

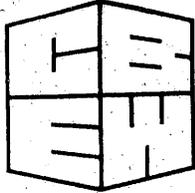
**CITY OF HOMINY
Hominy, Oklahoma**

**BASIC FINANCIAL STATEMENTS
June 30, 2014**

**CITY OF HOMINY
Hominy, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

September 5, 2014

The Honorable City Council
City of Hominy, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Hominy, Oklahoma, (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud

Auditor's Responsibility

Our responsibility is to express an opinion 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hominy, Oklahoma as of June 30, 2014, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

City of Hominy
September 5, 2014

Basis of Accounting

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

Other Matters

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hominy, Oklahoma's basic financial statements. The budgetary comparison information on pages 28-30 and notes on page 31, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

The City has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

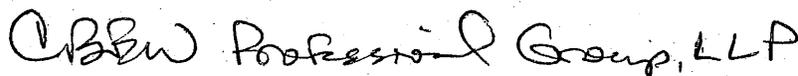
Other Information

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

The combining statements and the schedule of expenditures of federal awards 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 statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

CITY OF HOMINY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 841,222	\$ 575,748	\$ 1,416,970
Investments	1,744,403	896,370	2,640,773
Due to/from others	(10,198)	10,198	-
Restricted assets:			
Cash and investments (Note 1)	132,200	192,551	324,751
Capital assets:			
Land and construction in progress	16,748	46,937	63,685
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	1,722,589	3,146,759	4,869,348
Total assets	<u>4,446,964</u>	<u>4,868,563</u>	<u>9,315,527</u>
Deferred outflows of resources:			
Total deferred outflows	-	-	-
Liabilities:			
Current liabilities:			
Accrued compensated absences	31,407	17,802	49,209
Security deposits	-	2,771	2,771
Notes payable (Note 2)	-	46,984	46,984
Leases payable (Note 2)	-	43,393	43,393
Long-term liabilities:			
Notes payable (Note 2)	-	482,052	482,052
Leases payable (Note 2)	-	154,861	154,861
Total liabilities	<u>31,407</u>	<u>747,863</u>	<u>779,270</u>
Deferred inflows of resources:			
Total deferred inflows	-	-	-
Net position:			
Invested in capital assets, net of related debt	1,739,337	2,466,406	4,205,743
Restricted	1,979,319	189,780	2,169,099
Unrestricted	696,901	1,464,514	2,161,415
Total net position	<u>\$ 4,415,557</u>	<u>\$ 4,120,700</u>	<u>\$ 8,536,257</u>

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

CITY OF HOMINY
 STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
General government	\$ -	\$ -	\$ -	\$ -	\$ -
Total general government	-	-	-	-	-
Public safety and judiciary:					
City attorney	29,292	-	-	-	(29,292)
Fire department	260,014	108,810	300	1,000	(149,904)
Municipal court	23,055	40,169	-	-	17,114
Police	483,429	-	-	-	(483,429)
Civil defense	5,475	-	-	-	(5,475)
Total public safety and judiciary	801,265	148,979	300	1,000	(650,986)
Transportation:					
Streets	15,227	-	-	-	(15,227)
Total transportation	15,227	-	-	-	(15,227)
Cultural, parks and recreation:					
Library	108,798	-	14,092	-	(94,706)
Park facilities	1,211	-	-	-	(1,211)
Public property	415,335	12,089	-	-	(403,246)
Swimming pool	49,420	-	69,000	-	19,580
Senior citizens center	57,786	7,787	1,400	-	(48,599)
Lake	3,505	19,536	-	-	16,031
Cemetery	54,945	28,558	-	-	(26,387)
Total cultural, parks and recreation	691,000	67,970	84,492	-	(538,538)
Unallocated depreciation*	115,777	-	-	-	(115,777)
Total governmental activities	1,623,269	216,949	84,792	1,000	(1,320,528)
Business-type activities					
General and administrative	580,937	-	-	-	(580,937)
Electric service	1,653,817	2,450,862	-	-	797,045
Water/wastewater plant	404,409	939,452	-	75,000	610,043
Water/wastewater maintenance	261,326	-	-	-	(261,326)
Meter reading	25,044	-	-	-	(25,044)
Sanitation service	295,287	217,732	-	-	(77,555)
Airport	98,671	50,351	-	-	(48,320)
Ambulance	423,977	181,117	-	-	(242,860)
Financing costs	16,718	-	-	-	(16,718)
Unallocated depreciation*	135,010	-	-	-	(135,010)
Total business-type activities	3,895,196	3,839,514	-	75,000	19,318
Total	\$ 5,518,465	\$ 4,056,463	\$ 84,792	\$ 76,000	\$ (1,301,210)

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

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

CITY OF HOMINY
 STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 Year Ended June 30, 2014

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,320,528)	19,318	(1,301,210)
General revenues:			
Taxes:			
Sales and use taxes	752,509	-	752,509
Franchise taxes	23,323	-	23,323
Cigarette taxes	8,458	-	8,458
Intergovernmental	119,359	-	119,359
Penalties	-	53,877	53,877
Investment earnings	17,347	11,010	28,357
Miscellaneous	148,503	124,057	272,560
Rental income	4,175	-	4,175
Surplus property sales	1,212	4,800	6,012
Transfers	363,810	(363,810)	-
Total general revenues and transfers	<u>1,438,696</u>	<u>(170,066)</u>	<u>1,268,630</u>
Change in net position	118,168	(150,748)	(32,580)
Net position - beginning of year	<u>4,297,389</u>	<u>4,271,448</u>	<u>8,568,837</u>
Net position - end of year	<u>\$ 4,415,557</u>	<u>\$ 4,120,700</u>	<u>\$ 8,536,257</u>

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

CITY OF HOMINY
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Capital Projects Water Assessment	Special Revenue Park Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and investments:					
Cash & cash equivalents	\$ 173,808	\$ 115,537	\$ 468,267	\$ 83,610	\$ 841,222
Investments	564,154	754,066	344,246	81,937	1,744,403
Due from others	544	-	-	-	544
Restricted assets:					
Cash and investments	-	55,467	-	76,733	132,200
Total assets	\$ 738,506	\$ 925,070	\$ 812,513	\$ 242,280	\$ 2,718,369
Liabilities:					
Due to others	\$ 10,198	\$ -	\$ 544	\$ -	\$ 10,742
Total liabilities	10,198	-	544	-	10,742
Fund balance:					
Restricted for:					
Cemetery	-	-	-	76,733	76,733
Water improvement	-	925,070	-	-	925,070
Debt service	-	-	-	417	417
Swimming pool	-	-	700,061	-	700,061
Parks	-	-	111,908	-	111,908
Other purposes	-	-	-	165,130	165,130
Unassigned	728,308	-	-	-	728,308
Total fund balance	728,308	925,070	811,969	242,280	2,707,627
Total liabilities & fund balance	\$ 738,506	\$ 925,070	\$ 812,513	\$ 242,280	\$ 2,718,369

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

CITY OF HOMINY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT
 OF NET POSITION
 MODIFIED CASH BASIS
 June 30, 2014

Total Fund Balances - Total Governmental Funds \$ 2,707,627

Amounts reported for governmental activities in the statement of net position are different because:

Accrued compensated absences (31,407)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Buildings	\$	1,174,073	
Equipment		153,876	
Vehicles		230,553	
Land		16,748	
Infrastructure		164,087	
		1,739,337	1,739,337

Net position of governmental activities \$ 4,415,557

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

CITY OF HOMINY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2014

	General Fund	Capital Projects Water Assessment	Special Revenue Park Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Charges for services	\$ 39,412	\$ -	\$ -	\$ -	\$ 39,412
Cigarette taxes	8,458	-	-	-	8,458
Interest	4,556	6,182	5,288	1,323	17,349
Franchise taxes	23,323	-	-	-	23,323
Fire runs and memberships	108,810	-	-	-	108,810
Intergovernmental programs	85,568	-	-	33,791	119,359
Fines and forfeits	40,169	-	-	-	40,169
Grant revenues	15,792	-	-	-	15,792
Rental receipts	4,175	-	-	-	4,175
Lot sales	24,992	-	-	3,567	28,559
Miscellaneous revenue	147,963	-	-	-	147,963
Sales and use taxes	752,509	-	-	-	752,509
Surplus property sales	1,212	-	-	-	1,212
Licenses and permits	534	-	-	-	534
Donations and other	1,000	-	69,000	1	70,001
Total revenues	<u>1,258,473</u>	<u>6,182</u>	<u>74,288</u>	<u>38,682</u>	<u>1,377,625</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	796,201	-	-	-	796,201
Public property	415,335	-	-	-	415,335
Highways and roads	-	-	-	15,226	15,226
Cultural and recreational	275,660	-	-	5	275,665
Debt service	-	-	-	-	-
Capital outlay	161,053	-	-	-	161,053
Total expenditures	<u>1,648,249</u>	<u>-</u>	<u>-</u>	<u>15,231</u>	<u>1,663,480</u>
Excess of revenues over (under) expenditures	(389,776)	6,182	74,288	23,451	(285,855)
Other financing uses:					
Loan proceeds	-	-	-	-	-
Operating transfers in (out)	289,212	24,328	50,270	-	363,810
Excess of revenues over (under) expenditures & transfers	(100,564)	30,510	124,558	23,451	77,955
Fund balance - beginning of year	828,872	894,560	687,411	218,829	2,629,672
Fund balance - end of year	<u>\$ 728,308</u>	<u>\$ 925,070</u>	<u>\$ 811,969</u>	<u>\$ 242,280</u>	<u>\$ 2,707,627</u>

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

CITY OF HOMINY
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 Year Ended June 30, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$	77,955
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Government-Wide Statement of Activities and Changes in Net Position report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.</p>		(5,063)
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.</p>		(115,777)
<p>Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>		<u>161,053</u>
Change in Net Position of Governmental Activities	\$	<u><u>118,168</u></u>

CITY OF HOMINY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities - Enterprise Funds			Totals
	Hominy Municipal Authority (Major)	Hominy Industrial Authority (Major)	Hominy Community Medical Authority (Non-major)	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 1)	\$ 342,712	\$ 123,250	\$ 109,786	\$ 575,748
Investments	896,370	-	-	896,370
Cash on hand	-	-	-	-
Due from others	10,198	-	-	10,198
Restricted assets:				
Cash and investments (Note 1)	92,422	2,771	97,358	192,551
Capital assets:				
Land and construction in progress	-	46,937	-	46,937
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	2,126,854	796,173	223,732	3,146,759
Total assets	\$ 3,468,556	\$ 969,131	\$ 430,876	\$ 4,868,563
Deferred outflows of resources:				
Total deferred outflows	-	-	-	-
Liabilities:				
Current liabilities:				
Due to others	\$ -	\$ -	\$ -	\$ -
Accrued compensated absences	13,352	-	4,450	17,802
Security deposits	-	2,771	-	2,771
Notes payable (Note 2)	46,984	-	-	46,984
Leases payable (Note 2)	43,393	-	-	43,393
Long-term liabilities:				
Notes payable (Note 2)	482,052	-	-	482,052
Leases payable (Note 2)	154,861	-	-	154,861
Total liabilities	740,642	2,771	4,450	747,863
Deferred inflows of resources:				
Total deferred inflows	-	-	-	-
Net position:				
Invested in capital assets, net of related debt	1,399,564	843,110	223,732	2,466,406
Restricted	92,422	-	97,358	189,780
Unrestricted	1,235,928	123,250	105,336	1,464,514
Total net position	\$ 2,727,914	\$ 966,360	\$ 426,426	\$ 4,120,700

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

CITY OF HOMINY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			Totals
	Hominy Municipal Authority (Major)	Hominy Industrial Authority (Major)	Hominy Community Medical Authority (Non-major)	
Revenues:				
Electric revenue	\$ 2,450,862	\$ -	\$ -	\$ 2,450,862
Water revenue	798,860	-	-	798,860
Wastewater revenue	140,592	-	-	140,592
Sanitation revenue	217,732	-	-	217,732
Penalties	53,877	-	-	53,877
Miscellaneous revenue	124,057	-	-	124,057
Grant revenue	-	-	-	-
Charges for service	-	50,351	-	50,351
Rentals	-	-	18,032	18,032
Ambulance revenue	-	-	163,085	163,085
Total revenues	3,785,980	50,351	181,117	4,017,448
Operating expenses:				
General and administrative	580,937	-	-	580,937
Electric service	1,653,817	-	-	1,653,817
Water/wastewater plant	404,409	-	-	404,409
Water/wastewater maintenance	261,326	-	-	261,326
Meter reading	25,044	-	-	25,044
Sanitation service	295,287	-	-	295,287
Airport	-	15,196	-	15,196
Ambulance	-	-	390,846	390,846
Depreciation expense	135,010	83,475	33,131	251,616
Total operating expenses	3,355,830	98,671	423,977	3,878,478
Income before non-operating revenues, expenses & transfers	430,150	(48,320)	(242,860)	138,970
Non-operating revenues (expenses):				
Interest revenue	9,950	8	1,052	11,010
Interest expense	(16,718)	-	-	(16,718)
Donations	75,000	-	-	75,000
Surplus property sales	4,800	-	-	4,800
Total	73,032	8	1,052	74,092
Income (loss) before operating transfers	503,182	(48,312)	(241,808)	213,062
Transfers in (out)	(581,218)	-	217,408	(363,810)
Change in net position	(78,036)	(48,312)	(24,400)	(150,748)
Net position at beginning of year	2,805,950	1,014,672	450,826	4,271,448
Net position at end of year	\$ 2,727,914	\$ 966,360	\$ 426,426	\$ 4,120,700

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

CITY OF HOMINY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			
	Hominy Municipal Authority (Major)	Hominy Industrial Authority (Major)	Hominy Community Medical Authority (Non-major)	Totals
Cash flows from operating activities:				
Cash received from customers & service users	\$ 3,661,923	\$ 50,351	\$ 181,117	\$ 3,893,391
Cash payments for goods & services & employees	(3,228,708)	(15,196)	(395,812)	(3,639,716)
Other operating revenues	124,057	-	-	124,057
Net cash provided by operating activities	<u>557,272</u>	<u>35,155</u>	<u>(214,695)</u>	<u>377,732</u>
Cash flows from noncapital financing activities:				
Operating transfers out to other funds	(856,553)	-	-	(856,553)
Operating transfers in from other funds	275,334	-	217,408	492,742
Change in due to/due from accounts	-	-	-	-
Change in security deposits	-	71	-	71
Net cash provided (used) for noncapital financing activities	<u>(581,219)</u>	<u>71</u>	<u>217,408</u>	<u>(363,740)</u>
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(227,400)	-	-	(227,400)
Principal paid on debt	(77,701)	-	-	(77,701)
Loan proceeds	227,400	-	-	227,400
Donations	75,000	-	-	75,000
Suplus property sales	4,800	-	-	4,800
Interest paid on debt	(16,718)	-	-	(16,718)
Net cash provided (used) for capital and related financing activities	<u>(14,619)</u>	<u>-</u>	<u>-</u>	<u>(14,619)</u>
Cash flows from investing activities:				
(Purchase) liquidation of investments	(7,302)	-	(726)	(8,028)
Interest on investments	9,950	8	1,052	11,010
Net cash provided by investing activities	<u>2,648</u>	<u>8</u>	<u>326</u>	<u>2,982</u>
Net increase (decrease) in cash & cash equivalents	(35,918)	35,234	3,039	2,355
Cash and cash equivalents - beginning of year	<u>378,630</u>	<u>90,787</u>	<u>106,747</u>	<u>576,164</u>
Cash and cash equivalents - end of year	<u>\$ 342,712</u>	<u>\$ 126,021</u>	<u>\$ 109,786</u>	<u>\$ 578,519</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 430,150	\$ (48,320)	\$ (242,860)	\$ 138,970
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	135,010	83,475	33,131	251,616
Change in assets and liabilities:				
Increase (decrease) in accounts payable	-	-	-	-
Increase (decrease) in accrued expenses	(7,888)	-	(4,966)	(12,854)
Total adjustments	<u>127,122</u>	<u>83,475</u>	<u>28,165</u>	<u>238,762</u>
Net cash provided by operating activities	<u>\$ 557,272</u>	<u>\$ 35,155</u>	<u>\$ (214,695)</u>	<u>\$ 377,732</u>

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

**CITY OF HOMINY
STATEMENT OF FIDUCIARY NET POSITION
MODIFIED CASH BASIS
FIDUCIARY FUNDS
June 30, 2014**

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>182,085</u>
Total assets	\$ <u><u>182,085</u></u>
Liabilities:	
Deposits	\$ <u>182,085</u>
Total liabilities	\$ <u><u>182,085</u></u>

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

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hominy, Oklahoma (the City) accounting policies conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in the modified cash basis of accounting and used by the City is discussed below.

A. Reporting Entity

The City of Hominy, Oklahoma is organized under the statutes of the State of Oklahoma on April 16, 1918. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (police, fire and ambulance), streets, public works (electric, water, sewer, and sanitation), judicial, culture, parks and recreation, public improvements and planning and zoning for the City of Hominy, Oklahoma.

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

Blended Component Units/Trusts:

The Hominy Public Works Authority (HPWA) was created pursuant to a Trust Indenture for the benefit of the City of Hominy, Oklahoma. HPWA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer and electric facilities for the City of Hominy. The water, sanitary sewer, electric, and solid waste disposal systems owned by the City have been leased to HPWA until such date that all indebtedness of the Authority is retired or provided for. HPWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. HPWA is exempt from State and Federal Income taxes. HPWA is reported as an enterprise fund.

The Hominy Community Medical Authority (HCMA) was created pursuant to a Trust Indenture dated February 18, 1986, for the benefit of the City of Hominy, Oklahoma. HCMA is a public trust and an agency of the State of Oklahoma, under Title 60, Oklahoma Statutes 1991, Section 176-180, et seq., and is governed by a board consisting of five trustees identical with the City Council. HCMA is used for the operation of the ambulance services. HCMA is exempt from State and Federal Income taxes. HCMA is reported as an enterprise fund.

The Hominy Industrial Authority (HIA) was created October 25, 1965, for the benefit of the City of Hominy, Oklahoma. HIA was created to promote the development of industry and to provide additional employment in the Hominy, Oklahoma, area. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176-180, et seq., and is governed by a board consisting of five trustees appointed by the City Council. HIA is exempt from State and Federal Income taxes. HIA is reported as an enterprise fund.

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

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the governmental and business-type activities at year-end on a modified cash basis. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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

Governmental Funds – are used to account for the government's general government activities. The City of Hominy presents its governmental activities on the modified cash basis of accounting rather than generally accepted accounting principles (GAAP). GAAP requires that governmental fund types would use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under that basis of accounting, revenues would be recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. GAAP provides that all revenues are available if they are collected within 60 days after year-end. For GAAP, expenditures would be recorded when the fund liability is incurred with certain exceptions (general long-term debt and certain compensated absences, claims and judgments).

The City of Hominy records governmental fund expenditures as they are paid rather than when the obligation is incurred.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Sales and use taxes, cigarette taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual under GAAP but are not recognized as revenue until received under the modified cash basis. Other receipts and taxes (franchise taxes, licenses, etc.) are recognized as revenue when received by the government.

Entitlements and shared revenues are recorded at the time of receipt. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Water Assessment Fund – is a Capital Projects Fund which accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments.

Park Facilities Fund – is a Special Revenue Fund which accounts for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects).

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

Special Revenue Funds – account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Street & Alley and Library Donations.

Debt Service Fund – accounts for and report financial resources that are restricted, committed, or assigned to principal and interest payments. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Trust Fund.

Proprietary Funds – Proprietary funds are classified as enterprise funds. For GAAP purposes these funds are generally accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In the City's modified cash basis financial statements revenues are recorded when received and expenditures are recorded when paid with the exception of payroll taxes withheld, other withholdings, and accrued compensated absences which the City records as a modification to the cash basis of accounting. The accrual amounts are not material to the financial statement presentation.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City's major enterprise funds are:

Hominy Public Works Authority – accounts for the operations of providing public works (electric, water, sewer, and sanitation) to the City.

Hominy Industrial Authority – which accounts for the promotion of industrial development.

The other enterprise funds of the City that are considered non-major funds are:

Hominy Community Medical Authority – which accounts for ambulance services.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified cash basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is an agency fund that is composed of customer deposit funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

2. Restricted Cash and Investments

The Hominy Public Works Authority has set aside certain resources in debt service and reserve accounts for repayment of loans, in accordance with loan indentures. These funds are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account. In addition, the Hominy Community Medical Authority has set aside funds for future replacements and the Cemetery Trust Funds are restricted for Cemetery land acquisitions and for the payment of specific expenditures.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

3. Fair Value of Financial Instruments

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

4. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

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

6. Inventories

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

7. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Capital Assets (Continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25 - 50 years
Improvements other than buildings	20 - 50 years
Machinery and equipment	5 - 10 years

9. Compensated Absences

It is the City's policy to permit full-time employees to accumulate earned but unused vacation time based on their length of service. Employees may carry forward five days to the next calendar year. Vacation leave which is unused and vested to the employee is payable upon separation of employment in good standing. Full-time employees may accumulate sick leave based on their length of service, up to a maximum of 75 working days of accrued leave. Unused sick leave is not payable to an employee upon separation of employment.

10. Long-term Obligations

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

11. Net Position/Fund Balance

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

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Position/Fund Balance (Continued)

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

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

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

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

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

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

12. Resource Use Policy

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

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2014, the City held deposits of approximately \$4,564,579 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

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

The cash and investments held at June 30, 2014 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,402,367	\$ 1,402,367
Certificate of deposit	6.00	N/A	3,162,212	3,162,212
Total investments			<u>\$ 4,564,579</u>	<u>\$ 4,564,579</u>

Reconciliation to Statement of Net Position	
Governmental activities	\$ 2,717,825
Business-type activities	1,668,752
Fiduciary funds	178,002
	<u>\$ 4,564,579</u>

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 69% in Certificates of deposit (\$3,162,212) and 31% in Money Market funds (\$1,402,367).

B. Capital Assets

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

	Balance 6/30/13	Additions	Disposals	Balance 6/30/14
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 16,748	\$ -	\$ -	\$ 16,748
Total non-depreciable assets	16,748	-	-	16,748
Depreciable assets:				
Buildings and improvements	1,543,715	-	-	1,543,715
Furniture, fixtures and equipment	609,771	22,000	-	631,771
Vehicles	590,526	27,153	-	617,679
Infrastructure	202,073	111,900	-	313,973
Total depreciable assets	2,946,085	161,053	-	3,107,138
Less accumulated depreciation:				
Buildings and improvements	(344,597)	(25,045)	-	(369,642)
Furniture, fixtures and equipment	(448,694)	(29,201)	-	(477,895)
Vehicles	(354,507)	(32,620)	-	(387,127)
Infrastructure	(120,975)	(28,911)	-	(149,886)
Total accumulated depreciation	(1,268,773)	(115,777)	-	(1,384,550)
Net depreciable assets	1,677,312	45,276	-	1,722,588
Net governmental activities capital assets	\$ 1,694,060	\$ 45,276	\$ -	\$ 1,739,336

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets (Continued)

	Balance 6/30/13	Additions	Disposals	Balance 6/30/14
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 46,937	\$ -	\$ -	\$ 46,937
Total non-depreciable assets	46,937	-	-	46,937
Depreciable assets:				
Buildings and improvements	5,775,161	-	-	5,775,161
Furniture, fixtures and equipment	166,591	-	-	166,591
Vehicles	844,727	227,400	-	1,072,127
Total depreciable assets	6,786,479	227,400	-	7,013,879
Less accumulated depreciation:				
Buildings and improvements	(2,901,886)	(168,811)	-	(3,070,697)
Furniture, fixtures and equipment	(111,520)	(5,776)	-	(117,296)
Vehicles	(602,098)	(77,029)	-	(679,127)
Total accumulated depreciation	(3,615,504)	(251,616)	-	(3,867,120)
Net depreciable assets	3,170,975	(24,216)	-	3,146,759
Net business-type activities capital assets	\$ 3,217,912	\$ (24,216)	\$ -	\$ 3,193,696

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs. Only depreciation on the Hominy Industrial Authority and the Hominy Community Medical Authority was allocated as a direct expense.

C. Capitalized Leases

The City has entered into a capitalized lease for the acquisition of a fire truck. The lease agreements met the criteria of a capital lease as defined by *FASB Accounting Standards Codification* (ASC) 840-10 (Formerly FAS No. 13), *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

The Business-type activities capital leases are described below.

(1) Lease payable to Welch State Bank for the lease purchase of a sanitation vehicle in the amount of \$129,200. Monthly payments of \$2,330 are due including interest at a rate of 3.14%.	\$ 117,004
(2) Lease payable to Welch State Bank for the lease purchase of a bucket truck in the amount of \$98,200. Monthly payments of \$1,767 are due including interest at a rate of 3.05%.	81,250
Total	\$ 198,254

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capitalized Leases (Continued)

The following is a summary of capitalized lease transactions for the year:

	Balance July 1, 2013	Additions	Payments and Cancellations	Balance June 30, 2014
Capital lease obligations	\$ -	\$ 227,400	\$ 29,146	\$ 198,254

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

Business-Type Activities			
Year Ending June 30,	Principal	Interest	Total
2015	\$ 43,393	\$ 5,775	\$ 49,168
2016	44,975	4,193	49,168
2017	46,403	2,764	49,167
2018	47,867	1,301	49,168
2019	15,616	132	15,748
Total	198,254	14,165	212,419

D. Long-term Debt

The City's long-term debt is described below, segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

The Business-type long-term debt of the financial reporting entity consisted of the following:

Oklahoma Water Resources Board Series 2003 Small Community Drinking Water SRF Promissory Note dated October 23, 2003, in the original amount of \$950,000, payable in semi-annual installments of \$30,638 with an interest rate of 2.205% and with an administrative fee of 0.5% per annum commencing August 30, 2004, and on or before the 15th day of March and September thereafter up to and including March 15, 2024 for water treatment system improvements, secured by a pledge of system revenues.

The City is not obligated in any manner for the debt of its component units or trusts. The water system, including all of the proceeds, revenue, water charges, assessments and income of all kinds and nature together with contract rights, accounts receivable and general intangibles have been pledged as collateral to secure these notes. The note agreements call for monthly payments to be made toward debt retirement.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Long-term Debt (Continued)

The following is a summary of long-term debt transactions of the proprietary fund:

	Balance Outstanding 7/1/13	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/14	Current Portion
Hominy Public Works Authority:					
OWRB - 2003	\$ 577,591	\$ -	\$ (48,555)	\$ 529,036	\$ 46,984
Total	<u>\$ 577,591</u>	<u>\$ -</u>	<u>\$ (48,555)</u>	<u>\$ 529,036</u>	<u>\$ 46,984</u>

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

Year Ending June 30,	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 46,984	\$ 12,680	\$ 59,664
2016	48,247	11,650	59,897
2017	49,614	10,621	60,235
2018	50,984	9,507	60,491
2019	52,391	8,390	60,781
2020-2024	<u>280,816</u>	<u>17,877</u>	<u>298,693</u>
Total	<u>529,036</u>	<u>70,725</u>	<u>599,761</u>

The City's debt service coverage ratio for June 30, 2014 is 166.36%.

3. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Compsource Oklahoma (the Plan), an organization formed for the purpose of providing workers' compensation coverage. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

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

B. Contingent Liabilities

The City is not aware of any pending or threatened legal actions against it. However, insurance protection has been obtained to cover probable claims.

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

C. Employee Retirement System and Plan

Oklahoma Municipal Retirement Fund Master Defined Contribution Plan

The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (the Plan) provides retirement benefits to plan members not covered by other plans in a nontraditional, joint contributory, defined contribution plan with OMRF as a multi-employer administrator. Plan provisions and contribution requirements are established and may be amended by the city council of the City of Hominy. The OMRF board of trustees retains Banc One as custodian to hold the Plan assets which are invested by various professional managers. Benefits paid to employees depend on the sum of employee contributions with interest, the city-financed contributions, and respective employee vesting percentage as established in the Plan. There are no guaranteed retirement benefits in the Plan, and the City disclaims any liability between the employer and employee regarding benefits in the Plan. Any and all claims of the employee may be satisfied only out of funds held in the Oklahoma Municipal Retirement Fund under the individual employee accounts. OMRF issues a publicly available financial report that includes financial statements and supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, OK 73105, or by calling 1-888-394-6673.

Funding Policy – the required contribution rate for the 2013-2014 plan year was 9.0% (6.5% City and 2.5% employee deferral) of each participant's payroll. Employees who are eligible may join the Plan six months after the employee's employment commencement date. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

Annual Pension Cost – the City's annual pension cost was equal to the City's required and actual contributions. The contribution from the City for this plan was \$66,139, \$102 and \$79 for 2014, 2013 and 2012, respectively. In 2014, the City used forfeitures from prior payments to reduce the amount paid in the current year.

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014**

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plan (Continued)

Oklahoma Municipal Retirement Fund (OMRF) – CMO

The city manager is eligible to participate in a separate plan established by with Oklahoma Municipal Retirement Fund (OMRF) – CMO whereby the City of Hominy contributes 9.0% (6.5% City and 2.5% employee deferral) of the city manager's salary. The participant vests immediately in employer contributions. All other provisions and benefits of the plan are the same as for the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (the Plan). The contribution from the City for this plan was \$3,539, \$3,484 and \$3,115 for 2014, 2013 and 2012, respectively.

Police and Fire Department Plan

All City fire and police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS) and the Oklahoma Police Pension and Retirement System (OPPRS). Under these plans, fire and police department personnel contribute 8% of base salary and the City contributes an additional 13.0%. The OFPRS and the OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461; and the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

The required contribution from the City for these plans was \$22,734, \$26,645 and \$26,175 for 2014, 2013 and 2012, respectively. The required contribution was fully contributed. At June 30, 2014 the system held no related-party investments of the City or of its related entities.

4. SUBSEQUENT EVENTS

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

CITY OF HOMINY
Hominy, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2014

CITY OF HOMINY
 SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (MODIFIED CASH BASIS) AND ACTUAL

GOVERNMENTAL FUNDS
 Year Ended June 30, 2014
 (Unaudited)
 GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 37,200	\$ 37,200	\$ 39,412	\$ 2,212
Cigarette taxes	-	-	8,458	8,458
Interest	4,575	4,575	4,556	(19)
Franchise taxes	20,000	20,000	23,323	3,323
Fire runs and memberships	141,000	141,000	108,810	(32,190)
Intergovernmental programs	80,000	80,000	85,568	5,568
Fines and forfeits	45,250	45,250	40,169	(5,081)
Grant revenues	104,134	104,134	15,792	(88,342)
Rental receipts	5,000	5,000	4,175	(825)
Lot sales	30,005	30,005	24,992	(5,013)
Miscellaneous revenue	64,200	64,200	147,963	83,763
Sales and use taxes	810,800	810,800	752,509	(58,291)
Suplus propety sales	-	-	1,212	1,212
Licenses and permits	800	800	534	(266)
Donations and other	100	100	1,000	900
Total revenues	<u>1,343,064</u>	<u>1,343,064</u>	<u>1,258,473</u>	<u>(84,591)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	799,350	799,350	796,201	3,149
Public property	438,600	438,600	415,335	23,265
Highways and roads	-	-	-	-
Cultural and recreational	290,255	290,255	275,660	14,595
Debt service	-	-	-	-
Capital outlay	30,500	165,500	161,053	4,447
Total expenditures	<u>1,558,705</u>	<u>1,693,705</u>	<u>1,648,249</u>	<u>45,456</u>
Excess of revenue over (under) expenditures	<u>(215,641)</u>	<u>(350,641)</u>	<u>(389,776)</u>	<u>(39,135)</u>
Other financing sources (uses):				
Operating transfers in (out)	<u>225,510</u>	<u>225,510</u>	<u>289,212</u>	<u>63,702</u>
Net changes in fund balance	<u>9,869</u>	<u>(125,131)</u>	<u>(100,564)</u>	<u>24,567</u>
Fund balance at beginning of year	<u>828,872</u>	<u>828,872</u>	<u>828,872</u>	<u>-</u>
Fund balance at end of year	<u>\$ 838,741</u>	<u>\$ 703,741</u>	<u>\$ 728,308</u>	<u>\$ 24,567</u>

CITY OF HOMINY
 SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (MODIFIED CASH BASIS) AND ACTUAL

GOVERNMENTAL FUNDS
 Year Ended June 30, 2014
 (Unaudited)
 SPECIAL REVENUE FUNDS

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 6,000	\$ 6,000	\$ 6,089	\$ 89
Intergovernment programs	33,000	33,000	33,791	791
Donations and other	-	69,000	69,001	1
Total revenues	<u>39,000</u>	<u>108,000</u>	<u>108,881</u>	<u>881</u>
Expenditures:				
Highways and roads	16,500	16,500	15,226	1,274
Cemetery	-	-	-	-
Cultural & recreation	10	10	5	5
Capital outlay	-	-	-	-
Total expenditures	<u>16,510</u>	<u>16,510</u>	<u>15,231</u>	<u>1,279</u>
Excess of revenue over (under) expenditures	22,490	91,490	93,650	2,160
Other financing sources (uses):				
Operating transfers in (out)	<u>106,500</u>	<u>56,500</u>	<u>50,270</u>	<u>(6,230)</u>
Net changes in fund balance	128,990	147,990	143,920	(4,070)
Fund balance at beginning of year	<u>833,179</u>	<u>833,179</u>	<u>833,179</u>	<u>-</u>
Fund balance at end of year	<u>\$ 962,169</u>	<u>\$ 981,169</u>	<u>\$ 977,099</u>	<u>\$ (4,070)</u>

CITY OF HOMINY
 SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (MODIFIED CASH BASIS) AND ACTUAL

GOVERNMENTAL FUNDS
 Year Ended June 30, 2014
 (Unaudited)
 CAPITAL PROJECTS FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 6,000	\$ 6,000	\$ 6,182	\$ 182
Intergovernment programs	-	-	-	-
Donations and other	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>6,182</u>	<u>182</u>
Expenditures:				
General government	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenue over (under) expenditures	6,000	6,000	6,182	182
Other financing sources (uses):				
Operating transfers in (out)	<u>(16,400)</u>	<u>(16,400)</u>	<u>24,328</u>	<u>40,728</u>
Net changes in fund balance	(10,400)	(10,400)	30,510	40,910
Fund balance at beginning of year	<u>894,560</u>	<u>894,560</u>	<u>894,560</u>	<u>-</u>
Fund balance at end of year	<u>\$ 884,160</u>	<u>\$ 884,160</u>	<u>\$ 925,070</u>	<u>\$ 40,910</u>

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO SUPPLEMENTAL INFORMATION
Year Ended June 30, 2014
(Unaudited)**

BUDGETARY INFORMATION

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

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

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

**CITY OF HOMINY
Hominy, Oklahoma**

**OTHER INFORMATION
June 30, 2014**

CITY OF HOMINY
 COMBINING BALANCE SHEET
 MODIFIED CASH BASIS
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Special Revenue		Debt Service	Permanent Funds	Total Non-Major Governmental Funds
	Street & Alley	Library Donations	Sinking	Cemetery Trust	
Assets:					
Cash and equivalents	\$ 83,158	\$ 35	\$ 417	\$ -	\$ 83,610
Investments	81,937	-	-	-	81,937
Restricted cash:					
Cash and investments	-	-	-	76,733	76,733
Total assets	<u>\$ 165,095</u>	<u>\$ 35</u>	<u>\$ 417</u>	<u>\$ 76,733</u>	<u>\$ 242,280</u>
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted	165,095	35	417	76,733	242,280
Total fund balances	<u>165,095</u>	<u>35</u>	<u>417</u>	<u>76,733</u>	<u>242,280</u>
Total liabilities and fund balances	<u>\$ 165,095</u>	<u>\$ 35</u>	<u>\$ 417</u>	<u>\$ 76,733</u>	<u>\$ 242,280</u>

CITY OF HOMINY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 MODIFIED CASH BASIS
 NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2014

	Special Revenue		Debt Service	Permanent Funds	Total Non-Major Governmental Funds
	Street & Alley	Library Donations	Sinking	Cemetery Trust	
Revenues:					
Intergovernmental programs	\$ 33,791	\$ -	\$ -	\$ -	\$ 33,791
Donations	-	1	-	-	1
Interest	801	-	-	522	1,323
Surplus property sales	-	-	-	-	-
Lot sales	-	-	-	3,567	3,567
Total revenues	\$ 34,592	\$ 1	\$ -	\$ 4,089	\$ 38,682
Expenditures:					
Highways and roads	\$ 15,226	\$ -	\$ -	\$ -	\$ 15,226
Cemetery	-	-	-	-	-
Cultural & recreation	-	5	-	-	5
Capital outlay	-	-	-	-	-
Total expenditures	15,226	5	-	-	15,231
Excess of revenues over (under) expenditures	19,366	(4)	-	4,089	23,451
Other financing uses:					
Operating transfers in (out)	-	-	-	-	-
Excess of revenues over (under) expenditures & transfers	19,366	(4)	-	4,089	23,451
Fund balance - beginning of year	145,729	39	417	72,644	218,829
Fund balance - end of year	\$ 165,095	\$ 35	\$ 417	\$ 76,733	\$ 242,280

**CITY OF HOMINY
Hominy, Oklahoma**

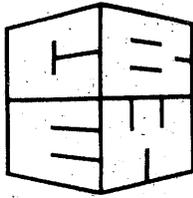
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
State Library Program	45.310	<u>14,092</u>	<u>14,092</u>	<u>14,092</u>
Total of Expenditures of Federal Awards		\$ <u>14,092</u>	\$ <u>14,092</u>	\$ <u>14,092</u>

Note A - This schedule was prepared on the modified cash basis of accounting consistent with the preparation of the basic financial statements.

**CITY OF HOMINY
Hominy, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2014**



CBEW
Professional
Group, LLP
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 5, 2014

Honorable Board of City Commissioners
City of Hominy
Hominy, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hominy, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Hominy, Oklahoma's basic financial statements, and have issued our report thereon dated September 5, 2014. The City's financial statements are presented on a modified cash basis of accounting. Additionally, the City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as findings 14-1 and 14-2.

City of Hominy
September 5, 2014

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

CITY OF HOMINY
Hominy, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

14-1. Internal Control – Material Adjusting Journal Entries

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

Condition: The City manager and accounting staff individually and collectively possess the necessary skills and experience to prepare modified cash basis financial statements. However, the government's trial balances for the year ended June 30, 2014, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with the modified cash basis of accounting. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: Cash accounts, capital assets, note payable balances and depreciation expense.

Cause: The accounting staff doesn't spend sufficient time in balancing and or reconciling specific accounts on a regular basis throughout the year to provide assurance that the trial balances used for preparing the modified cash financial statements that are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with the modified cash basis of accounting. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The City should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by regularly reviewing, balancing, and reconciling interim financial statements to insure that material adjusting journal entries are made timely. This process could be assigned to a specific staff person, through employment of additional qualified accounting staff, or outsourced to a qualified external accounting firm. Additionally, all accounting staff should strive to obtain and/or maintain their proficiency through continuing education courses relative to governmental accounting.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements on a timely basis.

CITY OF HOMINY
Hominy, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

14-2. Internal Control – Bank Reconciliations

Condition: The government's management is responsible for internal controls over balancing and reconciling the cash accounts. For trial balances to be both complete and accurate, the government must have effective internal controls over balancing cash accounts to the bank statements. The government should not rely on the external auditor to correct and balance the cash accounts as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that the cash accounts have been balanced to the bank statements prior to audit.

Criteria: Internal controls should be in place that provides reasonable assurance that accurate bank reconciliations are being produced on a monthly basis.

Cause: The City's internal control structure did not allow the bank reconciliations to be prepared properly. This could cause and did cause the accounts to be misstated on the financial statements

Effect or Potential Effect: Without controls in place such as the proper bank reconciliation and timely reconciliations, management isn't able to accurately balance the cash accounts with the trial balance. Management may not know the accurate cash balance at any time during the year for any account. Additionally, this control deficiency may have resulted in a material misstatement to annual financial statements and the risk significantly increases that errors and fraud related to cash collections and deposits, including misappropriation of assets, which could not be prevented or detected.

Recommendation: We recommend that the City strive to reconcile the bank statements accurately to allow for the control that was initially set up to actually take place. This process could be assigning to a specific staff person.

Responsible Official's Response: The City concurs with the recommendation, and the new Treasurer has been preparing accurate bank reconciliations on a timely basis.