital Assets and Infrastructure (Continued)

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buldings & Improvements	40-100 years	40-100 years
Plants & Facilities	40-100 years	40-100 years
Furniture & Major Moveable Equipment	10-40 years	10-40 years
Infrastructure	40-100 years	40-100 years

The Town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available to determine these amounts. The amount by which this departure would affect the assets, net position, and expenses of the Governmental and Business-Type Activities is not readily determinable.

8. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Net Position/Fund Balance

In the government-wide financial statement, net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statement, governmental funds report the hierarchy of fund balances. The hierarchy is based on primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity – Continued

9. Net Position—Continued

An important distinction that is made in reporting fund balance is between amounts that are considered non-spendable (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepared items, long-term portions of loans and notes receivable or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are spendable (such as fund balance associated with cash investments or receivable).

Amounts in the spendable fund balance category are further classified as restricted, committed, assigned or unassigned, as appropriate.

Restricted fund balances represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the government removes or changes the limitation by taking action similar to that which imposed the commitment. The Town Ordinance is the highest level of decision making authority of the Town.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent, is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general funds that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

10. Resource Use Policy

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balance, are available, the Town considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

2. Detailed Notes Concerning the Funds

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2015 the Town held deposits of approximately \$648,013 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchases agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

2. Detailed Notes Concerning the Funds – Continued

A. Deposits and Investments—Continued

The investments held at June 30, 2015 are as follows:

Type	Credit Rating	Market Value	Cost
Investments			
Certificate of deposit	N/A	115,086	115,086
Total investments		<u>\$ 115,086</u>	<u>\$ 115,086</u>
<u>Reconciliation to Statement of Net Position</u>			
	Governmental activities	\$	115,086
	Business-type activities		-
		<u>\$</u>	<u>115,086</u>

Concentration of Investment Credit Risk

The Town places no limit on the amount it may invest in any one issuer. The Town has the following credit risk: 100% in Certificates of deposit (\$ 115,086).

B. Restricted Cash and Investments

Other restricted cash includes \$26,206 in cash held for meter deposits.

C. Uncollectible Accounts

Accounts receivable in the financial statements are reflected net of allowances. The Town's estimates of uncollectible accounts receivable is based on a review of past due listing by management. At June 30, 2015, the estimated uncollectible amounts from utility customers was approximately 10% of the receivable for a balance of \$3,500.

D. Prepaid Expense

At June 30, 2015, the Town had no prepaid insurance.

E. Inter-fund Receivables and Payables

At year-end, there were no inter-fund receivables or payables.

F. Long-term Debt

The Town incurred debt during the fiscal year to construct an upgraded sewer system.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

2. Detailed Notes Concerning the Funds – Continued

G. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

Governmental Activities	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Depreciable Assets				
Vehicles	\$ 12,126	\$ 12,524	\$ -	\$ 24,650
Trailers	7,349	-	-	7,349
Equipment & Improvements	441,386	58,366	-	499,752
Total Depreciable Assets	<u>460,861</u>	<u>70,890</u>	<u>-</u>	<u>531,751</u>
Less Accumulated Depreciation	41,518	23,167	-	64,685
Net Governmental Activities Capital Assets	<u>\$ 419,343</u>	<u>\$ 47,723</u>	<u>\$ -</u>	<u>\$ 467,066</u>

No records were maintained prior to 2012 for the governmental activities.

Business-Type Activities	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Non-depreciable Assets				
Land	\$ 103,870	-	-	\$ 103,870
Depreciable Assets				
Utility System/Buildings	1,563,271	11,000	-	1,574,271
Vehicles	11,387	-	-	11,387
Sewer Improvements	64,054	746,548	-	810,602
Equipment	36,223	-	-	36,223
Total Assets	<u>1,778,805</u>	<u>757,548</u>	<u>-</u>	<u>2,536,353</u>
Less Accumulated Depreciation				
Utility System/Buildings	(724,317)	(40,514)	-	(764,831)
Vehicles	(3,417)	(1,139)	-	(4,556)
Sewer Improvements	(5,640)	(4,687)	-	(10,327)
Equipment	(3,869)	(1,152)	-	(5,021)
Total Accumulated Depreciation	<u>(737,243)</u>	<u>(47,492)</u>	<u>-</u>	<u>(784,735)</u>
Net Business-type Activities Capital Assets	<u>\$ 1,041,562</u>	<u>\$ 710,056</u>	<u>\$ -</u>	<u>\$ 1,751,618</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs. Depreciation schedules were not maintained prior to 2006. Only summaries in those years are available from audit reports. Itemized schedules are now being created on an annual basis.

3. Other Information

A. 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; injuries to employees; employee health benefits; unemployment; and natural disasters. The Town purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

A. Risk Management—Continued

The Town is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the Town is required to pay fees set by the Plan according to an established payment schedule. The Town is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the Town. The Town expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the Town's ability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

B. Contingent Liabilities

At times the Town is a defendant in legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the Town. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the Town. The Town's potential liability in the litigation is limited by the Governmental Tort Claims Act.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

C. Long-term Debt

The Town's long-term debt is described below which is to be repaid from business-type activities.

The Town is not obligated in any manner for the debt of its component units. The sewage treatment plant, including all of the proceeds, revenue, sewage charges, assessments and income of all kinds and nature together with contract rights, accounts receivable and general intangibles have been pledged as collateral to secure this note. The note agreement call for monthly payments to be made toward debt retirement. The following is a summary of long-term debt transactions of the proprietary fund:

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information -- Continued

C. Long-Term Debt—Continued

	Balance 6/30/2014	Additions	Reductions	Balance 6/30/2015	Current Portion
Note Payable - USDA	\$ -	\$ 716,470	\$ 25,988	\$ 690,482	\$ 12,323
Total	\$ -	\$ 716,470	\$ 25,988	\$ 690,482	\$ 12,323

The note payable total amount is \$877,000 but only \$716,470 was advanced during the current fiscal year. The remaining advances were made in July and August of the succeeding fiscal year. Although drawdowns were not completed until fiscal year 2016, re-payment on the entire note began in August, 2014.

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 12,323	\$ 23,881	\$ 36,204
2017	12,872	23,332	36,204
2018	13,231	22,973	36,204
2019	13,599	22,605	36,204
2020	13,978	22,226	36,204
2021-2025	75,950	105,070	181,020
2026-2030	87,131	93,889	181,020
2031-2035	99,595	81,425	181,020
2036-2040	114,675	66,345	181,020
2041-2045	131,557	49,463	181,020
2046-2050	150,925	30,095	181,020
2051-2055	140,423	10,427	150,850
Total Liability	\$ 866,259	\$ 551,731	\$ 1,417,990

Principal, redemption premium, and interest on the debt are payable from the gross revenues of the water, sanitary sewer, natural gas, and solid waste disposal systems, from other funds established by the bond indentures and from sales tax revenues.

D. Employee Retirement System and Other Benefit Plans

The Town participates in two employee pension systems as follows:

Oklahoma Firefighters Pension and Retirement Plan - Cost Sharing Multiple Employer - Defined Benefit Plan

Oklahoma Municipal Retirement Fund (OMRF) Agent Multiple Employer - Defined Benefit Plan

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

Oklahoma Firefighters Pension & Retirement Plan

Plan Description – The Town of Billings, as the employer, participates in the Firefighters Pension & Retirement – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per years of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the Town were \$1,560 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to FPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$ 0. These on-behalf payments did not meet the criteria of a special funding situation.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Town reported a liability of \$42,922 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Town's proportion of the net pension liability was based on the Town's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information the Town's proportion was 0.0042%.

For the year ended June 30, 2015, the Town recognized pension expense of \$3,855. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,023	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	6,497
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-
Town contributions subsequent to the measurement date	1,560	-
Total	\$ 2,583	\$ 6,497

\$2,583 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (1,560)
2017	(1,560)
2018	(1,560)
2019	(1,560)
2020	(267)
	\$ (6,497)

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.48%
Domestic equity	37%	9.61%
International equity	20%	9.24%
Real Estate	10%	7.76%
Other assets	13%	6.88%

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

Employers' net pension liability (asset)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	\$1,220,610	\$934,416	\$695,121

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs.

Notes to the Basic Financial Statements
 for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

Oklahoma Municipal Retirement Fund - Defined Benefit

Plan Description – The Town contributes to the OMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OMRF. The OMRF plan issues a separate financial report and can be obtained from OMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the Town Council in accordance with O.S. Title 11, Section 48-101-102.

Summary of Significant Accounting Policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s plan and additions to/deductions from the Town’s fiduciary net position have been determined on the same basis as they are reported by OMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OMRF plans’ fiduciary net position is available in the separately issued OMRF financial report.

Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>As of 07/01/14 OMRF Plan</u>
a. Eligible to participate	Full-time employees except police, firefighters and other employees who are covered under an approved system.
b. Period Required to Vest	7 years of credited service
c. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement upon disability with 7 years of service -Death benefit with 7 years of service for married employees
d. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
e. Benefit Determination Methods:	
Normal Retirement	-1.875% of final average salary multiplied by credited years of service
Early Retirement	-Actuarially reduced benefit based upon age, final average salary, and years of service at termination

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

Disability Retirement	-Same as normal retirement
Death Benefit	-50% of employees accrued benefit, but terminates upon spouse re-marriage
Prior to 7 Years' Service	-No benefits
f. Benefit Authorization	-Benefits are established and amended by Town Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with Town consent, option form based on actuarial equivalent.

Employees Covered by Benefit Terms

Active Employees	4
Deferred Vested Former Employees	4
Retirees or Retiree Beneficiaries	<u>0</u>
Total	<u>8</u>

Contribution Requirements

The Town Council has the authority to set and amend contribution rates by ordinance for the OMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is .92% of covered payroll. For the year ended June 30, 2015, the Town recognized \$9,146 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$129,921. Employees contribute a fixed 3.75% to the plan in accordance with the plan provisions adopted by the Town Council.

Actuarial Assumptions

Date of Last Actuarial Valuation	July 1, 2014
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments and Discount Rate	7.75%
c. Projected Salary Increase	Rates by age
d. Post Retirement cost-of-Living Increase	None
e. Inflation Rate	3%

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

f. Mortality Table	UP 1994, with projected mortality improvement
g. Percent of married employees	100%
h. Spouse age difference	3 years (female spouses younger)
i. Turnover	<p>Select and ultimate rates Ultimate rates are age-related as shown</p> <p>Additional rates per thousand are added during the first 5 years:</p> <p style="margin-left: 40px;">Year 1: 215 Year 2: 140 Year 3: 95 Year 4: 65 Year 5: 40</p>
j. Date of last experience study	September 2012 for fiscal years 2007 thru 2011

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan’s net fiduciary position is projected to be sufficient to make projected benefit payments.

The Town has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of July 1, 2014 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Large cap stocks S&P 500	25%	5.40%	1.35%
Small/mid cap stocks Russell 2500	10%	7.50%	0.75%

Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Long/short equity MSCI ACWI	10%	6.10%	0.6
International stocks MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate NCREIF	5%	4.80%	0.24%
Cash equivalents 3 month Treasury	<u>0%</u>	0.00%	<u>0.00%</u>
TOTAL	<u>100%</u>		
Average Real Return			4.75%
Inflation			<u>3.00%</u>
Long-term expected return			<u>7.75%</u>

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2014 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2014 and the Town's report ending date of June 30, 2015, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the Town, calculated using the discount rate of 7.75 percent, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Employers' net pension liability	\$ 29,353	\$ 1,192	\$ (22,670)

The Town reported \$ 3,608 in pension expense for the year ended June 30, 2015. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2015

3. Other Information – Continued

D. Employee Retirement Systems—Continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	10,333
Town contributions subsequent to the measurement date	<u>7,917</u>	<u>-----</u>
Total	<u>\$ 7,917</u>	<u>\$ 10,333</u>

\$10,333 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (2,583)
2017	(2,583)
2018	(2,583)
2019	<u>(2,584)</u>
	<u>\$ (10,333)</u>

4. Subsequent Events

Management has evaluated subsequent events through the date of the audit report which is the date the financial statements were available to be issued and has determined that no additional information is required to be added to the financial statements.

5. Restatement of Beginning Net Position

Net position of the Government-Wide Governmental Activities financial statements has been restated to include the pension liability at the beginning of the period in accordance with GASB 68. As a result of the restatement, total beginning net position has decreased by \$66,432. The prior period financial statements were not reissued or restated as a result of this change in accounting principle.

Town of Billings
Billings, Oklahoma

Required Supplemental Information
June 30, 2015

Town of Billings
Billings, Oklahoma

Required Supplemental Information on
Pension Plan Funding Progress
Year Ended June 30, 2015

Exhibit 1
Schedule of the Town of Billings' Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years*

	<u>2014</u>
City's proportion of the net pension liability	0.0042%
City's proportionate share of the net pension liability	\$ 42,922
City's covered-employee payroll	0
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	0%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

Exhibit 2
Schedule of City Contributions
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years

	<u>2014</u>
Statutorily required contribution	\$1,560
Contributions in relation to the statutorily required contribution	<u>1,560</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	0
Contributions as a percentage of covered-employee payroll	0%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.
Billings is a volunteer fire department so there is not covered payroll.

Town of Billings
Billings, Oklahoma

Required Supplemental Information on
Pension Plan Funding Progress
Year Ended June 30, 2015

Exhibit 3
Oklahoma Municipal Retirement Fund
Schedule of Changes in Net Pension Liability and Related Ratios Last Fiscal Year

	<u>2014</u>
Total pension liability	
Service cost	\$ 10,783
Interest	14,965
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(4,295)</u>
Net change in total pension liability	21,452
Total pension liability – beginning	<u>184,419</u>
Total pension liability - ending (a)	<u>\$ 205,871</u>
Plan fiduciary net position	
Contributions - employer	\$ 9,146
Contributions - member	4,872
Net investment income	28,016
Benefit payments, including refunds of member contributions	(4,295)
Administrative expense	(4,709)
Other	-
Net change in plan fiduciary net position	<u>37,234</u>
Plan fiduciary net position – beginning	<u>167,355</u>
Plan fiduciary net position - ending (b)	<u>\$ 204,679</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,192</u>
Plan fiduciary net position as a percentage of the total pension liability	99.42%
Covered employee payroll	\$ 129,921
Net pension liability as a percentage of covered- employee payroll	0.92%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

Town of Billings
Billings, Oklahoma

Required Supplemental Information on
Pension Plan Funding Progress
Year Ended June 30, 2015

Exhibit 4
Required Supplementary Information
Oklahoma Municipal Retirement Fund
Schedule of Employer Contributions Last Fiscal Year

	<u>2014</u>
Actuarially determined contribution	\$ 13,343
Contributions in relation to the actuarially determined contribution	<u>13,343</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 129,921
Contributions as a percentage of covered-employee payroll	10.27%

Notes to Schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.
2. Latest Valuation Date: July 1, 2014
3. Actuarially determined contribution rate is calculated as of July 1, 2013 and July 1, 2014
4. Methods and assumptions used to determine contribution rates:
Actuarial cost method - Entry age normal
Amortization method - Level percent of payroll, closed
Remaining amortization period - 29 years
Asset valuation method - Actuarial:
Smoothing period - 4 years
Recognition method - Non-asymptotic
Corridor - 70% - 130%
Salary increases - 4.00% to 7.42% (varies by attained age)
Investment rate of return - 7.50%

Town of Billings
Budget and Actual (with Variances)
General Fund
for the year ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts -</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	203,500	203,500	297,171	93,671
Fees and fines	5,000	5,000	3,447	(1,553)
Licenses and permits	-	-	70	70
Intergovernmental	-	-	-	-
Charges for services	7,500	7,500	4,366	(3,134)
Investment earnings	5,500	5,500	-	(5,500)
Miscellaneous	5,000	5,000	33,021	28,021
Total revenues	<u>226,500</u>	<u>226,500</u>	<u>338,075</u>	<u>111,575</u>
EXPENDITURES				
Current:				
General government	126,500	126,500	136,437	(9,937)
Public Safety	53,000	53,000	101,630	(48,630)
Highways and roads	42,500	42,500	42,892	(392)
Health and sanitation	-	-	-	-
Culture and recreation	-	-	-	-
Education	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	70,890	(70,890)
Total Expenditures	<u>222,000</u>	<u>222,000</u>	<u>351,849</u>	<u>(129,849)</u>
Excess (deficiency) of revenues over expenditures	<u>4,500</u>	<u>4,500</u>	<u>(13,774)</u>	<u>(18,274)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	31,000	(31,000)
Transfers out	-	-	(26,839)	26,839
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>4,161</u>	<u>(4,161)</u>
SPECIAL ITEM				
Proceeds from sale capital assets	-	-	-	-
Net change in fund balances	<u>4,500</u>	<u>4,500</u>	<u>(9,613)</u>	<u>14,113</u>
Fund balances - beginning	103,784	103,784	103,784	-
Fund balances - ending	<u>\$ 108,284</u>	<u>\$ 108,284</u>	<u>\$ 94,171</u>	<u>\$ 14,113</u>

The notes to the required supplemental information is an integral part of this financial statement.

Town of Billings
Billings, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2013
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis when service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the Mayor submits a proposed operating budget for fiscal year commencing July 1, to the Council (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlays, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the Town Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The Town uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

Town of Billings
Billings, Oklahoma

Supplemental Information
June 30, 2015

Town of Billings
Billings, Oklahoma

Schedule of Expenditures of Federal & State Awards
for the Year Ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>
REAP Grants			
NODA 2013 REAP - Fund NB13-1 (Closed November, 2014)	\$ 44,450	\$ 7,499	\$ -
US Department of Agriculture			
Fire Grant	4,484	4,484	4,484

note A – Basis of Presentation

This schedule includes the federal grant activity of the Town of Billings and is presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of the basic financial statements.

Town of Billings
Billings, Oklahoma

Report Required by
Government Auditing Standards
June 30, 2015

**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**

Honorable Town Council
Town of Billings
Billings, Oklahoma 74630

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Billings, State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Billings, Oklahoma's basic financial statements, and have issued my report thereon dated January 6, 2016. The report on governmental and business-type activities was qualified because of the lack of fixed asset records and failure to provide depreciation on those fixed assets. Additionally, the Town did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of notes and responses to be a material weakness. 2015-01;2015-02;2015-03.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2015-02;2015-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Billings, State of Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Billings, State of Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit Town of Billings, State of Oklahoma's response and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff, CPA, PC

Oklahoma City, OK 73172
January 6, 2016

Town of Billings
Billings, Oklahoma

Schedule of Findings & Responses

2015-01 Internal Control – Segregation of Duties

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the Town.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the Town strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Management agrees with the recommendation. The economic benefits received from segregation of duties may be less than the cost of the implementation.

2015-02 Internal Control – Material Adjusting Journal Entries

Criteria: The Town's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the Town's accounting records. For trial balances to be both complete and accurate, the Town must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, Town management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The Town's trial balances for the year ended June 30, 2015, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The Town's accounting and financial reporting staff lacks the necessary expertise relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance.

Effect of Potential Effect: As a result of this condition, without reliance on its external auditors, the Town lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regard to the trial balance.

Town of Billings
Billings, Oklahoma

Schedule of Findings & Responses

Recommendation: The Town should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the Town's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation. Templates have been provided to the Town to assist in preparing an adequate trial balance and financial statements.

2013-03 Internal Control—Cash Handling

Condition: Cash receipts for pool admissions and concession is not being reconciled to admission logs or inventory purchased for the concession stand

Criteria: Controls should be maintained to determine the number of admissions paid to use of the pool and concessions sold. Inventory for the concession must be documented to ensure proper costing of materials.

Effect: The opportunity exists for revenue to be understated on the financial statements and cash funds to not be deposited to the general fund. Inventory at the concession is improperly handling resulting in possible understatement of expenses for the pool.

Recommendation: Daily logs of number of users admitted to the pool should be completed and reconciled to admissions cash received (i.e. number of users times admission price equals money deposited). Concession stand should have a type of cash register system with a daily balancing and deposits. These documents should be reconciled and reviewed on a monthly basis.

Response: Management agrees there is a lack of control and will take necessary steps to follow good cash handling procedures.