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FOR**

TOWN OF INOLA, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2015

**OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA**

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JUNE 30, 2015**

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OBER & LITTLEFIELD, CPAs, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE 918-542-8165 FAX

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Inola, State Oklahoma as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Inola's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Inola, State of Oklahoma, as of June 30, 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 the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 52 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the Town of Inola, State of Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Inola, State of Oklahoma's internal control over financial reporting and compliance.



Ober & Littlefield, CPAs, PLLC
Miami, Oklahoma

December 18, 2015

**TOWN OF INOLA, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2015**

The discussion and analysis of the Town of Inola's financial performance provides an overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the accompanying basic financial statements. This discussion and analysis does not include comparative data for prior years, as this information is not available for the first year of implementation of Governmental Accounting Standards Board (GASB) Statement Number 34. Future years will include, when available, comparative analysis of government-wide data.

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

WHO WE ARE

As of June 30, 2015 the mayor, council members, clerk and treasurer, all of whom are elected, consisted of the following:

Mayor	Larry Grigg
Council Members	James Kilpatrick Cheryl Charles Billy Wilson Darlene Shear
Treasurer	Glennie Spurlock
Clerk	Vickie Johnson

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

FINANCIAL HIGHLIGHTS

- The total assets of the Town for its governmental and business-type activities exceeded its liabilities as of June 30, 2015 by \$4,459,006 as reflected in Statement 1. This excess is summarized as follows:

Invested in capital assets, net of related debt	\$2,914,875
Restricted for various purposes	207,062
Unrestricted	<u>1,337,069</u>
	<u>\$4,459,006</u>

- The Town's net position for all funds increased \$250,280 during the current fiscal year, representing a 5.95% increase. This is reflected in Statement 2.
- The Town's General Fund balance as reflected in the "Statement of Revenues, Expenditures, and Changes in Fund Balances" (Statement 4) increased by \$156,238, a 27.8% increase. This is further discussed later in this report.
- All governmental funds of the Town increased \$118,260 during the current fiscal year, which is a 12.8% increase. (Statement 4)
- The Town's governmental capital assets (net of depreciation) increased \$160,158 during the current year, a 29% increase. Details on this are in Note 3.D. to the financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes To The Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town and its component unit, assets exceeded liabilities by \$4,459,006 at the close of the current fiscal year.

As shown on Table 1, the largest portion of the Town's net position, \$2,914,875, reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The Town and its component unit uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Town's net position, \$39,606 represents cash that is reserved to repay the debt on capital assets. \$76,483 is restricted legally for cemetery use and \$83,208 is legally restricted for Street and Alley purposes.

Included in current assets for Governmental Activities is \$992,921 of cash. None of this is reserved for any special purpose.

At the end of the fiscal year ended June 30, 2015, The Town reported positive balances in all three categories of net position, both for the Town as a whole, as well as for its separate governmental and business-type activities.

TABLE 1
SUMMARY OF NET POSITION
JUNE 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current assets	\$1,083,895	\$1,143,848	\$ 542,684	\$ 630,047	\$1,626,579	\$1,773,895
Capital assets	712,665	552,507	3,982,616	4,058,574	4,695,281	4,611,081
Restricted and other assets	<u>787</u>	<u>--</u>	<u>90,717</u>	<u>90,820</u>	<u>91,504</u>	<u>90,820</u>
Total assets	<u>1,797,347</u>	<u>1,696,355</u>	<u>4,616,017</u>	<u>4,779,441</u>	<u>6,413,364</u>	<u>6,475,796</u>
Current and other liabilities	53,438	219,487	150,965	316,050	204,403	535,537
Long-term liabilities	<u>162,810</u>	<u>37,976</u>	<u>1,587,145</u>	<u>1,693,557</u>	<u>1,749,955</u>	<u>1,731,533</u>
Total liabilities	<u>216,248</u>	<u>257,463</u>	<u>1,738,110</u>	<u>2,009,607</u>	<u>1,954,358</u>	<u>2,267,070</u>
Net position						
Invested in capital assets, net of related debt	575,706	552,507	2,339,169	2,310,812	2,914,875	2,863,319
Restricted	167,456	142,485	39,606	40,712	207,062	183,197
Unrestricted	<u>837,937</u>	<u>743,900</u>	<u>499,132</u>	<u>418,310</u>	<u>1,337,069</u>	<u>1,162,210</u>
Total net position	<u>\$1,581,099</u>	<u>\$1,438,892</u>	<u>\$2,877,907</u>	<u>\$2,769,834</u>	<u>\$4,459,006</u>	<u>\$4,208,726</u>

TABLE 2
Changes in Net Position
Year Ended June 30, 2015 and 2014

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program revenues						
Charges for services	\$ 87,118	\$ 75,733	\$ 619,810	\$ 628,731	\$ 706,928	\$ 704,464
Operating grants & contributions	42,261	33,739	--	--	42,261	33,739
Capital grants & contributions	--	96,932	50,000	--	50,000	96,932
General revenues:						
Sales tax	405,893	345,208	202,947	172,604	608,840	517,812
Other taxes	239,471	157,911	--	--	239,471	157,911
Other general revenues	15,496	29,397	5,017	8,239	20,513	37,636
Transfers - internal activity	<u>31,500</u>	<u>228,259</u>	<u>(31,500)</u>	<u>(228,259)</u>	<u>--</u>	<u>--</u>
Total revenues	<u>821,739</u>	<u>967,179</u>	<u>846,274</u>	<u>581,315</u>	<u>1,668,013</u>	<u>1,548,494</u>
Expenses						
Administrative and accounting	210,246	303,439	--	--	210,246	303,439
Public safety	375,542	324,768	--	--	375,542	324,768
Street	17,182	18,574	--	--	17,182	18,574
Cultural, recreation & library	76,562	85,749	--	--	76,562	85,749
Utilities	<u>--</u>	<u>--</u>	<u>738,201</u>	<u>766,086</u>	<u>738,201</u>	<u>766,086</u>
Total expenses	<u>679,532</u>	<u>732,530</u>	<u>738,201</u>	<u>766,086</u>	<u>1,417,733</u>	<u>1,498,616</u>
Increase in net position	<u>\$ 142,207</u>	<u>\$ 234,649</u>	<u>\$ 108,073</u>	<u>\$(184,771)</u>	<u>\$ 250,280</u>	<u>\$ 49,878</u>

Governmental Activities. Governmental activities increased the Town's net position by \$142,207 for the current fiscal year, a 9.6% increase in the net position of the Town's Governmental Funds. This growth was due to changes in the fund balances of the various funds as follows:

General Fund	\$ 156,238
Library Savings	178
Street and Alley	7,829
Cemetery Fund	9,378
Volunteer Fire Fund	(62,623)
Police Fund	(47)
Park	(19)
Library Grant	<u>7,326</u>
	<u>\$ 118,260</u>

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

Business-type Activities. Business-type activities, i.e. the Inola Public Works Authority, had an increase in net position of \$108,073 and is discussed further later in this report.

FINANCIAL ANALYSIS OF THE TOWN'S MAJOR FUNDS

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

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

General Fund

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$718,237, constituting 100% of the fund balance, which was \$156,238 or 27.8% more than the prior year's General Fund balance. Revenues were higher than the previous year.

Fire Department Fund

The Fire Department Fund decreased its fund balance by \$62,623. This is primarily due to capital outlay and payments regarding the purchase of a new fire truck.

Inola Public Works Authority

The highlights of the fiscal year ending June 30, 2015 are as follows:

- The Authority's net position increased by \$108,073 during the year. The prior year had an excess, one-time transfer to the General Fund, which caused a prior year loss.
- Cash decreased \$137,724 for the year (Statement of Cash Flows). Unrestricted cash decreased \$141,137. Cash decreased primarily due to a payment at prior year end payable, one of which was a lone-time, but substantially large, amount.
- Long-term debt decreased \$104,315 due to normally scheduled debt retirements.

The Authority remains extremely solvent considering current requirements. Current assets are \$542,684 compared to current liabilities of \$150,965. Operating income (before non-operating revenues and expenses) was a loss of \$72,277. Included in the operating results is \$142,101 of depreciation and amortization for the current year, an increase of \$13,819 from the prior year. As noted in the highlights, unrestricted cash decreased \$141,137 and total cash decreased \$137,721.

GENERAL FUND BUDGETARY

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

TABLE 3
SUMMARY ANALYSIS OF GENERAL BUDGET
FISCAL YEAR ENDING JUNE 30, 2015

<u>Category</u>	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budget Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
Revenue				
Sales tax	\$ 284,516	\$ 284,516	\$ 417,953	\$ 133,437
All other taxes	130,260	130,260	215,727	85,467
All other revenues	<u>70,108</u>	<u>70,108</u>	<u>64,717</u>	<u>(5,391)</u>
Total revenues	<u>484,884</u>	<u>484,884</u>	<u>698,397</u>	<u>213,513</u>
Expenditures				
Administrative & accounting	194,560	194,560	205,629	(11,069)
Public safety (1)	323,955	323,955	274,328	49,627
Other	<u>445,186</u>	<u>445,186</u>	<u>56,741</u>	<u>388,445</u>
Total expenditures	<u>963,701</u>	<u>963,701</u>	<u>536,698</u>	<u>427,003</u>
Total excess (deficiency) of revenues over expenditures	(478,817)	(478,817)	161,699	640,516
Beginning fund balance	<u>478,817</u>	<u>478,817</u>	<u>478,817</u>	<u>--</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 640,516</u>	<u>\$ 640,516</u>

(1) Includes Municipal Court and Police

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

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

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of June 30, 2015 amounted to \$4,695,281 (net of accumulated depreciation) This investment, detailed in Table 4, in a broad range of capital assets includes land, structures and improvements and equipment.

TABLE 4
CAPITAL ASSETS (NET OF DEPRECIATION)
June 30, 2015 and 2014

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Infrastructure	\$ 86,283	\$ 88,536	\$ --	\$ --	\$ 86,283	\$ 88,536
Land	58,013	58,013	104,193	104,193	162,206	162,206
Buildings	72,196	75,696	--	--	72,196	75,696
Machinery and equipment	496,173	330,262	14,312	11,398	510,485	341,660
Utility property	--	--	3,864,111	3,942,983	3,864,111	3,942,983
Capital assets, net	<u>\$ 712,665</u>	<u>\$ 552,507</u>	<u>\$3,982,616</u>	<u>\$4,058,574</u>	<u>\$4,695,281</u>	<u>\$4,611,081</u>

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

- Depreciation for governmental assets was \$63,385 for the current year.
- Depreciation for business assets was \$142,101.
- Purchase of a new fire truck at a cost of \$189,995

Debt Administration

The Town's long term debt increased from \$-0- at the beginning of the year to \$136,959 at year end. This was the result of issuing debt of \$189,995 for the purchase of a new fire truck with \$53,040 of principal payments during the year.

The Authority's long-term debt decreased \$104,315 during the year.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGET

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

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

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

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

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

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

CONTACTING THE TOWN'S FINANCE DEPARTMENT

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

**T OWN OF INOLA, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2015**

Statement 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 992,921	\$ 370,643	\$1,363,564
Taxes receivable	80,624	31,435	112,059
Accounts receivable (net)	--	74,822	74,822
Receivable from other funds	--	2,868	2,868
Grant receivable	10,350	50,000	60,350
Due from restricted assets	<u> --</u>	<u>12,916</u>	<u>12,916</u>
Total current assets	<u>1,083,895</u>	<u>542,684</u>	<u>1,626,579</u>
Noncurrent assets:			
Restricted assets:			
Cash, including time deposits	--	103,633	103,633
Due (to) general obligations	--	(12,916)	(12,916)
Capital assets (net)	<u>712,665</u>	<u>3,982,616</u>	<u>4,695,281</u>
Total noncurrent assets	<u>712,665</u>	<u>4,073,333</u>	<u>4,785,998</u>
Total assets	<u>1,796,560</u>	<u>4,616,017</u>	<u>6,412,577</u>
Deferred outflow of resources			
Total deferred outflows	<u>787</u>	<u> --</u>	<u>787</u>
LIABILITIES			
Current liabilities			
Accounts payable	26,912	36,421	63,333
Accrued wages and taxes	11,494	7,131	18,625
Current portion of long-term debt	12,164	107,413	119,577
Due to other funds	<u>2,868</u>	<u> --</u>	<u>2,868</u>
Total current liabilities	<u>53,438</u>	<u>150,965</u>	<u>204,403</u>
Noncurrent liabilities:			
Notes payable, less current portion	124,795	1,536,034	1,660,829
Utility deposits	--	51,111	51,111
Net pension liability	<u>33,017</u>	<u> --</u>	<u>33,017</u>
Total noncurrent liabilities	<u>157,812</u>	<u>1,587,145</u>	<u>1,744,957</u>
Total liabilities	<u>211,250</u>	<u>1,738,110</u>	<u>1,949,360</u>
Deferred inflow of resources			
Total deferred inflows	<u>4,998</u>	<u> --</u>	<u>4,998</u>
NET POSITION			
Invested in capital assets, net of related debt	575,706	2,339,169	2,914,875
Restricted for:			
Grants	7,765	--	7,765
Cemetery	76,483	--	76,483
Street & Alley	83,208	--	83,208
Debt service	--	39,606	39,606
Unrestricted	<u>837,937</u>	<u>499,132</u>	<u>1,337,069</u>
Total net position	<u>\$ 1,581,099</u>	<u>\$ 2,877,907</u>	<u>\$ 4,459,006</u>

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

TOWN OF IN OLA, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Statement 2

		Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>	
Governmental activities					
General government					
Administrative and Accounting	\$ 203,218	\$ 9,927	\$ 11,650	\$ --	\$(181,641)
Council	<u>7,028</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(7,028)</u>
Total general government	<u>210,246</u>	<u>9,927</u>	<u>11,650</u>	<u>--</u>	<u>(188,669)</u>
Public safety and judiciary					
Town Attorney and Court	6,598	--	--	--	(6,598)
Police	254,356	28,249	1,360	--	(224,747)
Fire	110,106	23,625	15,984	--	(70,497)
Emergency management	3,155	--	--	--	(3,155)
Animal control	<u>1,327</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,327)</u>
Total public safety and judiciary	<u>375,542</u>	<u>51,874</u>	<u>17,344</u>	<u>--</u>	<u>(306,324)</u>
Transportation					
Street	<u>17,182</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(17,182)</u>
Total transportation	<u>17,182</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(17,182)</u>
Cultural, parks and recreation					
Cemetery	15,111	22,352	--	--	7,241
Parks	1,523	--	--	--	(1,523)
Library	<u>59,928</u>	<u>2,965</u>	<u>13,267</u>	<u>--</u>	<u>(43,696)</u>
Total cultural, parks and recreation	<u>76,562</u>	<u>25,317</u>	<u>13,267</u>	<u>--</u>	<u>(37,978)</u>
Total governmental activities	<u>679,532</u>	<u>87,118</u>	<u>42,261</u>	<u>--</u>	<u>(550,153)</u>
Business-type activities:					
Water and sewer	688,767	561,733	--	50,000	(77,034)
Trash	<u>49,434</u>	<u>58,077</u>	<u>--</u>	<u>--</u>	<u>8,643</u>
Total business-type activities	<u>738,201</u>	<u>619,810</u>	<u>--</u>	<u>50,000</u>	<u>(68,391)</u>
Total	<u>\$ 1,417,733</u>	<u>\$ 706,928</u>	<u>\$ 42,261</u>	<u>\$ 50,000</u>	<u>\$(618,544)</u>

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

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

CHANGES IN NET POSITION

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Net (expense) /revenue	\$(550,153)	\$(68,391)	\$(618,544)
General Revenues			
Taxes:			
Sales tax	405,893	202,947	608,840
Use tax	163,065	--	163,065
Alcohol beverage tax	10,802	--	10,802
Cigarette tax	7,271	--	7,271
Gasoline tax	3,370	--	3,370
Motor vehicle tax	13,776	--	13,776
Franchise taxes	41,187	--	41,187
Investment income	4,103	2,035	6,138
Miscellaneous	11,393	2,982	14,375
Transfers - internal activity	<u>31,500</u>	<u>(31,500)</u>	<u>--</u>
Total general revenues	<u>692,360</u>	<u>176,464</u>	<u>868,824</u>
Change in net position	142,207	108,073	250,280
Net position - beginning	<u>1,438,892</u>	<u>2,769,834</u>	<u>4,208,726</u>
Net position - ending	<u>\$ 1,581,099</u>	<u>\$ 2,877,907</u>	<u>\$ 4,459,006</u>

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

TOWN OF INOLA, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

Statement 3

	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Other G overnmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash, including time deposits	\$ 649,358	\$ 146,671	\$ 196,892	\$ 992,921
Taxes receivable	77,720	--	2,904	80,624
Grants receivable	10,350	--	--	10,350
Due from other fund	<u>16,512</u>	<u>--</u>	<u>1,274</u>	<u>17,786</u>
Total assets	<u>\$ 753,940</u>	<u>\$ 146,671</u>	<u>\$ 201,070</u>	<u>\$ 1,101,681</u>
Liabilities				
Accounts payable	\$ 24,209	\$ 1,083	\$ 1,620	\$ 26,912
Accrued expenses	11,494	--	--	11,494
Due other funds	<u>--</u>	<u>1,364</u>	<u>19,290</u>	<u>20,654</u>
	<u>35,703</u>	<u>2,447</u>	<u>20,910</u>	<u>59,060</u>
Fund Balances				
Unassigned	718,237	--	--	718,237
Assigned	--	144,224	12,704	156,928
Restricted	<u>--</u>	<u>--</u>	<u>167,456</u>	<u>167,456</u>
Total fund balance	<u>718,237</u>	<u>144,224</u>	<u>180,160</u>	1,042,621
Total liabilities and fund balances	<u>\$ 753,940</u>	<u>\$ 146,671</u>	<u>\$ 201,070</u>	

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

Other long-term assets are not available to pay current period expenditures, and therefore are deferred in the funds

Pension related outflows 787

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds, net of accumulated depreciation of \$885,585.

712,665

Certain liabilities are not due and payable in the current period from current financial resources and therefore, are not reported in the funds

Net pension liability (33,017)

Pension related deferred inflows (4,998)

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental Fund Balance Sheet.

Due within one year (12,164)

Due in more than one year (124,795)

Net position of governmental activities \$ 1,581,099

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

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	General Fund	Fire Department Fund	Other G overnmental Funds	Total Governmental Funds
Revenues				
Sales tax	\$ 405,893	\$ --	\$ --	\$ 405,893
Other taxes	181,138	--	17,146	198,284
Fines and forfeits	28,249	--	--	28,249
Fire run/contracts	--	23,625	--	23,625
Licenses and permits	9,927	--	--	9,927
Franchise taxes	41,187	--	--	41,187
Interest	2,476	855	772	4,103
Library	2,394	--	--	2,394
Miscellaneous	8,896	174	25,248	34,318
Grants and contributions	<u>11,650</u>	<u>15,984</u>	<u>14,627</u>	<u>42,261</u>
Total revenues	<u>691,810</u>	<u>40,638</u>	<u>57,793</u>	<u>790,241</u>
Expenditures				
Current				
General government				
Administrative and accounting	198,601	--	--	198,601
Council	<u>7,028</u>	--	--	<u>7,028</u>
Total general government	<u>205,629</u>	--	--	<u>205,629</u>
Parks and recreation				
Library	52,259	--	6,347	58,606
Parks	--	--	<u>1,523</u>	<u>1,523</u>
Total parks and recreation	<u>52,259</u>	--	<u>7,870</u>	<u>60,129</u>
Public safety and judiciary				
Town attorney and court	6,598	--	--	6,598
Police	237,250	--	2,407	239,657
Emergency management	3,155	--	--	3,155
Fire	--	74,978	--	74,978
Animal control	<u>1,327</u>	--	--	<u>1,327</u>
Total public safety and judiciary	<u>248,330</u>	<u>74,978</u>	<u>2,407</u>	<u>325,715</u>
Transportation				
Street	--	--	<u>11,029</u>	<u>11,029</u>
Cemetery	--	--	<u>13,342</u>	<u>13,342</u>

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

TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Other G overnmental Funds</u>	<u>Total Governmental Funds</u>
Debt service				
Principal	\$ --	\$ 53,040	\$ --	\$ 53,040
Interest and other charges	<u> --</u>	<u> 1,053</u>	<u> --</u>	<u> 1,053</u>
Total	<u> --</u>	<u> 54,093</u>	<u> --</u>	<u> 54,093</u>
Capital outlay	<u> 30,479</u>	<u> 3,065</u>	<u> --</u>	<u> 33,544</u>
Total expenditures	<u> 536,697</u>	<u> 132,136</u>	<u> 34,648</u>	<u> 703,481</u>
Excess (deficiency) of revenues over expenditures	<u> 155,113</u>	<u>(91,498)</u>	<u> 23,145</u>	<u> 86,760</u>
Other financing sources (uses)				
Transfers in	1,125	28,875	1,500	31,500
Transfers out	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total other financing sources (uses)	<u> 1,125</u>	<u> 28,875</u>	<u> 1,500</u>	<u> 31,500</u>
Net change in fund balances	156,238	(62,623)	24,645	118,260
Fund balances - beginning	<u> 561,999</u>	<u> 206,847</u>	<u> 155,515</u>	<u> 924,361</u>
Fund balances - ending	<u><u>\$ 718,237</u></u>	<u><u>\$ 144,224</u></u>	<u><u>\$ 180,160</u></u>	<u><u>\$1,042,621</u></u>

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

Net change in fund balances - total governmental funds
\$ 118,260

In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense; the Fund Financial Statement reports pension contributions as expenditures 748

Amounts reported for governmental activities in the Statement of Activities are different because:
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures of the life of the assets:

Capital asset purchase capitalized	33,544
Depreciation expenses	<u>(63,385)</u>
	<u>(29,841)</u>

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

Lease with purchase contracts	<u> 53,040</u>
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Change in net position of governmental activities	<u><u>\$ 142,207</u></u>
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The notes to the financial statements are an integral part of this statement.

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
JUNE 30, 2015**

ASSETS		
Current assets		
Cash and cash equivalents	\$ 370,643	
Accounts receivable	74,822	
Due from restricted assets	12,916	
Taxes receivable	31,435	
Due from other funds	2,868	
Grant receivable	<u>50,000</u>	
Total current assets		<u>542,684</u>
Noncurrent assets:		
Restricted assets		
Cash and cash equivalents	103,633	
Due to general operations	(12,916)	
Capital assets (net of depreciation)	<u>3,982,616</u>	
Total noncurrent assets		<u>4,073,333</u>
Total assets		<u>4,616,017</u>
LIABILITIES		
Current liabilities		
Accounts payable	36,421	
Accrued expenses	7,131	
Current portion of long-term debt	<u>107,413</u>	
Total current liabilities		<u>150,965</u>
Noncurrent liabilities		
Payable from restricted assets		
Utility deposits	51,111	
Long-term debt		
Notes payable, less current portion	<u>1,536,034</u>	
Total noncurrent liabilities		<u>1,587,145</u>
Total liabilities		<u>1,738,110</u>
NET POSITION		
Investment in capital assets, net of related debt	2,339,169	
Restricted for debt retirement	39,606	
Retained earnings - unreserved	<u>499,132</u>	
Total net position		<u>\$2,877,907</u>

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

TOWN OF INOLA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2015

Operating revenues	
Utility charges	\$ 619,810
Miscellaneous	<u>2,982</u>
Total operating revenues	<u>622,792</u>
Operating expenses	
Purchase of water	156,585
Purchase of trash services	49,434
Office and general expense	78,617
Salaries and benefits	139,580
Plant and distribution expenses	128,752
Depreciation	<u>142,101</u>
Total operating expense	<u>695,069</u>
Net operating income (loss)	<u>(72,277)</u>
Nonoperating revenue (expenses)	
Grant revenues	50,000
Interest expense	(43,132)
Sales tax revenue	202,947
Investment income	<u>2,035</u>
Total nonoperating revenue (expenses)	<u>211,850</u>
Net income before operating transfers	139,573
Operating transfers out	<u>(31,500)</u>
Net income (loss)	108,073
Net position - beginning of year	<u>2,769,834</u>
Net position - end of year	<u>\$2,877,907</u>

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

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2015**

Cash flows from operating activities:	
Receipts from customers	\$ 619,372
Payments to suppliers	(591,168)
Payments to employees and benefits	(132,853)
Receipts over refunds of customer meter deposits	<u>1,003</u>
Net cash provided (used) by operating activities	<u>(103,646)</u>
Cash flows from noncapital financing activities:	
Sales tax	208,977
Operating transfers to/from other funds (net)	<u>(31,500)</u>
Net cash provided by noncapital financing activity	<u>177,477</u>
Cash flows from capital and related financing activities:	
Payments on long-term debt	(104,315)
Interest paid	(43,132)
Purchase of capital assets, net	<u>(66,143)</u>
Net cash provided (used) by capital and related financing activities	<u>(213,590)</u>
Cash flows from investing activities:	
Interest	<u>2,035</u>
Net cash provided (used) by investing activities	<u>2,035</u>
Net increase (decrease) in cash and cash equivalents	(137,724)
Balances - beginning of the year	<u>612,000</u>
Balances - end of the year	<u>\$ 474,276</u>
Cash, including time deposits	\$ 370,643
Restricted cash, including time deposits	<u>103,633</u>
Total cash and cash equivalents, end of year	<u>\$ 474,276</u>

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

**TOWN OF INOLA, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
INOLA PUBLIC WORKS AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2015**

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

Operating income (loss)	\$(72,277)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows in other categories:	
Depreciation and amortization expense	142,101
Change in assets and liabilities:	
(Increase) in receivables	(3,420)
(Increase) in due from other funds	(2,868)
Increase in accounts payable	8,219
Increase in customer meter deposits payable	1,003
Increase in accrued expenses	6,727
(Decrease) in due to other funds	<u>(183,131)</u>
	<u>\$(103,646)</u>

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

TOWN OF INOLA, OKLAHOMA
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TOWN OF INOLA, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1.A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity comprises the following:

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

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

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

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

Blended Component Unit

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

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

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounting for in other funds

Special Revenue Funds

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

Capital Project Funds

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

Debt Service Fund

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

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The Inola Public Works Authority is the only enterprise fund.

Major and Non-Major Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

The effect of this change is as follows:

1. Government-wide Statement of Net Position and Statement of Activities
 - a. Proprietary Fund - Inola Public Works Authority - In the current year, sales tax received in July and August, 2015 (representing sales tax collection in May and June, 2015) has been reflected.

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

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

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

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

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

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

Budget Basis of Accounting

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

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the end of the fiscal year plus 90% of its revenues for the year just ended. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

Receivables

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

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

Fixed Assets

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

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

Government-wide statements

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

As of June 30, 2015, the governmental funds' infrastructure assets have not been capitalized, which, in accordance with GASB 34, is not required.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the

straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

Fund Financial Statements

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

Restricted Assets

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

Long-term Debt

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

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

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

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

Use Tax

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Proprietary Fund - By Operating and Nonoperating

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

Interfund Transfers

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

Operating/Non-Operating Revenues - Proprietary Funds

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

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

2.C. REVENUE RESTRICTIONS

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

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

For the year ended June 30, 2015, the Town complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Article 10, Sections 26 and 27, for the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for nonutility or nonstreet purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2015, the Town complied with this provision.

Other Long-term Debt

Except as noted in the preceding paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. For the year ended June 30, 2015, the Town incurred no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

Deficit Prohibition

Title 11, Section 17-211, of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town of Inola complied with this statute in all material respects for the year ended June 30, 2015.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND INVESTMENTS

Deposits

The Town's policies regarding deposits of cash are discussed in Note 1.E. The table presented below is designed to disclose the level of custody credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2015. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's or Authority's name; or collateralized with no written or approved collateral agreement.

Type of Deposits	<u>Total Bank Balance</u>	<u>Category 1</u>	<u>Credit Risk 2</u>	<u>Category 3</u>	<u>Total Carrying Value</u>
PWA	\$ 475,023	\$276,121	\$ 198,902	\$ --	\$ 474,013
Town	<u>993,091</u>	<u>250,000</u>	<u>743,091</u>	<u>--</u>	<u>992,921</u>
Total deposits	<u>\$ 1,468,114</u>	<u>\$526,121</u>	<u>\$ 941,993</u>	<u>\$ --</u>	<u>\$1,466,934</u>
Reconciliation to Government-wide Statement of Net Position:					
Unrestricted cash, including time deposits					\$1,363,301
Restricted cash, including time deposits					<u>103,633</u>
					<u>\$1,466,934</u>

3.B. RESTRICTED NET POSITION

The following is a summary of the restricted assets, which consist of cash and money market funds and related liabilities at June 30, 2015:

Amounts reserved from retained earnings:

OWRB Loan Sinking Fund	\$ 26,121
U.S. Department of Agriculture	<u>13,485</u>
Total reserved from retained earnings	<u>39,606</u>

Amounts due for utility deposits:

Cash in bank	64,027
Less: Due general operations	<u>(12,916)</u>
	<u>51,111</u>

Total restricted assets	<u>\$ 90,717</u>
-------------------------	------------------

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

The reserve for utility deposits represents deposits for utilities by customers and is not refunded until the customer is no longer receiving utilities from the Authority. As of June 30, 2015, this fund had an excess of \$12,916 over the utility deposits outstanding. This is the result of interest earned and depositing revenues to this fund in error

3.C. ACCOUNTS RECEIVABLE

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance at July 1, 2014	Additions	Disposals	Balance at June 30, 2015
Governmental activities:				
Infrastructure	\$ 90,132	\$ --	\$ --	\$ 90,132
Land	58,013	--	--	58,013
Buildings	200,000	--	--	200,000
Machinery and equipment	<u>1,026,562</u>	<u>223,543</u>	<u>--</u>	<u>1,250,105</u>
Totals at historical cost	<u>1,374,707</u>	<u>223,543</u>	<u>--</u>	<u>1,598,250</u>
Less accumulated depreciation				
Infrastructure	(1,596)	(2,253)	--	(3,849)
Buildings	(124,304)	(3,500)	--	(127,804)
Machinery and equipment	<u>(696,300)</u>	<u>(57,632)</u>	<u>--</u>	<u>(753,932)</u>
Total accumulated depreciation	<u>(822,200)</u>	<u>(63,385)</u>	<u>--</u>	<u>(885,585)</u>
Governmental activities capital assets, net	<u>\$ 552,507</u>	<u>\$ 160,158</u>	<u>\$ --</u>	<u>\$ 712,665</u>
Business-type activities:				
Land	104,193	--	--	104,193
Machinery and equipment	160,830	12,143	--	172,973
Utility property	<u>6,132,717</u>	<u>54,000</u>	<u>--</u>	<u>6,186,717</u>
Totals at historical cost	<u>6,397,740</u>	<u>66,143</u>	<u>--</u>	<u>6,463,883</u>
Less accumulated depreciation:				
Machinery and equipment	(149,432)	(9,229)	--	(158,661)
Utility property	<u>(2,189,734)</u>	<u>(132,872)</u>	<u>--</u>	<u>(2,322,606)</u>
Total accumulated depreciation	<u>(2,339,166)</u>	<u>(142,101)</u>	<u>--</u>	<u>(2,481,267)</u>
Business-type capital assets, net	<u>\$ 4,058,574</u>	<u>\$(75,958)</u>	<u>\$(--)</u>	<u>\$ 3,982,616</u>

*Depreciation expense was charged to governmental activities as follows:

General government:	
Administrative and accounting	\$ <u>4,617</u>
Total general government	<u>4,617</u>
Public safety and judiciary:	
Police	14,699
Fire	<u>34,823</u>
Total public safety and judiciary	<u>49,522</u>
Streets	<u>6,155</u>
Cultural, parks and recreation:	
Library	1,322
Cemetery	<u>1,769</u>
Total cultural, parks and recreation	<u>3,091</u>
Total depreciation expense	<u>\$ 63,385</u>

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

3.E. ACCOUNTS PAYABLE

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

3.F. LONG-TERM DEBT

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

Governmental Activities

The following is a summary of the Town's (excluding Proprietary Funds) long-term debt transactions for the year ended June 30, 2015:

Debt outstanding, July 1, 2014	\$ --
Issued	189,999
Retirements	<u>(53,040)</u>
Debt outstanding June 30, 2015	<u>\$ 136,959</u>

	<u>Total</u>	<u>Due Within One Year</u>
A note in the amount of \$189,999, with \$50,000 down and payments of \$1,364.37 for 10 years at 4.25% interest. Proceeds used to purchase a fire truck.	\$ 136,959	\$ 12,164
Less current portion	<u>12,164</u>	
	<u>\$ 124,795</u>	

Business-Type Activities

The following is a summary of the Inola Public Works Authority's long-term debt transactions for the year ended June 30, 2015.

Debt outstanding July 1, 2014	\$ 1,747,762
Retirements	<u>(104,315)</u>
Debt outstanding June 30, 2015	<u>\$ 1,643,447</u>

The following is a summary of the Authority's long-term debt for the year ended June 30, 2015:

	<u>Total</u>	<u>Due Within One Year</u>
Advances on a note in the amount of \$2,000,000, dated June 2, 2014. Payments will begin after construction of a waste water treatment facility is completed. Stated interest rate is 2.18%.	\$1,443,257	\$ 70,294
A note in the amount of \$625,000 dated April 29, 1997. Interest and administrative fees totaling 3.683% per annum is to be paid semiannually beginning September 15, 1997. Payments of principal, which will commence no later than September 15, 1997, are due semiannually in an amount sufficient to amortize the loan over 20 years.	<u>\$ 200,190</u>	<u>\$ 37,119</u>
Less current portion	<u>1,643,447</u> <u>107,413</u>	<u>\$107,413</u>
	<u>\$1,536,034</u>	

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

	<u>Principal</u> *	<u>Interest</u> *
Year ended June 30, 2015	107,413	46,007
Year ended June 30, 2016	110,859	42,561
Year ended June 30, 2017	114,290	39,128
Year ended June 30, 2018	117,829	35,590
Year ended June 30, 2019	121,386	32,023
Five year period ending June 30, 2025	425,412	120,319
Five year period ending June 30, 2030	486,901	58,831
Two year period ending June 30, 2032	159,357	4,362

3.G EMPLOYEE RETIREMENT SYSTEM

Oklahoma Firefighters' Pension and Retirement System

Plan description - The Town of Inola, as the employer, participates in the Firefighters Pension and Retirement, a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension and 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 the Plan's administrative web site.

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% 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 of 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 of 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 year 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. Cities are required to contribute \$60 for each volunteer up to a maximum of 20 volunteers. Contributions to the pension plan from the Town were \$1,200 (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.

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 net pension liability of \$33,017 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 asset 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 0.0032%.

For the year ended June 30, 2015, the Town recognized pension expense of \$452. 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	\$ 787	\$ --
Changes of assumptions	--	--
Net difference between projected and actual earnings on pension plan investments	--	4,998
Changes in proportion and differences between Town contributions and proportionate share of contributions	--	--
Town contributions subsequent to the measurement date	<u>1,200</u>	<u>--</u>
Total	<u>\$ 1,987</u>	<u>\$ 4,998</u>

\$1,200 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 pension will be recognized in pension expense as follows:

Year ended June 30

2016	\$(1,000)
2017	(1,000)
2018	(1,000)
2019	(1,000)
2020	(148)
Thereafter	<u>(63)</u>
	<u>\$(4,211)</u>

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

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 health 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 weighing 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>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 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Employer's net pension liability (asset) \$ 24,471		\$ 42,970	\$ 33,017

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.

3.H. DUE TO/FROM OPERATING TRANSFERS

As of June 30, 2015, interfund receivables and payables which resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 16,512	\$ --
Street and Alley	1,274	--
Library Savings	--	120
Fire	--	1,364
Library Grant	--	1,927
Cemetery	--	17,243
Inola Public Works Authority	<u>2,868</u>	<u>--</u>
	<u>\$ 20,654</u>	<u>\$ 20,654</u>

- a. Due to/Due from - Monthly, the Town of Inola pays vendors and employees that are suppliers and employees of both the Authority and the Town, and then bills the Authority and other appropriate funds.
- b. Operating Transfers - The Authority, in its operating budget, approved the transfer of funds to the Town for the benefit of its Fire Department and General Fund. Such transfers were \$28,875 to the Fire Department, \$1,125 to the General Fund and \$1,500 to the Park Fund.

3.I. NET FUND BALANCE

The net position at June 30, 2015 consists of:

	<u>Unassigned</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Total</u>
General Fund	\$718,237	\$ --	\$ --	\$ --	\$ 718,237
Volunteer Fire Fund	--	--	--	144,224	144,224
Grant Fund	--	1	--	--	1
Cemetery	--	76,483	--	--	76,483
Police	--	--	--	11,866	11,866
Library Savings	--	--	--	760	760
Library Grant	--	7,764	--	--	7,764
Park	--	--	--	78	78
Street & Alley	<u>--</u>	<u>83,208</u>	<u>--</u>	<u>--</u>	<u>83,208</u>
	<u>\$718,237</u>	<u>\$167,456</u>	<u>\$ --</u>	<u>\$156,928</u>	<u>\$1,042,621</u>

3.J. RISK MANAGEMENT/CONTINGENT LIABILITY

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

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

3.K. SALES TAX REBATE AGREEMENT

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

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

Harp's began operation in April, 2015, thus only one calendar quarter of expense has been recorded in the current year. Future expenses will be based solely on the performance of the new store.

3.L. 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 \$37,976. The prior period financial statements were not reissued or restated as a result of this change in accounting principle.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB, but are not considered a part of the basic financial statements. Such information includes:

Defined Benefit Cost Sharing Plans:

Fire:

Schedule of the City's Proportionate Share of the Net Pension Liability
(Asset)
Schedule of City Contributions

Budgetary Comparison Schedules - General Fund

Schedules of Required Supplementary Information
Schedule of the Town of Inola's Proportionate Share of the Net Pension Liability
Oklahoma Firefighters Pension and Retirement System
Last 10 Fiscal Years *

	<u>2014</u>
City's proportion of the net pension liability	0.0032%
City's proportionate share of the net pension liability	\$33,107
City's covered employee payroll	00
City's proportionate share of the net pension liability as a percentage of its covered employee liability	N/A
Plan fiduciary net position as a percentage of the total pension liability	68.12%

* The amounts present for each fiscal year were determined as of June 30, 2014.

Notes to Schedule:

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

**Schedule of City Contributions
Oklahoma Firefighters Pension and Retirement System
Last 10 Fiscal Years**

	June 30 <u>2014</u>
Statutorily required contribution	\$ 1,200
Contributions in relation to the statutorily required contribution	<u>1,200</u>
Contribution deficiency (excess)	<u>--</u>
City's covered employee payroll	<u>\$ 00</u>
Contributions as a percentage of covered employee payroll	N/A

Notes to Schedule:

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

**TOWN OF INOLA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Beginning budgetary fund balance	\$ 478,817	\$ 478,817	\$ 478,817	\$ --
Resources (inflows)				
Taxes				
Franchise taxes	36,476	36,476	41,187	4,711
Use tax	79,362	79,362	156,533	77,171
Sales tax	<u>284,516</u>	<u>284,516</u>	<u>417,953</u>	<u>133,437</u>
Total taxes	<u>400,354</u>	<u>400,354</u>	<u>615,673</u>	<u>215,319</u>
Intergovernmental				
Alcoholic beverage tax	9,488	9,488	10,871	1,383
Cigarette tax	4,934	4,934	7,136	2,202
Grants and donations	<u>1</u>	<u>1</u>	<u>11,650</u>	<u>11,649</u>
Total intergovernmental	<u>14,423</u>	<u>14,423</u>	<u>29,657</u>	<u>15,234</u>
Fines and forfeitures				
Police fines	<u>18,080</u>	<u>18,080</u>	<u>28,249</u>	<u>10,169</u>
Total fines and forfeitures	<u>18,080</u>	<u>18,080</u>	<u>28,249</u>	<u>10,169</u>
Licenses and permits				
Various licenses	<u>7,028</u>	<u>7,028</u>	<u>9,928</u>	<u>2,900</u>
Total licenses and permits	<u>7,028</u>	<u>7,028</u>	<u>9,928</u>	<u>2,900</u>
Library	<u>2,100</u>	<u>2,100</u>	<u>2,394</u>	<u>294</u>
Intra-governmental - Transfers in	<u>17,879</u>	<u>17,879</u>	<u>1,125</u>	<u>(16,754)</u>
Investment income	<u>1,863</u>	<u>1,863</u>	<u>2,476</u>	<u>613</u>
Miscellaneous	<u>23,157</u>	<u>23,157</u>	<u>8,895</u>	<u>(14,262)</u>
Total miscellaneous	<u>23,157</u>	<u>23,157</u>	<u>8,895</u>	<u>(14,262)</u>
Amounts available for appropriation	<u>963,701</u>	<u>963,701</u>	<u>1,177,214</u>	<u>213,513</u>
Charges to appropriations (outflows)				
Administration and accounting				
Personal services	67,175	67,175	63,377	3,798
Maintenance and operation	120,875	120,875	135,224	(14,349)
Capital outlay	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total General Government	<u>188,050</u>	<u>188,050</u>	<u>198,601</u>	<u>(10,551)</u>

**TOWN OF INOLA, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Council				
Personal services	6,510	6,510	7,028	(518)
Maintenance and operation	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
	<u>6,510</u>	<u>6,510</u>	<u>7,028</u>	<u>(518)</u>
Police				
Personal services	249,000	249,000	200,535	48,465
Maintenance and operation	32,290	32,290	36,716	(4,426)
Capital outlay	<u>40,000</u>	<u>40,000</u>	<u>30,479</u>	<u>9,521</u>
Total Police	<u>321,290</u>	<u>321,290</u>	<u>267,730</u>	<u>53,560</u>
Municipal Court				
Personal services	2,665	2,665	6,228	(3,563)
Maintenance and operation	<u> --</u>	<u> --</u>	<u> 370</u>	<u>(370)</u>
Total Municipal Court	<u>2,665</u>	<u>2,665</u>	<u>6,598</u>	<u>(3,933)</u>
Library				
Personal services	31,636	31,636	32,491	(855)
Maintenance and operation	<u>20,825</u>	<u>20,825</u>	<u>19,768</u>	<u>1,057</u>
Total Library	<u>52,461</u>	<u>52,461</u>	<u>52,259</u>	<u>202</u>
Emergency management				
Maintenance and operation	<u>1,170</u>	<u>1,170</u>	<u>3,155</u>	<u>(1,985)</u>
Other				
Maintenance and operation	--	--	1,327	(1,327)
Unallocated capital outlay	<u>391,555</u>	<u>391,555</u>	<u> --</u>	<u>391,555</u>
Total Other	<u>391,555</u>	<u>391,555</u>	<u>1,327</u>	<u>390,228</u>
Total Charges to Operations	<u>963,701</u>	<u>963,701</u>	<u>536,698</u>	<u>427,003</u>
Ending Budgetary Fund Balances	<u>\$ --</u>	<u>\$ --</u>	640,516	<u>\$ 640,516</u>
Adjustments to reconcile to balance sheet				
Increase in beginning fund balance			83,182	
Increase (decrease) in taxes receivable			<u>(5,461)</u>	
Fund Balance			<u>\$ 718,237</u>	

OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

- Combining Statements - Nonmajor governmental funds

**TOWN OF INOLA, OKLAHOMA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2015**

	Library Savings Fund	Library Grant Fund	Cemetery Fund	Park Fund	CDBG Grant Fund	Police Fund	Street & Alley Fund	Total
Assets								
Cash, including time deposits	\$880	\$9,691	\$93,726	\$535	\$1	\$11,866	\$80,193	\$196,892
Due from other funds	--	--	--	--	--	--	\$1,274	1,274
Taxes receivable	--	--	--	--	--	--	2,904	2,904
Total assets	<u>\$880</u>	<u>\$9,691</u>	<u>\$93,726</u>	<u>\$535</u>	<u>\$1</u>	<u>\$11,866</u>	<u>\$84,371</u>	<u>\$201,070</u>
Liabilities								
Accounts payable	--	--	--	457	--	--	1,163	1,620
Due to other fund	120	1,927	17,243	--	--	--	--	19,290
Total liabilities	<u>120</u>	<u>1,927</u>	<u>17,243</u>	<u>457</u>	<u>0</u>	<u>--</u>	<u>1,163</u>	<u>20,910</u>
Fund Balances								
Assigned	760	--	--	78	--	11,866	--	12,704
Restricted	--	7,764	76,483	--	1	--	83,208	167,456
Total fund balances	<u>760</u>	<u>7,764</u>	<u>76,483</u>	<u>78</u>	<u>1</u>	<u>11,866</u>	<u>83,208</u>	<u>180,160</u>
Total liabilities and fund balances	<u>\$880</u>	<u>\$9,691</u>	<u>\$93,726</u>	<u>\$535</u>	<u>\$1</u>	<u>\$11,866</u>	<u>\$84,371</u>	<u>\$201,070</u>

TOWN OF INOLA, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>Library Savings Fund</u>	<u>Library Grant Fund</u>	<u>Cemetery Fund</u>	<u>Park Fund</u>	<u>CDBG Grant Fund</u>	<u>Police Fund</u>	<u>Street & Alley Fund</u>	<u>Total</u>
Revenues								
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$17,146	\$17,146
Grants and contributions	830	12,437	--	--	--	1,360	--	14,627
Interest	2	11	368	4	--	50	337	772
Miscellaneous	571	--	22,352	--	--	950	1,375	25,248
Total revenues	<u>1,403</u>	<u>12,448</u>	<u>22,720</u>	<u>4</u>	<u>--</u>	<u>2,360</u>	<u>18,858</u>	<u>57,793</u>
Expenditures								
Current								
Police	--	--	--	--	--	2,407	--	2,407
Cemetery	--	--	13,342	--	--	--	--	13,342
Library	1,225	5,122	--	--	--	--	--	6,347
Park	--	--	--	1,523	--	--	--	1,523
Streets	--	--	--	--	--	--	11,029	11,029
Capital outlay	--	--	--	--	--	--	--	0
Total expenditures	<u>1,225</u>	<u>5,122</u>	<u>13,342</u>	<u>1,523</u>	<u>--</u>	<u>2,407</u>	<u>11,029</u>	<u>34,648</u>
Excess (deficiency) of revenues over expenditures	<u>178</u>	<u>7,326</u>	<u>9,378</u>	<u>(1,519)</u>	<u>--</u>	<u>(47)</u>	<u>7,829</u>	<u>23,145</u>
Other financing sources (uses)								
Transfers in	--	--	--	1,500	--	--	--	1,500
Transfers (out)	--	--	--	--	--	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,500</u>
Net change in fund balances	178	7,326	9,378	(19)	--	(47)	7,829	24,645
Fund balances - beginning of year	<u>582</u>	<u>438</u>	<u>67,105</u>	<u>97</u>	<u>1</u>	<u>11,913</u>	<u>75,379</u>	<u>155,515</u>
Fund balances - end of year	<u>\$760</u>	<u>\$7,764</u>	<u>\$76,483</u>	<u>\$78</u>	<u>\$1</u>	<u>\$11,866</u>	<u>\$83,208</u>	<u>\$180,160</u>

OBER & LITTLEFIELD, CPAs, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE 918-542-8165 FAX

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Inola, State of Oklahoma, as of and for the year ended June 30, 2015, which collectively comprise the Town of Inola, State of Oklahoma's basic financial statements and have issued our report thereon dated December 18, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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



OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

DECEMBER 18, 2015