

TOWN OF QUAPAW
Ottawa County, Oklahoma

Independent Auditor's Report and
Financial Statements

For the Year Ended June 30, 2014

TOWN OF QUAPAW
Ottawa County, Oklahoma
For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statement of Net Position - Government-Wide.....	3
Statement of Activities - Government-Wide	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Government - Wide Statement of Activities	5
Balance Sheet - Governmental Funds.....	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	7
Statement of Net Position - Proprietary Fund.....	8
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	9
Statement of Cash Flows - Proprietary Fund.....	10
Notes to the Basic Financial Statements.....	11-25
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	26-27
Schedule of Findings and Responses.....	28

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

918-803-4868 OFFICE

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Trustees
Town of Quapaw
Quapaw, Ottawa County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quapaw, State Oklahoma as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Quapaw'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial Position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Quapaw, State of 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 Discussion and Analysis and Budgetary Comparison Information for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because Management’s Discussion and Analysis was not presented by management and the Town has not filed its statutorily required budget according to prescribed and authoritative State of Oklahoma Statutes. We do not express an opinion or provide any assurance on the information. See Note 7 and Note 8 in the accompanying financial statements for further discussion pertaining to these matters.

Emphasis of Matter Regarding Going Concern

As disclosed in *Note 7 – Subsequent Events and Going Concern*, the Town was determined to have a Going Concern as it was subject to a natural disaster in addition to its operating results, and other matters that raise this issue. These items should be considered when using these financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2014, on our consideration of the Town of Quapaw, State of Oklahoma’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Quapaw, State of Oklahoma’s internal control over financial reporting and compliance.



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

NOVEMBER 30, 2014

TOWN OF QUAPAW
Statement of Net Position – Government-Wide
For the Year Ended June 30, 2014

	<u>Primary Government</u>		<u>Totals</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 378,022	\$ 35,252	\$ 413,274
Cash held by third parties	34,369	-	34,369
Receivables	-	34,660	34,660
Due from other governmental agencies	17,908	-	17,908
Total Current Assets	<u>430,300</u>	<u>69,912</u>	<u>500,212</u>
Current Restricted Assets:			
Cash	466	30,141	30,607
OMAG loss fund	-	25,059	25,059
Total Current Restricted Assets	<u>466</u>	<u>55,200</u>	<u>55,665</u>
Non-Current Assets:			
Capital assets, net of accumulated depreciation	<u>235,063</u>	<u>4,407,816</u>	<u>4,642,878</u>
Total Non-Current Assets	<u>235,063</u>	<u>4,407,816</u>	<u>4,642,878</u>
Total Assets	<u>665,828</u>	<u>4,532,928</u>	<u>5,198,756</u>
LIABILITIES			
Current Liabilities			
Accounts payable	45,143	16,733	61,875
Accrued interest	-	5,360	5,360
Payroll taxes payable	2,328	1,186	3,514
Current portion of long-term debt	<u>-</u>	<u>40,465</u>	<u>40,465</u>
Total Current Liabilities	<u>47,471</u>	<u>63,744</u>	<u>111,214</u>
Long-term liabilities			
Utility deposits	-	21,300	21,300
Notes payable	<u>-</u>	<u>1,733,374</u>	<u>1,733,374</u>
Total Long-Term Liabilities	<u>-</u>	<u>1,754,674</u>	<u>1,754,674</u>
Total Liabilities	<u>47,471</u>	<u>1,818,419</u>	<u>1,865,888</u>
Net Position			
Invested in capital assets, net of related debt	235,063	2,633,977	2,869,040
Restricted for:			
Future insurance claims	343,918	25,059	-
Debt service	-	30,141	30,141
Capital Projects	-	-	-
Unrestricted	<u>140,498</u>	<u>25,332</u>	<u>165,830</u>
Total Net Position	<u>\$ 719,479</u>	<u>\$ 2,714,509</u>	<u>\$ 3,433,988</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Activities – Government-Wide
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Capital Grants	Governmental Activities	Business-Type Activities	
Governmental activities:						
General Government	\$ 252,788	\$ 60,088	\$ 2,916	\$ (189,785)	\$ -	\$ (189,785)
Fire	44,113	12,041	37,224	5,152	-	5,152
Streets	34,833	-		(34,833)	-	(34,833)
Total governmental activities	<u>331,734</u>	<u>72,129</u>	<u>40,140</u>	<u>(219,466)</u>	<u>-</u>	<u>(219,466)</u>
Business-type activities:						
Water Utilities	<u>543,970</u>	<u>394,014</u>	<u>127,006</u>		<u>(22,951)</u>	<u>(22,951)</u>
Total business-type activities	<u>543,970</u>	<u>394,014</u>	<u>127,006</u>		<u>(22,951)</u>	<u>(22,951)</u>
General Revenues:						
Taxes:						
Franchise taxes				31,578	-	31,578
Public service taxes				141,599	-	141,599
Unrestricted investment earnings				72	250	323
Realized gain (loss)				-	-	-
Miscellaneous				15,472	1,811	17,283
Insurance proceeds				343,918		
Transfers				3,000	(3,000)	-
Total general revenues and transfers				<u>535,640</u>	<u>(938)</u>	<u>534,702</u>
Change in net assets				316,174	(23,890)	292,284
Net position - beginning, adjusted				<u>403,305</u>	<u>2,738,399</u>	<u>3,141,704</u>
Net position - ending				<u>\$ 719,479</u>	<u>\$ 2,714,509</u>	<u>\$ 3,433,988</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Government-Wide Statement of Activities
For the Year Ended June 30, 2014

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Government Wide
Statement of Activities

Net change in fund balances - total governmental funds \$ 317,088

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

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

914

Change in net position of governmental activities

\$ 316,174

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Balance Sheet - Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Fire Dept Fund	Other Governmental Funds	Total
<u>ASSETS</u>				
Cash	\$ 294,844	\$ 83,178	\$ -	\$ 378,022
Cash held by others	-	34,369	-	34,369
Restricted Cash	-	-	466	466
Receivable from other governments	15,642	-	2,266	17,908
 Total assets	\$ 310,487	\$ 117,547	\$ 2,732	\$ 430,766
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 6,390	\$ 37,618	\$ 1,135	\$ 45,143
Payroll taxes payable	2,328	-	-	2,328
 Total liabilities	8,717	37,618	1,135	47,471
 Fund balances:				
Reserved	-	79,927	1,349	81,276
Unreserved	301,769	-	-	301,769
Total fund balances	301,769	79,927	1,349	383,045
 Total liabilities and fund balances	\$ 310,487	\$ 117,545	\$ 2,484	430,516
 Total fund balance, governmental funds				\$ 301,769
 Amounts reported for government activities in the Statement of Net Position are different because:				
Capital assets, net of depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental activities of the Statement of Net Position.				417,710
Net Position of Governmental Activities in the Statement of Net Position				\$ 719,479

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended June 30, 2014

	<u>General</u> <u>Fund</u>	<u>Fire Dept.</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES:				
Taxes	\$ 107,826	\$ 25,057	\$ 8,717	\$ 141,599
Franchise fees	31,578	-	-	31,578
Fines and fees	60,088	-	-	60,088
Permits and fees	-	12,041	-	12,041
Rents	-	-	-	-
Grants and contract	-	37,224	2,916	40,140
Miscellaneous	12,367	3,106	-	15,472
Interest	-	72	-	72
Total revenues	<u>211,858</u>	<u>77,500</u>	<u>11,632</u>	<u>300,990</u>
EXPENDITURES:				
Maintenance and operations	77,214	34,441	15,576	127,232
Personal services	162,307	-	-	162,307
Capital outlay	-	41,281	-	41,281
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>239,521</u>	<u>75,722</u>	<u>15,576</u>	<u>330,820</u>
Excess (deficiency) of revenues over (under) expenditures	(27,664)	1,778	(3,944)	(29,830)
OTHER FINANCING SOURCES AND (USES):				
Insurance proceeds	307,729	36,190	-	343,918
Transfers in (out)	(3,640)	1,000	5,640	3,000
Total other financing sources and (uses)	<u>304,089</u>	<u>37,190</u>	<u>5,640</u>	<u>346,918</u>
Net change in fund balance	276,425	38,967	1,695	317,088
Fund balances, beginning	<u>25,344</u>	<u>40,960</u>	<u>(346)</u>	<u>65,958</u>
Fund balances, ending	<u>\$ 301,769</u>	<u>\$ 79,927</u>	<u>\$ 1,349</u>	<u>\$ 383,046</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Net Position - Proprietary Fund
For the Year Ended June 30, 2014

	<u>Quapaw Public Works Authority</u>
ASSETS	
Current Unrestricted Assets:	
Cash	\$ 35,252
Accounts receivable (net of allowance)	34,660
Current Restricted Assets:	
Cash	30,141
OMAG loss fund	<u>25,059</u>
Total Current Assets	<u>125,112</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>4,407,816</u>
Total Noncurrent Assets	<u>4,407,816</u>
Total ASSETS	<u>4,532,928</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	16,733
Accrued interest	5,360
Payroll taxes payable	1,186
Current portion long-term debt	<u>40,465</u>
Total Current Liabilities	<u>63,743</u>
Noncurrent Liabilities:	
Utility deposits	21,300
Long-term debt, less current portion	<u>1,733,374</u>
Total Long-term Liabilities	<u>1,754,674</u>
Total Liabilities	<u>1,818,418</u>
NET POSITION	
Invested in capital assets, net of related debt	2,633,977
Debt service	30,141
Unrestricted net assets	<u>50,391</u>
Total Net Position	<u>\$ 2,714,509</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Revenues, Expenses and
Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2014

	Quapaw Public Works Authority
OPERATING REVENUES:	
Water sales to industries	\$ 67,969
Water, sewer and sanitation sales to public	326,045
Other revenue	1,811
Total operating revenue	395,825
OPERATING EXPENSES:	
Salaries	80,447
Utilities	60,398
Insurance	43,878
Maintenance and repairs	40,001
Sanitation services	39,958
Payroll taxes	6,633
Testing / Lab Fees	3,935
Office expenses	3,676
Fuel	5,731
Professional fees	8,564
Supplies	749
Dues	4,906
Depreciation	167,116
Total operating expenses	465,992
Operating income (loss)	(70,167)
OTHER FINANCING SOURCES (USES):	
Grant Income	127,006
Interest income	250
Gain (Loss) on Investments	-
Transfers to other funds	(3,000)
Interest expense	(77,979)
Total other financing sources (uses)	46,278
Change in net position	(23,890)
Total net position - beginning	2,738,399
Total net position - ending	\$ 2,714,509

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	<u>Quapaw Public Works Authority</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 393,182
Payments to suppliers and employees	<u>(300,294)</u>
Net cash provided by operating activities	<u>92,887</u>
Cash Flows from Noncapital Financing Activities	
Interfund Transfers out	<u>(3,000)</u>
Net cash used by noncapital financing activities	<u>(3,000)</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on capital debt	(38,700)
Grants received	127,006
Purchase of capital assets	(137,871)
Interest paid on capital debt	<u>(77,979)</u>
Net cash (used) by capital and related financing activities	<u>(127,544)</u>
Net decrease in cash and cash equivalents	(37,657)
Cash and cash equivalents, beginning of year	<u>102,938</u>
Cash and cash equivalents, end of year	<u>\$ 65,281</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ (70,167)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	167,116
Change in assets and liabilities:	
(Increase) decrease receivables, net	(832)
Increase (decrease) accounts payable	(3,113)
Increase (decrease) in accrued liabilities	<u>(117)</u>
Net cash provided by operating activities	<u>\$ 92,887</u>

See accompanying notes and independent auditor's report.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion and exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The *Town of Quapaw* and component units consist of all fund accounts of the oversight unit, the *Town of Quapaw*, referred to as "the Town", and the Quapaw Public Works Authority, referred to as "the Authority", a component unit.

The Authority was created April 12, 1977, for the primary purpose of supplying water to Eagle-Picher Industries, Inc. The Authority originally leased from the Town the water system identified as Well No. 4. On April 2, 1985, the voters of the *Town of Quapaw*, by special election, authorized the leasing of all the water system and sewer system of the *Town of Quapaw* to the Authority. The lease became effective April 3, 1985. The Town is the beneficiary of the Authority.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

B. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize 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 Position.

Basis of Accounting

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

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.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

All proprietary funds and trust 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. Fund Accounting

The Town uses funds and account groups to report its financial Position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain town functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types".

Governmental Funds - The General Fund accounts for receipts and expenditures for activities that are not otherwise accounted for in the Fire Dept. Fund, EPA Fund, and other Governmental Funds. The Fire Dept. Fund accounts for the receipts and associated expenditures of memberships, grants and donations designated for fire department operations and expenditures. The EPA Fund accounts for receipt of EPA Superfund designated for expenditures relating to the repairs of damaged Town roads.

Proprietary Fund - Quapaw Public Works Authority accounts for the receipts and expenditures of the utility services.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

E. 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.

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.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. All current year infrastructure additions have been recorded at actual cost. The Town is not required to account for infrastructure assets acquired prior to July 1, 2003. Governmental fund infrastructure assets have not been recorded for the period prior to July 1, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15-50 years
Other Improvements	5-100 years
Machinery and Equipment	10-40 years
Office Machinery and Equipment	2-15 years
Vehicles	5-15 years
Infrastructure	25-50 years

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

E. Fixed Assets (continued)

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.

F. Assets, Liabilities and Net Position or Equity

Cash and Investments - For the purposes of these financial statements, “cash and cash equivalents” includes all demands and savings accounts, and certificates of deposits or short-term investments with an original maturity of three months. Investments consist of certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

The Town Treasurer has the responsibility for daily cash management activities and determines the amount of funds to be invested and length of time. The Board of Trustees, by investment resolution, grants final approval for investment of all Town funds. Additional cash and investment disclosures are presented in Note 2.

Inventories and Prepaids - The value of consumable inventories at June 30, 2014 is not material to the financial statements. Acquisitions are considered expenditures at the time of purchase and are not recorded as assets for financial statement purposes. Prepaids use the consumption method of reporting.

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 various tax revenues.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position or Equity (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, and other similar intergovernmental revenues since they are 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 proprietary fund receivables.

Restricted Assets - Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to promissory note reserve accounts and utility meter deposits.

Compensated Absences - The Town is not able to reasonably estimate the accrual for compensated absences. Therefore, the balance has not been recorded.

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

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

The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position or Equity (continued)

Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net Position - consists of net Position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net Position - all other net Position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position or Equity (continued)

Equity Classifications (continued)

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

- G. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits, Investments and Collateral

The Town's policies regarding deposits of cash are discussed in Note 1.F. The table presented below is designed to disclose the level of custody credit risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2014. The categories of credit risk are defined as follows:

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

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

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

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 2 - Deposits, Investments and Collateral (continued)

Type of Deposits	Total Bank Balance	Category 1	Category 2	Category 3	Total Carrying Value
Town	322,975	322,975	-	-	\$ 157,037
PWA	62,959	62,959	-	-	416,305
	<u>385,934</u>	<u>385,934</u>	-	-	<u>573,342</u>
Reconciliation to Government-wide Statement of Net Assets					
Unrestricted cash including time deposits					413,740
Unrestricted investments					-
Restricted cash, including time deposits					30,141
Restricted investments					-
					<u>\$ 443,881</u>

Note 3 - Property and Equipment

3.A. Capital Asset Activity - Governmental

Capital asset activity for governmental activities for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Fire Department	527,277	41,281	(152,313)	416,245
Infrastructure	328,401	-	-	328,401
Buildings and Improvements	33,981	-	-	33,981
Machinery and Equipment	153,781	-	(15,011)	138,770
Total	<u>1,048,440</u>	<u>41,281</u>	<u>(167,324)</u>	<u>922,397</u>
Accumulated depreciation	(711,093)	(46,014)	69,773	(687,334)
Total	<u>\$ 337,347</u>	<u>\$ (4,733)</u>	<u>\$ (97,551)</u>	<u>\$ 235,063</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 3 - Property and Equipment (continued)

3.B. Capital Asset Activity – Business-Type

Capital asset activity for business-type activities for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Land	\$ 47,500	\$ -	\$ -	\$ 47,500
Buildings	7,337	-	-	7,337
Water system	5,188,009	123,565	-	5,311,574
Sewer system	1,205,088	-	-	1,205,088
Equipment and furniture	137,468	15,030	-	152,498
Total	6,585,402	138,595	-	6,723,997
Accumulated depreciation	(2,149,065)	(167,116)	-	(2,316,181)
Net book value	<u>\$ 4,436,337</u>	<u>\$ (28,521)</u>	<u>\$ -</u>	<u>\$ 4,407,816</u>

The Authority's and the Service's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life, which is forty years for the buildings, water and sewer system; five years for the equipment and furniture. Expenditures for major renewals and betterments which extend the useful life of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

3.C. Depreciation Charges

Depreciation expense by functional category for the governmental funds was as follows:

Functional Category	Amount
General Government	\$ 10,629
Fire Department	9,672
Streets	21,894
	<u>\$ 42,195</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 4 - Restricted Assets

4.A. Debt Service Reserve Requirements

Under the terms of the Rural Development loan agreements (Note 6), the Authority is required to maintain reserve funds until the loan is repaid or is reduced below the reserve fund balance. At, and subsequent to year end, the Town was not in compliance with required loan reserves. See additional information in Note 9, Subsequent Events Disclosure.

4.B. Utility Deposits

The Public Works Authority is holding customers' meter deposits in the amount of \$21,300 and has assets reserved to refund these deposits, as required by statute.

4.C. OMAG Funds

The Oklahoma Municipal Assurance Group (OMAG) provides workers' compensation coverage to the Town through participation in the State Insurance Fund. The Town has a right to the return of any funds set aside for claims that have not been paid out as benefits after three years. The Town has elected to invest these funds in an escrow account with OMAG, which is unrestricted. The Interest Fund holds the accumulation of the amount earned on the accounts with OMAG. This amount is credited against next year's premium.

OMAG funds - Interest fund	\$ -
OMAG funds - Loss fund	25,059
Total restricted OMAG funds	<u>\$ 25,059</u>

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 5 - Restricted Assets (continued)

OMAG funds - Interest fund	\$	-
OMAG funds - Loss fund		25,059
Total restricted OMAG funds		25,059

Note 6 - Long-term Debt

The Authority's long-term debt at June 30, 2014 consists of the following:

Rural Development note with an interest rate of 5% per annum and monthly installments of \$1,577, including interest, until December, 2029; secured by the water system.		\$ 201,856
Rural Development note with an interest rate of 4.5% per annum and monthly installments of \$1,617, including interest, until December, 2039; secured by water system, and revenues from the system.		289,139
Rural Development note with an interest rate of 4.5% per annum and monthly installments of \$3,923, including interest, until April, 2039; secured by water and sewer improvements.		689,781
Rural Development note with an interest rate of 4.125% per annum and annual installments of \$2,216, including interest, until June, 2036; secured by water and sewer improvements.		486,966
Rural Development note with an interest rate of 2.75% per annum and annual installments of approximately \$4,800, including interest, until June 2011; secured by water and sewer improvements.		106,097
		1,773,839
Total long-term debt		1,773,839
Less: current portion long-term debt		(40,465)
Total business-type activities long-term debt, less current portion		\$ 1,733,374

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 6 - Long-term Debt (continued)

The Town's maturities of long-term debt are as follows:

Year Ended	Business Type Activities	
	Principal	Interest
June 30		
2015	\$ 40,465	\$ 76,331
2016	42,105	74,691
2017	44,232	64,517
2018	46,252	70,544
2019	48,365	68,431
Thereafter	1,552,420	831,348
	\$ 1,773,839	\$ 1,185,863

Note 7 – Failure to Comply with Budget Policy

The Town is required to operate under the Oklahoma Estimate of Needs (Title 68) budget law. A budget is required to be legally adopted by the Board of Trustees for the General Fund and Special Revenue Funds of the Town. The Budget should be prepared using the cash basis and budget laws of the State of Oklahoma. The financial statements are prepared using the modified accrual basis of accounting that complies with generally accepted accounting principles in the United States of America. If presented, there would be timing differences related to encumbrances between the financial statements presentation and the budgets that are reconciled. Once filed, the Board of Trustees can legally amend the Budget, once it has been approved, by filling a supplemental appropriation with the county excise board, state auditor and inspector and town clerk. As of June 30, 2013, the Town is unable to report the fiscal year 2013 budget as required by Oklahoma Statutes. The town has not been in compliance with this Statute for numerous periods which has been reported to management since fiscal 2009.

TOWN OF QUAPAW
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 8 – Subsequent Events and Going Concern

On April 27, 2014 the Town suffered damages from a tornado, causing a complete loss of the Town Fire Department. The Town had full coverage insurance over assets lost in the tornado which resulted in no net losses associated with this natural disaster. The Town did however, suffer the loss of numerous customers which utilized the Public Works Authority's services and ultimately resulted in a loss of revenues and source of income for the Town.

The Town has been granted a temporary moratorium with respect to the payment of its debt service requirements in effort to give the Town the opportunity to recover from this disaster.

Prior to this event, the Town's financial results have continually reflected circumstances which the users of this financial statement should be concerned with, including but not limited to 1) the Town's failure to comply to Oklahoma Statues and budgetary reporting requirements, see *Note 6: Failure to Comply with Budgetary Policy*; 2) the Town's continual failure to meet debt sinking fund requirements, see *Note 4.A. Debt Service Reserve Requirements*; 3) the Town's loss of approximately 42% of its unrestricted fund balance (over the entire governmental reporting entity), in the past four fiscal periods prior to this disaster.

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

918-803-4868 OFFICE

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

The Honorable Town Council
Town of Quapaw

We have audited the basic financial statements of the *Town of Quapaw* as of and for the year ended June 30, 2014, and have issued our report thereon dated November 30, 2014. *Town of Quapaw's* management has not presented the Management's Discussion and Analysis Budgetary Comparative information required by the Governmental Accounting Standards Board (GASB) as GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Town of Quapaw's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Town of Quapaw's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the item described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as presented in item 2009-3.

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 entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the item described in the accompanying schedule of findings and responses to be a material weaknesses in internal control over financial reporting as presented as item 2009-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Town of Quapaw'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*.

Town of Quapaw's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the *Town of Quapaw's* response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town Board of Trustees, management, others within the entity, and the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

NOVEMBER 30, 2014

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

918-803-4868 OFFICE

Town of Quapaw Schedule of Findings and Responses June 30, 2014

The following items represent deficiencies as described in the *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* for the Town of Quapaw's audit as of June 30, 2014. The following items represent items reported in the previous reporting period and remain unresolved.

2009-2

Failure to comply with statues governing budget activities

During the current year, the Town did not file its annual budget in compliance with the "Estimate of Needs" budgetary act in which it is subject as required by Oklahoma Statues. Failure to comply with the statues can result in legal action taken against the Town. Because this is a fundamental requirement in the basic operations of a municipality in Oklahoma, management and the Board should take immediate action to resolve this deficiency, and develop a method of tracking other items of importance.

Response

We agree with this finding and will take action to put a control in place to avoid future occurrences.

2009-3

Failure to meet debt requirements

Under the terms of the Rural Development loan agreement, the Authority is required to transfer ten percent of the monthly payments from the operating account to a reserve account each month until one hundred twenty times the ten percent of the monthly payments are accumulated. At June 30, 2014, this requirement was not met. This was a finding in the prior year.

Response

The Public Works Authority has not had an excess of money and will continue to transfer the money as agreed.