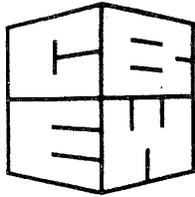


**CITY OF HOMINY
Hominy, Oklahoma**

**BASIC FINANCIAL STATEMENTS
June 30, 2015**



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INDEPENDENT AUDITOR'S REPORT

September 15, 2015

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, 2015, 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, 2015, 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.

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 15, 2015, 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

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

**CITY OF HOMINY
Hominy, Oklahoma**

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CITY OF HOMINY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 371,862	\$ 208,126	\$ 579,988
Investments	1,935,655	574,422	2,510,077
Due to/from others	(10,498)	10,498	-
Restricted assets:			
Cash and investments (Note 1)	139,387	194,015	333,402
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)	1,639,479	3,318,893	4,958,372
Total assets	<u>4,092,633</u>	<u>4,352,891</u>	<u>8,445,524</u>
Deferred outflows of resources:			
Total deferred outflows	-	-	-
Liabilities:			
Current liabilities:			
Payroll taxes payable	582	743	1,325
Accrued compensated absences	2,779	7,902	10,681
Security deposits	-	2,810	2,810
Notes payable (Note 2)	-	48,247	48,247
Leases payable (Note 2)	-	62,219	62,219
Long-term liabilities:			
Notes payable (Note 2)	-	428,837	428,837
Leases payable (Note 2)	-	161,915	161,915
Total liabilities	<u>3,361</u>	<u>712,673</u>	<u>716,034</u>
Deferred inflows of resources:			
Total deferred inflows	-	-	-
Net position:			
Invested in capital assets, net of related debt	1,656,227	2,734,106	4,390,333
Restricted	1,725,741	191,205	1,916,946
Unrestricted	707,304	714,907	1,422,211
Total net position	<u>\$ 4,089,272</u>	<u>\$ 3,640,218</u>	<u>\$ 7,729,490</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, 2015

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	\$ 417	\$ -	\$ -	\$ -	\$ (417)
Total general government	417	-	-	-	(417)
Public safety and judiciary:					
City attorney	27,434	-	-	-	(27,434)
Fire department	263,365	120,852	-	-	(142,513)
Municipal court	18,392	45,550	-	-	27,158
Police	455,756	-	-	-	(455,756)
Civil defense	7,815	-	-	-	(7,815)
Total public safety and judiciary	772,762	166,402	-	-	(606,360)
Transportation:					
Streets	23,932	-	-	-	(23,932)
Total transportation	23,932	-	-	-	(23,932)
Cultural, parks and recreation:					
Library	97,473	35	12,058	-	(85,380)
Park facilities	-	-	-	-	-
Public property	298,313	13,934	-	-	(284,379)
Swimming pool	41,844	-	1,000	-	(40,844)
Senior citizens center	57,945	-	-	-	(57,945)
Lake	3,301	19,844	-	-	16,543
Cemetery	39,591	22,707	-	-	(16,884)
Total cultural, parks and recreation	538,467	56,520	13,058	-	(468,889)
Unallocated depreciation*	118,110	-	-	-	(118,110)
Total governmental activities	1,453,688	222,922	13,058	-	(1,217,708)
Business-type activities					
General and administrative	482,024	-	-	-	(482,024)
Electric service	1,976,523	2,388,646	-	-	412,123
Water/wastewater plant	624,926	826,577	-	-	201,651
Water/wastewater maintenance	193,458	-	-	-	(193,458)
Meter reading	24,263	-	-	-	(24,263)
Sanitation service	205,360	227,757	-	-	22,397
Airport	142,795	47,274	-	-	(95,521)
Ambulance	469,775	183,450	-	-	(286,325)
Financing costs	6,323	-	-	-	(6,323)
Unallocated depreciation*	142,574	-	-	-	(142,574)
Total business-type activities	4,268,021	3,673,704	-	-	(594,317)
Total	\$ 5,721,709	\$ 3,896,626	\$ 13,058	\$ -	\$ (1,812,025)

* - 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, 2015

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,217,708)	(594,317)	(1,812,025)
General revenues:			
Taxes:			
Sales and use taxes	718,866	-	718,866
Franchise taxes	20,380	-	20,380
Cigarette taxes	8,138	-	8,138
Intergovernmental	122,025	-	122,025
Penalties	-	52,230	52,230
Investment earnings	17,036	10,879	27,915
Miscellaneous	10,800	40,708	51,508
Rental income	4,200	-	4,200
Surplus property sales	-	-	-
Transfers	(10,022)	10,022	-
Total general revenues and transfers	<u>891,423</u>	<u>113,839</u>	<u>1,005,262</u>
Change in net position	(326,285)	(480,478)	(806,763)
Net position - beginning of year	<u>4,415,557</u>	<u>4,120,696</u>	<u>8,536,253</u>
Net position - end of year	<u>\$ 4,089,272</u>	<u>\$ 3,640,218</u>	<u>\$ 7,729,490</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, 2015

	General Fund	Capital Projects Water Assessment	Special Revenue Park Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and investments:					
Cash & cash equivalents	\$ 171,425	\$ 76,499	\$ 80,828	\$ 43,110	\$ 371,862
Investments	549,194	447,434	806,225	132,802	1,935,655
Due from others	544	-	-	-	544
Restricted assets:					
Cash and investments	-	59,349	-	80,038	139,387
Total assets	\$ 721,163	\$ 583,282	\$ 887,053	\$ 255,950	\$ 2,447,448
Liabilities:					
Due to others	\$ 10,498	-	\$ 544	-	\$ 11,042
Bonds payable	582	-	-	-	582
Total liabilities	11,080	-	544	-	11,624
Fund balance:					
Restricted for:					
Cemetery	-	-	-	80,038	80,038
Water improvement	-	583,282	-	-	583,282
Debt service	-	-	-	-	-
Swimming pool	-	-	886,509	-	886,509
Parks	-	-	-	-	-
Other purposes	-	-	-	175,912	175,912
Unassigned	710,083	-	-	-	710,083
Total fund balance	710,083	583,282	886,509	255,950	2,435,824
Total liabilities & fund balance	\$ 721,163	\$ 583,282	\$ 887,053	\$ 255,950	\$ 2,447,448

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, 2015

Total Fund Balances - Total Governmental Funds \$ 2,435,824

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

Accrued compensated absences (2,779)

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

Buildings	\$	1,149,028	
Equipment		124,675	
Vehicles		230,600	
Land		16,748	
Infrastructure		135,176	
		1,656,227	1,656,227

Net position of governmental activities \$ 4,089,272

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, 2015

	General Fund	Capital Projects Water Assessment	Special Revenue Park Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Charges for services	\$ 33,813	\$ -	\$ -	\$ -	\$ 33,813
Cigarette taxes	8,138	-	-	-	8,138
Interest	4,292	5,881	5,409	1,455	17,037
Franchise taxes	20,380	-	-	-	20,380
Fire runs and memberships	120,852	-	-	-	120,852
Intergovernmental programs	88,240	-	-	33,785	122,025
Fines and forfeits	45,550	-	-	-	45,550
Grant revenues	12,058	-	-	-	12,058
Rental receipts	4,200	-	-	-	4,200
Lot sales	19,893	-	-	2,814	22,707
Miscellaneous revenue	10,490	-	-	-	10,490
Sales and use taxes	718,866	-	-	-	718,866
Surplus property sales	-	-	-	-	-
Licenses and permits	309	-	-	-	309
Donations and other	-	-	1,000	-	1,000
Total revenues	<u>1,087,081</u>	<u>5,881</u>	<u>6,409</u>	<u>38,054</u>	<u>1,137,425</u>
Expenditures:					
Current:					
General government	-	-	-	417	417
Public safety	801,390	-	-	-	801,390
Public property	298,313	-	-	-	298,313
Highways and roads	-	-	-	23,931	23,931
Cultural and recreational	240,118	-	-	35	240,153
Debt service	-	-	-	-	-
Capital outlay	35,000	-	-	-	35,000
Total expenditures	<u>1,374,821</u>	<u>-</u>	<u>-</u>	<u>24,383</u>	<u>1,399,204</u>
Excess of revenues over (under) expenditures	(287,740)	5,881	6,409	13,671	(261,779)
Other financing uses:					
Loan proceeds	-	-	-	-	-
Operating transfers in (out)	269,514	(347,668)	68,132	-	(10,022)
Excess of revenues over (under) expenditures & transfers	(18,226)	(341,787)	74,541	13,671	(271,801)
Fund balance - beginning of year	<u>728,309</u>	<u>925,069</u>	<u>811,968</u>	<u>242,279</u>	<u>2,707,625</u>
Fund balance - end of year	<u>\$ 710,083</u>	<u>\$ 583,282</u>	<u>\$ 886,509</u>	<u>\$ 255,950</u>	<u>\$ 2,435,824</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, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ (271,801)
 Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	28,626
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.	(118,110)
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.	<u>35,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (326,285)</u></u>

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

CITY OF HOMINY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUNDS
June 30, 2015

	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)	\$ 136,388	\$ 21,211	\$ 50,527	\$ 208,126
Investments	483,990	90,432	-	574,422
Cash on hand	-	-	-	-
Due from others	10,498	-	-	10,498
Restricted assets:				
Cash and investments (Note 1)	93,116	2,810	98,089	194,015
Capital assets:				
Land and construction in progress	-	46,937	-	46,937
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	2,272,200	712,697	333,996	3,318,893
Total assets	\$ 2,996,192	\$ 874,087	\$ 482,612	\$ 4,352,891
Deferred outflows of resources:				
Total deferred outflows	-	-	-	-
Liabilities:				
Current liabilities:				
Due to others	\$ -	\$ -	\$ -	\$ -
Payroll taxes payable	490	-	253	743
Accrued compensated absences	4,340	-	3,562	7,902
Security deposits	-	2,810	-	2,810
Notes payable (Note 2)	48,247	-	-	48,247
Leases payable (Note 2)	44,754	-	17,465	62,219
Long-term liabilities:				
Notes payable (Note 2)	428,837	-	-	428,837
Leases payable (Note 2)	109,886	-	52,029	161,915
Total liabilities	636,554	2,810	73,309	712,673
Deferred inflows of resources:				
Total deferred inflows	-	-	-	-
Net position:				
Invested in capital assets, net of related debt	1,640,476	759,634	333,996	2,734,106
Restricted	93,116	-	98,089	191,205
Unrestricted	626,046	111,643	(22,782)	714,907
Total net position	\$ 2,359,638	\$ 871,277	\$ 409,303	\$ 3,640,218

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, 2015

	Business-type Activities - Enterprise Funds			Totals
	Hominy Municipal Authority (Major)	Hominy Industrial Authority (Major)	Hominy Community Medical Authority (Non-major)	
Revenues:				
Electric revenue	\$ 2,388,646	\$ -	\$ -	\$ 2,388,646
Water revenue	691,360	-	-	691,360
Wastewater revenue	135,217	-	-	135,217
Sanitation revenue	227,757	-	-	227,757
Penalties	52,230	-	-	52,230
Miscellaneous revenue	40,708	-	-	40,708
Grant revenue	-	-	-	-
Charges for service	-	47,274	-	47,274
Rentals	-	-	21,310	21,310
Ambulance revenue	-	-	162,140	162,140
Total revenues	3,535,918	47,274	183,450	3,766,642
Operating expenses:				
General and administrative	482,024	-	-	482,024
Electric service	1,976,523	-	-	1,976,523
Water/wastewater plant	624,926	-	-	624,926
Water/wastewater maintenance	193,458	-	-	193,458
Meter reading	24,263	-	-	24,263
Sanitation service	205,360	-	-	205,360
Airport	-	59,320	-	59,320
Ambulance	-	-	434,347	434,347
Depreciation expense	142,574	83,475	35,428	261,477
Total operating expenses	3,649,128	142,795	469,775	4,261,698
Income before non-operating revenues, expenses & transfers	(113,210)	(95,521)	(286,325)	(495,056)
Non-operating revenues (expenses):				
Interest revenue	9,338	439	1,102	10,879
Interest expense	(5,554)	-	(769)	(6,323)
Donations	-	-	-	-
Surplus property sales	-	-	-	-
Total	3,784	439	333	4,556
Income (loss) before operating transfers	(109,426)	(95,082)	(285,992)	(490,500)
Transfers in (out)	(258,848)	-	268,870	10,022
Change in net position	(368,274)	(95,082)	(17,122)	(480,478)
Net position at beginning of year	2,727,912	966,359	426,425	4,120,696
Net position at end of year	\$ 2,359,638	\$ 871,277	\$ 409,303	\$ 3,640,218

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, 2015

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	\$ 3,495,210	\$ 47,274	\$ 183,450	\$ 3,725,934
Cash payments for goods & services & employees	(3,515,076)	(59,320)	(434,982)	(4,009,378)
Other operating revenues	40,708	-	-	40,708
Net cash provided by operating activities	<u>20,842</u>	<u>(12,046)</u>	<u>(251,532)</u>	<u>(242,736)</u>
Cash flows from noncapital financing activities:				
Operating transfers out to other funds	(967,748)	-	-	(967,748)
Operating transfers in from other funds	708,900	-	268,870	977,770
Change in due to/due from accounts	(300)	-	-	(300)
Change in security deposits	-	39	-	39
Net cash provided (used) for noncapital financing activities	<u>(259,148)</u>	<u>39</u>	<u>268,870</u>	<u>9,761</u>
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(287,920)	-	(145,692)	(433,612)
Principal paid on debt	(95,567)	-	(4,252)	(99,819)
Loan proceeds	-	-	73,745	73,745
Donations	-	-	-	-
Surplus property sales	-	-	-	-
Interest paid on debt	(5,554)	-	(769)	(6,323)
Net cash provided (used) for capital and related financing activities	<u>(389,041)</u>	<u>-</u>	<u>(76,968)</u>	<u>(466,009)</u>
Cash flows from investing activities:				
(Purchase) liquidation of investments	411,685	(90,432)	(731)	320,522
Interest on investments	9,338	439	1,102	10,879
Net cash provided by investing activities	<u>421,023</u>	<u>(89,993)</u>	<u>371</u>	<u>331,401</u>
Net increase (decrease) in cash & cash equivalents	(206,324)	(102,000)	(59,259)	(367,583)
Cash and cash equivalents - beginning of year	<u>342,712</u>	<u>126,021</u>	<u>109,786</u>	<u>578,519</u>
Cash and cash equivalents - end of year	<u>\$ 136,388</u>	<u>\$ 24,021</u>	<u>\$ 50,527</u>	<u>\$ 210,936</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (113,210)	\$ (95,521)	\$ (286,325)	\$ (495,056)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	142,574	83,475	35,428	261,477
Change in assets and liabilities:				
Increase (decrease) in accounts payable	490	-	253	743
Increase (decrease) in accrued expenses	(9,012)	-	(888)	(9,900)
Total adjustments	<u>134,052</u>	<u>83,475</u>	<u>34,793</u>	<u>252,320</u>
Net cash provided by operating activities	<u>\$ 20,842</u>	<u>\$ (12,046)</u>	<u>\$ (251,532)</u>	<u>\$ (242,736)</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, 2015**

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>192,865</u>
Total assets	\$ <u><u>192,865</u></u>
Liabilities:	
Deposits	\$ <u>192,865</u>
Total liabilities	\$ <u><u>192,865</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, 2015**

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, 2015

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, 2015

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, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The 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.

Hominy Community Medical Authority – which accounts for ambulance services.

There are no other enterprise funds of the City that are considered non-major funds.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are 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, 2015**

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, 2015

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, 2015

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, 2015

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2015, the City held deposits of approximately \$3,616,332 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, 2015 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 580,907	\$ 580,907
Certificate of deposit	6.00	N/A	3,035,425	3,035,425
Total investments			<u>\$ 3,616,332</u>	<u>\$ 3,616,332</u>

Reconciliation to Statement of Net Position	
Governmental activities	\$ 2,446,904
Business-type activities	976,563
Fiduciary funds	192,865
	<u>\$ 3,616,332</u>

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

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: 84% in Certificates of deposit (\$3,035,425) and 16% in Money Market funds (\$580,907).

B. Capital Assets

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

Governmental Activities:	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Non-depreciable assets:				
Land	\$ 16,748	\$ -	\$ -	\$ 16,748
Total non-depreciable assets	<u>16,748</u>	<u>-</u>	<u>-</u>	<u>16,748</u>
Depreciable assets:				
Buildings and improvements	1,543,715	-	-	1,543,715
Furniture, fixtures and equipment	631,771	-	-	631,771
Vehicles	617,679	35,000	-	652,679
Infrastructure	313,973	-	-	313,973
Total depreciable assets	<u>3,107,138</u>	<u>35,000</u>	<u>-</u>	<u>3,142,138</u>
Less accumulated depreciation:				
Buildings and improvements	(369,642)	(25,045)	-	(394,687)
Furniture, fixtures and equipment	(477,895)	(29,201)	-	(507,096)
Vehicles	(387,127)	(34,953)	-	(422,080)
Infrastructure	(149,886)	(28,911)	-	(178,797)
Total accumulated depreciation	<u>(1,384,550)</u>	<u>(118,110)</u>	<u>-</u>	<u>(1,502,660)</u>
Net depreciable assets	<u>1,722,588</u>	<u>(83,110)</u>	<u>-</u>	<u>1,639,478</u>
Net governmental activities capital assets	<u>\$ 1,739,336</u>	<u>\$ (83,110)</u>	<u>\$ -</u>	<u>\$ 1,656,226</u>

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets (Continued)

	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
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	196,078	-	5,971,239
Furniture, fixtures and equipment	166,591	63,089	-	229,680
Vehicles	1,072,127	174,445	-	1,246,572
Total depreciable assets	7,013,879	433,612	-	7,447,491
Less accumulated depreciation:				
Buildings and improvements	(3,070,697)	(172,460)	-	(3,243,157)
Furniture, fixtures and equipment	(117,296)	(7,002)	-	(124,298)
Vehicles	(679,127)	(82,016)	-	(761,143)
Total accumulated depreciation	(3,867,120)	(261,478)	-	(4,128,598)
Net depreciable assets	3,146,759	172,134	-	3,318,893
Net business-type activities capital assets	\$ 3,193,696	\$ 172,134	\$ -	\$ 3,365,830

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, 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.

**CITY OF HOMINY
Hominy, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015**

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capitalized Leases (Continued)

The Business-type activities capital leases are described below.

the amount of \$129,200. Monthly payments of \$2,330 are due including interest at a rate of 3.14%.	\$ 92,338
(2) Lease payable to American Heritage Bank for the lease purchase of an ambulance the amount of \$73,746. Monthly payments of \$1,673 are due including interest at a rate of 4.25%.	69,494
(3) 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%.	<u>62,303</u>
Total	<u>\$ 224,135</u>

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

	Balance July 1, 2014	Additions	Payments and Cancellations	Balance June 30, 2015
Capital lease obligations	\$ 198,254	\$ 73,746	\$ 47,865	\$ 224,135

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

Year Ending June 30,	Business-Type Activities		
	Principal	Interest	Total
2016	\$ 62,219	\$ 7,029	\$ 69,248
2017	64,625	4,623	69,248
2018	66,878	2,370	69,248
2019	30,413	396	30,809
Total	<u>224,135</u>	<u>14,418</u>	<u>238,553</u>

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.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Long-term Debt (Continued)

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.

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

	Balance Outstanding 7/1/14	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/15	Current Portion
Hominy Public Works Authority:					
OWRB - 2003	\$ 529,036	\$ -	\$ (51,952)	\$ 477,084	\$ 48,247
Total	<u>\$ 529,036</u>	<u>\$ -</u>	<u>\$ (51,952)</u>	<u>\$ 477,084</u>	<u>\$ 48,247</u>

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

Business-Type Activities			
Year Ending June 30,	Principal	Interest	Total
2016	\$ 48,247	\$ 10,621	\$ 58,868
2017	49,614	9,507	59,121
2018	50,984	8,390	59,374
2019	52,391	7,242	59,633
2020	53,819	6,079	59,898
2021-2024	222,029	11,799	233,828
Total	<u>477,084</u>	<u>53,638</u>	<u>530,722</u>

The City's debt service coverage ratio for June 30, 2015 is 32.78%.

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, 2015

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 2014-2015 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 \$65,129, \$66,139 and \$102 for 2015, 2014 and 2013, respectively.

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

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 \$2,898, \$3,539 and \$3,484 for 2015, 2014 and 2013, 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 \$29,327, \$22,734 and \$26,645 for 2015, 2014 and 2013, respectively. The required contribution was fully contributed. At June 30, 2015 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, 2015**

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, 2015
 (Unaudited)
 GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 32,735	\$ 32,735	\$ 33,813	\$ 1,078
Cigarette taxes	-	-	8,138	8,138
Interest	4,575	4,575	4,292	(283)
Franchise taxes	30,000	30,000	20,380	(9,620)
Fire runs and memberships	143,329	143,329	120,852	(22,477)
Intergovernmental programs	80,000	80,000	88,240	8,240
Fines and forfeits	14,615	14,615	45,550	30,935
Grant revenues	15,000	15,000	12,058	(2,942)
Rental receipts	4,600	4,600	4,200	(400)
Lot sales	26,050	26,050	19,893	(6,157)
Miscellaneous revenue	18,925	18,925	10,490	(8,435)
Sales and use taxes	842,324	842,324	718,866	(123,458)
Suplus property sales	-	-	-	-
Licenses and permits	750	750	309	(441)
Donations and other	-	-	-	-
Total revenues	<u>1,212,903</u>	<u>1,212,903</u>	<u>1,087,081</u>	<u>(125,822)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	803,943	803,943	801,390	2,553
Public property	356,700	356,700	298,313	58,387
Highways and roads	-	-	-	-
Cultural and recreational	323,749	323,749	240,118	83,631
Debt service	-	-	-	-
Capital outlay	35,000	35,000	35,000	-
Total expenditures	<u>1,519,392</u>	<u>1,519,392</u>	<u>1,374,821</u>	<u>144,571</u>
Excess of revenue over (under) expenditures	(306,489)	(306,489)	(287,740)	18,749
Other financing sources (uses):				
Operating transfers in (out)	<u>(63,775)</u>	<u>(63,775)</u>	<u>269,514</u>	<u>333,289</u>
Net changes in fund balance	(370,264)	(370,264)	(18,226)	352,038
Fund balance at beginning of year	<u>728,309</u>	<u>728,309</u>	<u>728,309</u>	<u>-</u>
Fund balance at end of year	<u>\$ 358,045</u>	<u>\$ 358,045</u>	<u>\$ 710,083</u>	<u>\$ 352,038</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, 2015
 (Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 6,000	\$ 6,000	\$ 6,373	\$ 373
Intergovernment programs	33,000	33,000	33,785	785
Donations and other	1,000	1,000	1,000	-
Total revenues	<u>40,000</u>	<u>40,000</u>	<u>41,158</u>	<u>1,158</u>
Expenditures:				
Highways and roads	25,000	25,000	23,931	1,069
Cemetery	-	-	-	-
Cultural & recreation	1,000	1,000	35	965
Capital outlay	-	-	-	-
Total expenditures	<u>26,000</u>	<u>26,000</u>	<u>23,966</u>	<u>2,034</u>
Excess of revenue over (under) expenditures	14,000	14,000	17,192	3,192
Other financing sources (uses):				
Operating transfers in (out)	<u>65,000</u>	<u>65,000</u>	<u>68,132</u>	<u>3,132</u>
Net changes in fund balance	79,000	79,000	85,324	6,324
Fund balance at beginning of year	<u>977,097</u>	<u>977,097</u>	<u>977,097</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,056,097</u>	<u>\$ 1,056,097</u>	<u>\$ 1,062,421</u>	<u>\$ 6,324</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, 2015
 (Unaudited)
 CAPITAL PROJECTS FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 6,000	\$ 6,000	\$ 5,881	\$ (119)
Intergovernment programs	-	-	-	-
Donations and other	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>5,881</u>	<u>(119)</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	5,881	(119)
Other financing sources (uses):				
Operating transfers in (out)	<u>(350,000)</u>	<u>(350,000)</u>	<u>(347,668)</u>	<u>2,332</u>
Net changes in fund balance	(344,000)	(344,000)	(341,787)	2,213
Fund balance at beginning of year	<u>925,069</u>	<u>925,069</u>	<u>925,069</u>	<u>-</u>
Fund balance at end of year	<u>\$ 581,069</u>	<u>\$ 581,069</u>	<u>\$ 583,282</u>	<u>\$ 2,213</u>

CITY OF HOMINY
Hominy, Oklahoma

NOTES TO SUPPLEMENTAL INFORMATION
Year Ended June 30, 2015
(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, 2015

CITY OF HOMINY
 COMBINING BALANCE SHEET
 MODIFIED CASH BASIS
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2015

	Special Revenue		Debt Service	Permanent Funds	Total Non-Major Governmental Funds
	Street & Alley	Library Donations	Sinking	Cemetery Trust	
Assets:					
Cash and equivalents	\$ 43,110	\$ -	\$ -	\$ -	\$ 43,110
Investments	132,802	-	-	-	132,802
Restricted cash:					
Cash and investments	-	-	-	80,038	80,038
Total assets	<u>\$ 175,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,038</u>	<u>\$ 255,950</u>
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted	175,912	-	-	80,038	255,950
Total fund balances	<u>175,912</u>	<u>-</u>	<u>-</u>	<u>80,038</u>	<u>255,950</u>
Total liabilities and fund balances	<u>\$ 175,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,038</u>	<u>\$ 255,950</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, 2015

	Special Revenue		Debt Service	Permanent Funds	Total Non-Major Governmental Funds
	Street & Alley	Library Donations	Sinking	Cemetery Trust	
Revenues:					
Intergovernmental programs	\$ 33,785	\$ -	\$ -	\$ -	\$ 33,785
Donations	-	-	-	-	-
Interest	964	-	-	491	1,455
Surplus property sales	-	-	-	-	-
Lot sales	-	-	-	2,814	2,814
Total revenues	\$ 34,749	\$ -	\$ -	\$ 3,305	\$ 38,054
Expenditures:					
General government	-	-	417	-	417
Highways and roads	23,931	-	-	-	23,931
Cemetery	-	-	-	-	-
Cultural & recreation	-	35	-	-	35
Capital outlay	-	-	-	-	-
Total expenditures	23,931	35	417	-	24,383
Excess of revenues over (under) expenditures	10,818	(35)	(417)	3,305	13,671
Other financing uses:					
Operating transfers in (out)	-	-	-	-	-
Excess of revenues over (under) expenditures & transfers	10,818	(35)	(417)	3,305	13,671
Fund balance - beginning of year	165,094	35	417	76,733	242,279
Fund balance - end of year	\$ 175,912	\$ -	\$ -	\$ 80,038	\$ 255,950

**CITY OF HOMINY
Hominy, Oklahoma**

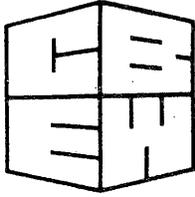
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015**

<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	12,058	12,058	12,058
Total of Expenditures of Federal Awards		\$ 12,058	\$ 12,058	\$ 12,058

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, 2015**



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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 15, 2015

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, 2015, 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 15, 2015. 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 finding 15-1.

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
Certified Public Accountants
Cushing, Oklahoma

**CITY OF HOMINY
Hominy, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015**

15-1. 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 modified cash basis financial statements. However, the government's trial balances for the year ended June 30, 2015, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with 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 assigning 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.