City of Jay, Oklahoma

Audited Financial Statements
For the Year Ended June 30, 2014

Northeastern Oklahoma Accounting, PLLC
Tahlequah, OK

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NORTHEASTERN OKLAHOMA ACCOUNTING
109 E. DELAWARE ★ TAHLEQUAH OKLAHOMA 74464

INDEPENDENT AUDITOR'S REPORT

To the City Council
Jay, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely resented component units, each major fund, and the aggregate remaining fund information of City of Jay, Oklahoma, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Jay, Oklahoma, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2015, on our consideration of the City of Jay, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Jay, Oklahoma's internal control over financial reporting and compliance.

Northeastern Oklahoma Accounting, PLLC
Tahlequah, Oklahoma
September 8, 2015

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

September 8, 2015

To the City Council
City of Jay, 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, business-type activities the aggregate remaining fund information of City of Jay, Oklahoma, as of and for the year ended June 30, 2014, and the related noted to financial statements, which collectively comprise the City's financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably. In accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of this internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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. No instances of non-compliance were found.

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 or on non-compliance. This report is an integral part of an audit preformed in accordance with Government Auditing Standard in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Northeastern Oklahoma Accounting, PLLC
September 8, 2015

City of Jay, Oklahoma
Statement of Net Assets
June 30, 2014

	Governmental Activities	Business-type Activities	Total	Discretely Presented Component Unit
ASSETS				
Current Assets:				
Cash and Cash Equivalents	6,013	536,428	542,441	373,265
Deposit with Third Party Administrator	20,518	-	20,518	-
Accounts Receivable	-	279,691	279,691	-
Due From Other Governments	172,617	44,400	217,017	1,955,953
Prepaid Insurance	-	-	-	-
Total Current Assets	199,148	860,519	1,059,667	2,329,218
Noncurrent Assets:				
Restricted Asset-Cash		842,420	842,420	-
Property, Plant and Equipment, Net	1,844,673	7,016,862	8,861,535	-
Bond and Loan Costs, Net		88,050	88,050	98,275
Total Noncurrent Assets	1,844,673	7,947,332	9,792,005	98,275
Total Assets	2,043,821	8,807,851	10,851,672	2,427,493
LIABILITIES				
Current Liabilities:				
Accounts Payable	64,884	151,611	216,495	-
Payroll Taxes Payable	4,816	6,225	11,041	-
Sales Tax Payable	-	361	361	-
Accrued Interest	-	11,284	11,284	-
Payable from Restricted Assets:			-	-
Meter Deposits Payable		182,842	182,842	-
Current Portion of Long Term Debt	82,818	400,486	483,304	
Total Current Liabilities	152,518	752,809	905,327	-
Noncurrent Liabilities:				
Notes Payable	54,459	398,026	452,485	-
Bonds Payable	-	4,080,712	4,080,712	1,370,000
Total Noncurrent Liabilities	54,459	4,478,738	4,533,197	1,370,000
Total Liabilities	206,977	5,231,547	5,438,524	1,370,000
NET ASSETS				
Invested in Capital, Net of Related Debt	1,790,214	2,538,124	4,328,338	-
Restricted	-	-	-	1,057,493
Unrestricted	46,630	1,038,180	1,084,810	-
Total Net Assets	1,836,844	3,576,304	5,413,148	1,057,493
Total Liabilities and Net Assets	2,043,821	8,807,851	10,851,672	2,427,493

City of Jay, Oklahoma
Statement of Activities
For the Year Ended June 30, 2014

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Grants & Contributions	Net (Expense)/Revenue & Changes in Net Assets: Governmental Activities	Net (Expense)/Revenue & Changes in Net Assets: Business-Type Activities	Net (Expense)/Revenue & Changes in Net Assets: Total
Governmental Activities						
General Government:						
Mangerial	34,217	-	-	(34,217)	-	(34,217)
City Clerk/Treasurer	41,862	-	-	(41,862)	-	(41,862)
Maintenance & Operation	169,409	3,731	-	(165,678)	-	(165,678)
Total General Government	245,488	3,731	-	(241,757)	-	(241,757)
Public Safety & Judiciary:						
City Attorney	3,815	-	-	(3,815)	-	(3,815)
Emergency Medical Service	433,375	287,343	-	(146,032)	-	(146,032)
Fire	23,871	1,460	7,039	(15,372)	-	(15,372)
Municipal Court	2,800	13,024	-	10,224	-	10,224
Police	525,555	-	18,658	(506,897)	-	(506,897)
Total Public Safety & Judiciary	989,416	301,827	25,697	(661,892)	-	(661,892)
Transportation:						
Street and Alley	217,357	-	-	(217,357)	-	(217,357)
Culture, Park & Recreation:						
Community Center	12,000	5,000	-	(7,000)	-	(7,000)
Parks	43,764	-	-	(43,764)	-	(43,764)
Cemetary	-	668	-	668	-	668
Swimming Pool	17,940	10,170	-	(7,770)	-	(7,770)
Total Culture, Park & Recreation	73,704	15,838	-	(57,866)	-	(57,866)
Total Governmental Activities	1,525,965	321,396	25,697	(1,178,872)	-	(1,178,872)
Business-Type Activities						
Water & Sewer	2,740,910	3,062,729	50,000	-	371,819	371,819
Total Business-Type Activities	2,740,910	3,062,729	50,000	-	371,819	371,819
	4,266,875	3,384,125	75,697			
		General Revenues:				
		Sales and Use Tax		971,332	-	971,332
		Motor Vehicle Tax		17,374	-	17,374
		Franchise Tax		57,917	-	57,917
		Other Taxes		40,131	-	40,131
		Investment Earnings		88	-	88
		Miscellaneous		-	-	-
		Other Income		46,499	-	46,499
		Total Revenues & Transfers		1,133,341	-	1,133,341
		Change In Net Assets		(45,531)	371,819	326,288
		Net Assets, Beginning of Year		1,882,375	3,204,485	5,086,860
		Net Assets, End of Year		1,836,844	3,576,304	5,413,148

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Net Assets - Governmental Funds
June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	354	5,659	6,013
Deposits with Third Party Administrator	20,518	-	20,518
Due From Other Governments	172,617	-	172,617
Prepaid Insurance	-	-	-
Total Assets	193,489	5,659	199,148
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	64,884	-	64,884
Payroll Taxes and Withholdings Payable	4,816	-	4,816
Total Liabilities	69,700	-	69,700
Fund Balance:			
Cash Fund Balance, Unreserved	123,789	5,659	129,448
TOTAL LIABILITIES AND FUND BALANCE	193,489	5,659	199,148

Reconciliation to the Statement of Net Assets

Total Governmental Funds Balance		129,448
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is $4,656,365 and the accumulated depreciation is $2,811,691 for a net book value of $1,844,673		1,844,673
Long term liabilities, including capitalized lease obligations, are not due and payable in the current perios and therefore, are not reported as liabilities in the funds. Long term liabilities at year end consist of:		
	Accrued Interest Payable	-
	Capitalized Lease Obligations Payable	(137,277)
Net Assets of Governmental Activities		1,836,844

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	1,086,752	-	1,086,752
Grants	29,897	-	29,897
Charges for Services	291,058	10,388	301,446
Fines and Forfeitures	13,024	-	13,024
Investment Income	88	-	88
Reimbursements	-	-	-
Sale/Lease of Property	5,000	450	5,450
Other Revenues	40,728	3,049	43,777
Total Revenues	1,466,547	13,887	1,480,434
Expenditures:			
General Government:			
City Clerk/Treasurer	41,862	-	41,862
Mangerial	34,217	-	34,217
Maintenance and Operation	152,541	-	152,541
Public Safety:			
City Attorney	3,815	-	3,815
Emergency Medical Service	399,301	-	399,301
Fire	59,317	-	59,317
Municipal Court	2,800	-	2,800
Police	527,371	-	527,371
Transportation:			
Street and Alley	216,713	-	216,713
Parks and Recreation:			
Community Center	12,000	-	12,000
Parks	43,764	-	43,764
Cemetary	-	-	-
Swimming Pool	-	17,940	17,940
Total Expenditures	1,493,701	17,940	1,511,641
Net Change in Fund Balance	(27,154)	(4,053)	(31,207)
Fund Balance, Beginning of Year	150,943	9,712	160,655
Fund Balance, End of Year	123,789	5,659	129,448

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma

Reconciliation of the Govenrmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Govenrment-Wide Financial Statement of Activities

For the Year Ended June 30, 2014

Net Changes in Fund Balances - Governmental Funds	(31,207)
Amounts reported for governmental activities are different because:	
In the governmental funds, capital outlays are reported as expenditures, while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.	
Depreciation expense	(119,099)
In the governmental funds expenses are recognized when paid while in the government-wide statement of activities, expenses are recognized when incurred	(32,143)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilitities in the government-wide statements	
Capital lease obligation principal payments	137,277
Accrued Interest Payable	(359)
Change in Net Assets of Governmental Activitities	(45,531)

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Net Assets - Proprietary Fund
June 30, 2014

Current Assets:	
Cash & Cash Equivalents	536,428
Accounts Receivable	279,691
Other Receivables	44,400
Prepaid Insurance	-
Total Current Assets	860,519
Non-current Assets:	
Restricted Assets:	
Cash & Cash Equivalents	842,420
Capital Assets:	
Property, Plant & Equipment, net of Accumulated Depreciation	7,016,862
Other Assets:	
Bond and Loan Costs, net of Accumulated Amortization	88,050
Total Non-current Assets	7,947,332
TOTAL ASSETS	**8,807,851**
LIABILITIES	
Current Liabilities:	
Accounts Payable	151,611
Payroll Tax and Withholding Payable	6,225
Sales Tax Payable	361
Accrued Interest	11,284
Payable from Restricted Assets:	
Meter Deposits Payable	182,842
Total Current Liabilities	352,323
Non-current Liabilities:	
Notes Payable	436,473
Bonds Payable	4,442,751
Total Non-current Liabilities	4,879,224
TOTAL LIABILITIES	**5,231,547**
NET ASSETS	
Invested In Capital Assets, Net of Related Debt	2,137,638
Resticted	659,578
Unrestricted	779,088
TOTAL NET ASSETS	**3,576,304**
TOTAL LIABILITIES AND NET ASSETS	**8,807,851**

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets-Propreitary Funds
For the Year Ended June 30, 2014

	Utility Authority Enterprise Fund
Operating Revenues:	
Utility Revenue	3,061,610
Other Revenues	50,000
Total Operating Revenues	3,111,610
Operating Expenses:	
Gas Purchased	764,664
Salaries and Benefits	429,222
Depreciation and Amortization	262,696
Utilities and Telephone	183,715
Insurance	72,495
Supplies	110,257
Maintenance and Repairs	151,739
Chemicals	107,960
Contract Labor	65,860
Landfill Costs	195,313
Other Expenses	28,705
Professional Fees	44,876
Water Purchased	38,442
Truck Expense	31,141
Lab and Test Fees	12,542
Licenses and Permits	20,607
Uniforms	3,250
Office Supllies and Postage	15,205
Total Operating Expenses	2,538,689
Operating income/(Loss)	572,921
Non-Operating Revenues/(Expenses):	
Interest Income	1,119
Interest Expense	(202,221)
Total Non-Operating Revenues/(Expenses)	(201,102)
Change in Net Assets	**371,819**
Net Assets, Beginning of Year	3,204,485
Net Assets, End of Year	**3,576,304**

The accompanying Notes to the Financial Statements are an integral part of this statement.

City of Jay, Oklahoma
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2014

Cash Flows from Operating Activities	
Payments Received from Customers	2,974,167
Meter Deposits Received	32,541
Payments for Salaries and Benefits	(424,554)
Payments for Goods and Services	(1,832,599)
Net Cash Provided by Operating Activitites	749,555
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(502,261)
Construction in Progress	(70,300)
Proceeds from Financing	3,190,425
Principal Payments on Capital Debt	(2,391,789)
Interest Paid on Capital Debt	(225,479)
Net Cash Used by Capital and Related Financing Activiites	596
Cash Flows from Investing Activities	
Interest Earned	1,119
Net Cash Provided by Investing Activities	1,119
Net Cash Used from All Activities	751,270
Cash and Cash Equivalents, Beginning of Year	627,578
Cash and Cash Equivalents, End of Year	1,378,848
Unrestricted	536,428
Restricted	842,420
Cash and Cash Equivalents, End of Year	1,378,848

The accompanying Notes to the Financial Statements are an integral part of this stateme

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	572,921
Depreciation and Amortization	262,696
(Increase)/Decrease in:	
Accounts Receivable	(181,843)
Prepaid Insurance	10,821
Increase/(Decrease) in:	
Accounts Payable	36,460
Payroll Tax and Withholding Payable	4,668
Sales Tax Payable	(642)
Meter Deposits Payable	44,474
Net Cash Provided by Operating Activities	749,555

The accompanying Notes to the Financial Statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the City's financial statements.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Jay
Blended Component Unit:	Jay Utilities Authority
Discretely Presented Component Unit:	Jay Industrial Authority

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

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. The component unit's fund is blended into those of the City's by appropriate activity type to comprise the primary government presentation.

Component units that are blended into the reporting activity types of the City's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Jay Utilities Authority	Created to finance, develop and operate the utility services activities. The current City Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the City Council.	Enterprise Fund

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has one discretely presented component unit.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Additional detailed information and/or separately issued financial statements for this component unit can be obtained from the City Clerk.

Component units that are discretely presented are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Jay Industrial Authority	Created to assist in financing and constructing facilities, promote local industrial development and provide cultural and educational activities and facilities.	Special Fund

B. Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Proprietary Fund

Enterprise Fund

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

Jay Utilities Authority	Accounts for activities of the public trust in providing utility services to the public.

Major and Non-Major Funds

Major:	General Fund	
	Proprietary Fund:	Jay Utilities Authority
Non-Major:	Special Revenue Fund:	Swimming Pool Fund
	Special Revenue Fund:	Cemetery Care Fund

C. Measurement Focus and Basis of Accounting

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

I. Summary of Significant Accounting Policies (continued)

Measurement Focus

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

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.
c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

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

D. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts and certificates of deposit of the City. For the purposes of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

I. Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrance accounting, under which purchase order, contract, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-our basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The City has not maintained inventory records; however, the value of inventory on hand at June 30, 2014 is not believed to be material.

Deposits with Third-Party Administrator

Certain sales tax revenues designated for the Fire Department are received and disbursed by the Delaware County Clerk. The cash balance available to the City of Jay Fire Department as of June 30, 2014 was $20,518.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes and franchise taxes. Business-type activities report water charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Fixed Assets

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

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Government-Wide Statements

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

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

Fixed assets are defined by the City as assets with an initial, individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The range of estimated useful lives by type of asset is as follows:

Buildings	20-60 years
Improvements	20-60 years
Machinery and Equipment	3-20 years
Utility System	20-60 years
Infrastructure	20-60 years

Fund Financial Statements

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

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the 2001 Bond Issue and the 2003 Sales Tax Revenue Note require that funds be held in accounts with a trustee bank for certain purposes. Under the terms and provisions of the bond and note, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bond and note are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits, which are refundable to the customer.

Long-Term Debt

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

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets 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.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed 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 and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable 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 by taking action similar to that which imposed the commitment. The City's Council is the highest level of decision making authority of the City.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications (continued)

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.

E. Revenues, Expenditures and Expenses

Sales Tax

The City presently levies a sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the City in July and August have been accrued and are included under the caption "Due from other governments."

Use Tax

The City levies a use-tax on personal property purchased outside the City limits but stored, used or consumed within the City. The use tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors.
The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the City in July and August are included under the caption "Due from other governments."

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

I. Summary of Significant Accounting Policies (continued)

E. Revenues, Expenditures and Expenses (continued)

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. Stewardship, Compliance and Accountability

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

A. Fund Accounting Requirements

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

Fund	Required By
Utility Authority Fund	Trust Indenture
Cemetery Care Fund	State Law

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., none of the Utility Authority's deposits were exposed to credit risk.

C. Revenue Restrictions

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

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants

Revenue Source	Legal Restrictions of Use
Special Sales Tax	Fire Department Purposes
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2014, the City complied, in all material respects, with these revenue restrictions.

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2014, the City had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2014, the City incurred no such indebtedness.

Meter Deposits Payable

The Jay Utilities Authority is required to have reserved funds available for the amount of meter deposits held. The following is a brief summary of the requirements and the Authority's level of compliance thereon as of June 30, 2014.

Requirement	Level of Compliance
Reserve Account Requirement	
Account Balance should be equal to the Total meter deposits payable of $ 182,842.	Account balance at June 30, 2014 is $ 184,086.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The City complied with this statute in all material respects for the year ended June 30, 2014.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments
City policy for eligible investments is governed by State statutes which, in general, allow the City to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's cash deposits are maintained in financial institutions. As of June 30, 2014 none of City's deposits were exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Utilities Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2014 are as follows:

Meter Deposits	184,086
Construction Fund	620,000
Debt Service	38,334
	842,420

C. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, alcoholic beverage tax, and grants. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2014 is as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	172,617	324091	496,708

III. Detailed Notes on Transaction Classes/Accounts (continued)

D. Capital Assets

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Governmental Activities:				
Non-depreciable assets:				
Land	$ 341,167	$ -	$ -	$ 341,167
Depreciable assets:				
Buildings/Improvements	2,507,491	-	-	2,507,491
Machinery and Equipment	176,228	-	-	176,228
Infrastructure	131,454	-	-	131,454
Vehicles	1,500,025	-	-	1,500,025
Total	4,656,365	-	-	4,656,365
Accumulated Depreciation:				
Buildings/Improvements	(1,626,553)	(24,694)	-	(1,651,247)
Machinery and Equipment	(79,430)	(11,349)	-	(90,779)
Infrastructure	(50,730)	(8,763)	-	(59,493)
Vehicles	(935,880)	(74,293)	-	(1,010,173)
	(2,692,593)	(119,099)	-	(2,811,692)
Net Capital Assets	$ 1,963,772	$ (119,099)	$ -	$ 1,844,673
Business-Type Activities:				
Gas System	$ 603,379	$ 456,425	$ -	$ 1,059,804
Sewer System	5,490,538	-	-	5,490,538
Water System	5,099,186	-	-	5,099,186
Machinery and Equipment	182,281	10,336	-	192,617
Office Equipment	25,311	-	-	25,311
Vehicles	344,773	35,500		380,273
Construction in Progress	-	70,300	-	70,300
Total	11,692,552	572,561	-	12,318,028
Accumulated Depreciation:				
Gas System	(440,290)	(20,790)	-	(461,080)
Sewer System	(2,638,481)	(99,490)	-	(2,737,971)
Water System	(1,534,909)	(127,480)	-	(1,662,389)
Machinery and Equipment	(161,523)	(2,320)	-	(163,843)
Office Equipment	(23,315)	(599)	-	(23,914)
Vehicles	(239,952)	(12,017)		(251,969)
Construction in Progress	-	-	-	-
	(4,527,198)	(262,696)	-	(5,301,166)
Net Capital Assets	$ 7,165,354	$ 309,865	$ -	$ 7,016,862