# TOWN OF OCHELATA GOVERNMENTAL UNIT

Ochelata, Oklahoma

## FINANCIAL STATEMENTS

*For The Year Ended June 30, 2013*

Together With Independent Auditor's Report

**JUDITH K. BALLARD, CPA, PC**
*Certified Public Accountant*
220 West Main Street - PO Box 746
Stroud, Oklahoma 74079

# Town of Ochelata, Oklahoma

Audit of Financial Statements

June 30, 2013

## Table of Contents


| Financial Section | Pages |
|---|---|
| **Independent Auditor's Report** | 1-2 |
| **Basic Financial Statements** | |
| Statements of Net Assets - Modified Cash Basis | 3 |
| Statement of Activities - Modified Cash Basis | 4 |
| Balance Sheet - Modified Cash Basis - Governmental Funds | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash basis - Governmental Funds | 6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 7 |
| Statement of Net Assets - Modified Cash Basis - Proprietary Funds | 8 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets - Modified Cash Basis - Proprietary Funds | 9 |
| Statement of Cash Flows - Modified Cash Basis - Proprietary Funds | 10 |
| Notes to Financial Statements | 11-17 |
| **Supplementary Information** | |
| Combining Financial Statements | |
| Nonmajor Governmental Funds | |
| Combining Balance Sheet - Modified Cash Basis | 18 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis | 19 |
| **Internal Control and Compliance Report** | |
| Independent Auditor's Report on Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* | 20 |
| Schedule of findings and responses | 21 |

JUDITH K. BALLARD, CPA, PC

*Certified Public Accountant*
*(Member AICPA & OSCPA)*
220 W. Main Street – PO Box 746, Stroud, OK 74079
Phone: 918-968-3511 [Fax: 918-968-3512]

# INDEPENDENT AUDITOR'S REPORT

Members of the Town Council
Town of Ochelata
Ochelata, Oklahoma

**Report on the Financial Statements**

I 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 Ochelata, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Ochelata's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in **Note 2**; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ochelata, Oklahoma, as of June 30, 2013, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof, for the year then ended in accordance with the basis of accounting described in **Note 2**.

**Basis of Accounting**

The Town prepares its annual financial statements and schedules on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

JUDITH K. BALLARD, CPA, PC

*Certified Public Accountant*
*(Member AICPA & OSCPA)*
220 W. Main Street – PO Box 746, Stroud, OK 74079
Phone: 918-968-3511 [Fax: 918-968-3512]

**Other Matters**

*Other Information*

Management has elected not to present a management, discussion, and analysis and a budget to actual comparison as is required by generally accepted accounting principles in the United States of America.

My audit was for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ochelata, Oklahoma's basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* I have also issued my report dated October 22, 2014 on my consideration of the Town of Ochelata's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing* in considering Town of Ochelata, Oklahoma's internal control over financial reporting and compliance.

Judith K. Ballard, CPA, PC

JUDITH K. BALLARD, CPA, PC
Stroud, Oklahoma

October 22, 2014

**Town of Ochelata, Oklahoma**
Statement of Net Assets
Modified Cash Basis

June 30, 2013

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 233,550 | 246,985 | 480,535 |
| Investments | 129,400 | 101,517 | 230,917 |
| Internal balances | (69,364) | 69,364 | - |
| Total current assets | $ 293,586 | $ 417,866 | $ 711,452 |
| Noncurrent assets: | | | |
| Restricted cash and investments | - | 15,315 | 15,315 |
| Capital assets | 277,244 | 1,102,965 | 1,380,209 |
| Total noncurrent assets | 277,244 | 1,118,280 | 1,395,524 |
| Total assets | 570,830 | 1,536,146 | 2,106,976 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Customer deposits | - | 15,315 | 15,315 |
| Current portion of long-term debt | - | 8,465 | 8,465 |
| Total current liabilities | - | 23,780 | 23,780 |
| Noncurrent liabilities: | | | |
| Notes payable | - | 83,669 | 83,669 |
| Total noncurrent liabilities | - | 83,669 | 83,669 |
| Total liabilities | - | 107,449 | 107,449 |
| **Net assets** | | | |
| Invested in capital assets, net of related debt | 277,244 | 1,010,831 | 1,288,075 |
| Restricted for economic development | - | 2,500 | 2,500 |
| Unrestricted | 293,586 | 415,366 | 708,952 |
| Total net assets | $ 570,830 | $ 1,428,697 | $ 1,999,527 |

The accompanying notes are an integral part of these financial statements.

# Town of Ochelata, Oklahoma

Statement of Activities

Modified Cash Basis

Year Ended June 30, 2013

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| General government | 85,549 | 300 | - | - | (85,249) | - | (85,249) |
| Public safety | 3,417 | - | - | - | (3,417) | - | (3,417) |
| Public works | 24,208 | - | - | 74,476 | 50,268 | - | 50,268 |
| Total government activities | 113,174 | 300 | - | 74,476 | (38,398) | - | (38,398) |
| Business-type activities: | | | | | | | |
| Water and sewer | 221,283 | 226,876 | - | - | - | 5,593 | 5,593 |
| Interest Expense | 3,534 | - | - | - | - | (3,534) | (3,534) |
| Sanitation | 28,485 | 36,104 | - | - | - | 7,619 | 7,619 |
| Total business-type activities | 253,302 | 262,980 | - | - | - | 9,678 | 9,678 |
| Total government | $ 366,476 | $ 263,280 | $ - | $ 74,476 | $ (38,398) | $ 9,678 | $ (28,720) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Sales and use | | | | | 91,977 | - | 91,977 |
| Franchise | | | | | 9,791 | - | 9,791 |
| Alcoholic Beverage | | | | | 1,215 | - | 1,215 |
| Tobacco | | | | | 1,205 | - | 1,205 |
| Gas | | | | | 1,946 | - | 1,946 |
| Motor Vehicle | | | | | 3,021 | - | 3,021 |
| Interest income | | | | | 999 | 1,236 | 2,235 |
| Miscellaneous | | | | | 579 | - | 579 |
| Transfers - internal activity | | | | | (30,659) | 30,659 | - |
| Capital Contributions/(expenses paid for other funds) | | | | | 16,212 | (16,212) | - |
| Total general revenues and transfers | | | | | 96,286 | 15,683 | 111,969 |
| Change in net assets | | | | | 57,888 | 25,361 | 83,249 |
| Net assets, beginning | | | | | 512,942 | 1,403,336 | 1,916,278 |
| Net assets, ending | | | | | $ 570,830 | $ 1,428,697 | 1,999,527 |

The accompanying notes are an integral part of these financial statements.

# Town of Ochelata, Oklahoma
## Balance Sheet
## Modified Cash Basis - Governmental Funds
## June 30, 2013

| | General Fund | Cemetery General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 198,815 | 9,263 | 25,472 | 233,550 |
| Investments | 98,152 | 27,248 | 4,000 | 129,400 |
| Due from other funds | - | - | - | - |
| Total assets | $ 296,967 | $ 36,511 | $ 29,472 | $ 362,950 |
| **Liabilities and fund balances** | | | | |
| Liabilities: | | | | |
| Due to other funds | 69,446 | 41 | (123) | 69,364 |
| Total liabilities | 69,446 | 41 | (123) | 69,364 |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | - | 14,354 | 14,354 |
| Committed | - | - | - | - |
| Assigned | - | 36,470 | 15,241 | 51,711 |
| Unassigned | 227,521 | - | - | 227,521 |
| Total fund balances | 227,521 | 36,470 | 29,595 | 293,586 |
| Total liabilities and fund balances | $ 296,967 | $ 36,511 | $ 29,472 | |

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 in the funds.

| | | |
|---|---|---|
| Governmental capital assets | 343,691 | |
| Less accumulated depreciation | (66,447) | 277,244 |
| **Net assets of governmental activities** | | $ 570,830 |

The accompanying notes are an integral part of these financial statements.

**Town of Ochelata, Oklahoma**
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Modified Cash Basis - Governmental Funds

June 30, 2013

| | General Fund | Cemetery General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | 104,188 | - | 4,968 | 109,156 |
| Intergovernmental | 24,500 | - | - | 24,500 |
| Charges for services | - | 300 | - | 300 |
| Other | 578 | - | - | 578 |
| Donations | 48,830 | 1,146 | - | 49,976 |
| Interest | 947 | 29 | 23 | 999 |
| Total revenues | $ 179,043 | $ 1,475 | $ 4,991 | $ 185,509 |
| **Expenditures** | | | | |
| Personal services | 32,635 | - | - | 32,635 |
| Maintenance and operations | 31,118 | 5,127 | 2,376 | 38,621 |
| Capital Outlay | 76,720 | - | 12,000 | 88,720 |
| Grant Expense | 24,500 | - | - | 24,500 |
| Total expenditures | 164,973 | 5,127 | 14,376 | 184,476 |
| Excess of revenues over (under) expenditures | 14,070 | (3,652) | (9,385) | 1,033 |
| **Other financing sources (uses)** | | | | |
| Transfers (in) | - | - | 37 | 37 |
| Transfers (out) | (30,659) | (37) | - | (30,696) |
| Capital Contributions | 16,212 | - | - | 16,212 |
| Total other financing sources (uses) | (14,447) | (37) | 37 | (14,447) |
| **Net change in fund balances** | (377) | (3,689) | (9,348) | (13,414) |
| Fund balances, beginning | 227,898 | 40,159 | 38,943 | 307,000 |
| Fund balances, ending | $ 227,521 | $ 36,470 | $ 29,595 | $ 293,586 |

The accompanying notes are an integral part of these financial statements.

## Town of Ochelata, Oklahoma

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

### Year Ended June 30, 2013

| | |
|---|---|
| Net change in fund balances - total governmental funds | (13,414) |
| Adjustments for the statement of activities: | |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. | |
| Excess of capital outlay expenditures over depreciation expense | 71,302 |
| Change in net assets of governmental activities | $ 57,888 |

The accompanying notes are an integral part of these financial statements.

# Town of Ochelata, Oklahoma
## Statement of Net Assets
## Modified Cash Basis - Proprietary Funds

June 30, 2013

| | Ochelata Utilities Authority | Ochelata Economic Development Authority | Total |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 244,485 | 2,500 | 246,985 |
| Investments | 101,517 | - | 101,517 |
| Due from other funds | 69,364 | - | 69,364 |
| Total current assets | $ 415,366 | $ 2,500 | $ 417,866 |
| Noncurrent assets: | | | |
| Restricted Cash and Cash Equivalents | 15,315 | - | 15,315 |
| Capital assets | 1,102,965 | - | 1,102,965 |
| Total noncurrent assets | 1,118,280 | - | 1,118,280 |
| Total assets | 1,533,646 | 2,500 | 1,536,146 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Customer deposits | 15,315 | - | 15,315 |
| Current portion of long-term debt | 8,465 | - | 8,465 |
| Due to other funds | - | - | - |
| Total current liabilities | 23,780 | - | 23,780 |
| Noncurrent liabilities: | | | |
| Notes payable | 83,669 | - | 83,669 |
| Total noncurrent liabilities | 83,669 | - | 83,669 |
| Total liabilities | 107,449 | - | 107,449 |
| **Net assets** | | | |
| Invested in capital assets, net of related debt | 1,010,831 | - | 1,010,831 |
| Restricted for economic development | - | 2,500 | 2,500 |
| Unrestricted | 415,366 | - | 415,366 |
| Total net assets | $ 1,426,197 | $ 2,500 | $ 1,428,697 |

The accompanying notes are an integral part of these financial statements.

## Town of Ochelata, Oklahoma
Statement of Revenues, Expenses and Changes in
Fund Net Assets - Modified Cash Basis - Proprietary Funds

June 30, 2013

| | Ochelata Utilities Authority | Ochelata Economic Development Authority | Total |
|---|---|---|---|
| **Operating revenues** | | | |
| Charges for services: | | | |
| Water | 145,398 | - | 145,398 |
| Wastewater | 76,003 | - | 76,003 |
| Sanitation | 36,104 | - | 36,104 |
| Other | 5,475 | - | 5,475 |
| Total operating revenues | $ 262,980 | $ - | $ 262,980 |
| **Operating expenses** | | | |
| Water and sewer | 171,465 | - | 171,465 |
| Sanitation | 28,485 | - | 28,485 |
| Depreciation Expense | 49,818 | - | 49,818 |
| Total operating expenses | 249,768 | - | 249,768 |
| Net operating income (loss) | 13,212 | - | 13,212 |
| **Nonoperating revenues (expenses)** | | | |
| Interest income | 1,236 | - | 1,236 |
| Interest expense | (3,534) | - | (3,534) |
| Total nonoperating revenues (expenses) | (2,298) | - | (2,298) |
| **Special Items and Transfers** | | | |
| Transfers in | 30,659 | 2,500 | 33,159 |
| Transfers out | (2,500) | - | (2,500) |
| Expenses paid for other funds | (16,212) | - | (16,212) |
| Total special items and transfers | 11,947 | 2,500 | 14,447 |
| Net Income (loss) | 22,861 | 2,500 | 25,361 |
| Net assets, beginning | 1,403,336 | - | 1,403,336 |
| Net assets, ending | $ 1,426,197 | $ 2,500 | $ 1,428,697 |

The accompanying notes are an integral part of these financial statements.

# Town of Ochelata, Oklahoma
## Statement of Cash Flows
## Modified Cash Basis - Proprietary Funds
## June 30, 2013

| | Ochelata Utilities Authority | Ochelata Economic Development Authority | Total |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | 262,980 | - | 262,980 |
| Payments to suppliers | (166,222) | - | (166,222) |
| Payments to employees | (33,728) | - | (33,728) |
| Net cash provided (used) by operating activities | 63,030 | - | 63,030 |
| **Cash flows from noncapital financing activities** | | | |
| Meter deposit increase | 1,184 | - | 1,184 |
| Increase in Due from General Fund | (17,917) | | (17,917) |
| Expenses paid for other funds | (16,212) | | (16,212) |
| Adjustment for restricted cash increase | 14,131 | | 14,131 |
| Transfers in/(out) | (2,500) | 2,500 | - |
| Net cash provided (used) by noncapital financing activities | (21,314) | 2,500 | (18,814) |
| **Cash flows from capital and related financing activities** | | | |
| Loan proceeds | 100,000 | - | 100,000 |
| Principal paid on long-term debt | (7,866) | - | (7,866) |
| Interest expense and fiscal charges | (3,534) | - | (3,534) |
| Investment in longer maturity certificates of deposit | (101,517) | | (101,517) |
| Sales tax provision from General Fund | 30,659 | | 30,659 |
| Acquisition/construction of capital assets | (115,495) | - | (115,495) |
| Net cash provided (used) by capital and related financing activities | (97,753) | - | (97,753) |
| **Cash flows from investing activities** | | | |
| Interest income | 1,236 | - | 1,236 |
| Net cash provided (used) by investing activities | 1,236 | - | 1,236 |
| Net increase (decrease) in cash and cash equivalents | (54,801) | 2,500 | (52,301) |
| Cash and cash equivalents, beginning | 314,601 | - | 314,601 |
| Cash and cash equivalents, ending | $ 259,800 | $ 2,500 | $ 262,300 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | | | |
| Net operating income (loss) | 13,212 | - | 13,212 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 49,818 | - | 49,818 |
| Changes in assets and liabilities: | | | |
| Total adjustments | 49,818 | - | 49,818 |
| Net cash provided (used) by operating activities | $ 63,030 | $ - | $ 63,030 |

The accompanying notes are an integral part of these financial statements.

**Note 1: Organization**

The Town of Ochelata, Oklahoma, (the Town) operates under a Town Board of Trustees form of government under Title 11 of the *Oklahoma Statutes*. The Town provides the following services to its citizens: streets and cemetery; sanitation; utilities; and general administrative services.

**Note 2: Summary of significant accounting policies**

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The modified cash basis of accounting includes all relevant Governmental Accounting Standards Bord (GASB) pronouncements.

**A. Reporting entity**

The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. The Town's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Town.

Blended component units - **The Ochelata Utilities Authority (the Authority)** serves all the citizens of the Town and is governed by a board comprised by the Town's elected board of trustees. The rates for user charges and debt authorizations are approved by the Town Board of Trustees. OUA has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate utility facilities within the boundaries of the Town. OUA is reported as an enterprise fund.

**The Ochelata Economic Development Authority (OEDA)** was formed during the current fiscal year. Its purpose is to promote economic development within the Town. The OEDA is governed by a board comprised of the Town's elected board of trustees. The only activity in this entity during the current fiscal year was the creation of a bank account with $2,500 transferred to it from the OUA. OEDA is reported as an enterprise fund.

Separate financial statements have not been prepared for the component units.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**B. Government-wide and fund financial statements (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. Revenues are recorded when received and expenses when paid, with the exception of proceeds from long term debt which are recorded as a liability, and capital assets acquired, which are capitalized, with a provision for depreciation.

In the fund financial statements, the current financial resources measurement focus, as applied to the modified cash basis of accounting, is used for governmental funds, while the economic resources measurement focus is used for proprietary funds. The current financial resources measurement focus includes only current financial assets and liabilities on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed and provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The Town reports the following major governmental funds:

The general fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Cemetery General fund accounts for the general financial resources of the cemetery.

The Town reports the following major proprietary funds:

The Ochelata Utilities Authority accounts for the Town's water and wastewater utility operations.

The Ochelata Economic Development Authority promotes economic development in the Town.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's utility functions and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Ochelata Utilities Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales, services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

## D. Assets, liabilities, and net assets or equity

### *Deposits and investments*

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less form the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, and Oklahoma County, school district, or municipality.

Investments for the Town, as well as for its component units are reported at fair value and consist of certificates of deposit with maturities in excess of three months.

### *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than $500 (amount not rounded) 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 recorded at an estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

### *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. As of June 30, 2013, the Ochelata Utilities Authority had outstanding debt.

### *Fund equity*

The Town reports governmental fund balances on the governmental fund financial statements according to the following classifications:

Nonspendable – This is the portion of the fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This is the portion of the fund balance that has constraints placed on the use of resources that are (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

*Fund equity (Continued)*

Committed – This is the portion of the fund balance that has been constrained by formal action of the Town Council to be used only for specific purposes. The committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. It is distinguished from restricted fund balance in that amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process as mentioned. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the Town Council that commit amounts to specific purposes is not considered to be legally enforceable.

Assigned – This is the portion of the fund balance constrained by the intent of the Town Council to be used for specific purposes, but is neither restricted nor committed.

Unassigned – This is the residual classification of fund balance in the general fund. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When an expenditure is incurred for purposes for which amounts in any of the fund balance classifications of committed, assigned or unassigned could be used, the Town considers the expenditure spent out of the committed fund balance.

**Note 3: Budgetary information**

Budgets are prepared on the budget basis of accounting, which demonstrates compliance with cash basis and budget laws of State of Oklahoma, and is another comprehensive basis of accounting. The Town did not prepare a legal budget for the current fiscal year for the general fund or special revenue funds.

**Note 4: Detailed notes on all funds**

**A. Deposits and investments**

***Deposits***

The Town's carrying amount of deposits was $723,952 as of June 30, 2013, and the bank balances totaled $723,086. Deposits are carried at cost.

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2013 all of the Town's bank balance of $723,086 was covered by FDIC insurance and bank pledges.

**B. Restricted assets**

The Ochelata Utilities Authority is required to set aside funds representing the meter deposits received from town customers. At June 30, 2013, the meter deposits on hand from customers was $15,315 and the amount set aside in the bank was $15,315.

The Utilities Authority is also required, by loan covenant, to set up a debt reserve account where they set aside funds equal to twelve months of loan payments which is $12,436.56. The funds are to be set aside at the rate of $103.63 per month over the loan term. At June 30, 2013, the Town had not set up the debt reserve account.

**C. Deposits subject to refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2013, cash and investments included $15,315 available for refund of customer deposits.

## D. Long-term debt

Long-term liabilities of the Ochelata Utilities Authority as of June 30, 2013 are summarized as follows:

Note payable with Community Resource Group, Inc., dated June 25, 2012, with an original amount of $100,000 due and payable in 120 monthly payments of $1,036 including interest of 4.5%. The note is secured by revenues generated by the utility system. As of June 30, 2013 the balance owed on this note was $92,134. Principal and interest in the amount of $7,866 and $3,534 were paid during the year. The debt obligation to maturity for this note is as follows for the years ending:

| June 30, | Principal | Interest |
|---|---|---|
| 2014 | 8,464 | 3,973 |
| 2015 | 8,853 | 3,584 |
| 2016 | 9,259 | 3,177 |
| 2017 | 9,685 | 2,752 |
| 2018 | 10,129 | 2,307 |
| 2022 | 45,744 | 3,569 |
| **Total** | $ 92,134 | $ 19,362 |

This note was obtained to help fund the installation of electronic read water meters.

***Debt Reserve Requirement***

The loan agreement stipulates that a debt reserve fund shall be funded at a rate of not less than $103.63 per month starting no later than the last day of the first full month following the loan closing. The reserve fund will be used only to repay Community Resource Group, Inc. and only in the event that adequate revenue is not available from operations to make a monthly installment. Once the fund has accumulated $12,436.56, no more deposits are required. At June 30, 2013, the Town had not set up a debt reserve fund and no deposits were made.

## E. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Other Governmental | General | 82 |
| Other Governmental | Other governmental | 41 |
| Ochelata Utilities Authority | General Fund | 69,364 |
| **Total** | | $ 69,487 |

Interfund transfers:

| | Transfers In | |
|---|---|---|
| **Transfers Out** | **Ochelata Utilities Authority** | **Total** |
| General Fund | 30,659 | 30,659 |
| **Total** | $ 30,659 | $ 30,659 |

**Note 5: Other information**

**A. Risk management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has insurance for the major risks such as property and general liability. Commercial insurance is used to cover general liability claims and the risk of loss to city buildings and mobile equipment. Judgments against the Town may be paid by a property tax assessment over a three-year period.

**B. Commitments and contingencies**

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

**Note 6: Grants Received**

The Town of Ochelata received a $24,500 Capital Improvement Plan grant, from the Oklahoma Department of Commerce, during the fiscal year. During the fiscal year ended June 30. 2013, $24,500 was disbursed to Grand Gateway for completion of a capital improvement plan for the Town.

**Note 7: Related Party Transactions**

Wax Plant

A world-wide wax producing company has opened a manufacturing business in the Town of Ochelata. One of the company's employees who oversees the various plants' technical issues was instrumental in bringing the business to the Town. The employee is the brother of the Town's mayor and is the son of the Town's city clerk as well as of one of the Town Council. The company signed a lease agreement with the Ochelata Economic Development Authority in which the company will pay rent, for the use of the facilities, in the amount of $1,000 per month, to be paid quarterly. The rent payments began in fiscal year June 30, 2014.

**Note 8: Significant Donation**

The Cherokee Nation granted the Town of Ochelata the sum of $48,830 to pay for street improvements in the Town. The Town expended this amount during the current fiscal year.

**Note 9: Plans for Future Sewer Improvements**

The Town, operating under a DEQ consent order, is planning major improvements to the sewer system during the fiscal year ending June 30, 2015. The base project cost is estimated at $1,672,000. The Town fully expects funding for this project to come as follows: $350,000 CDBG grant from the OK Dept of Commerce, $402,000 from the Cherokee Nation as a donation, and the remaining $920,000 to come in the form of a bank loan.

**Note 10: Consideration of Subsequent Events**

Subsequent events have been evaluated through October 22, 2014, which is the date the financial statements are available to be issued.

**Note 11: Restricted Assets**

The Ochelata Utilities Authority is required to set aside funds representing the meter deposits received from town customers. At June 30, 2013, the meter deposits on hand from customers was $15,315 and the amount set aside in the bank was $15,315.

The Utilities Authority is also required, by loan covenant, to set up a debt reserve account where they set aside funds equal to twelve months of loan payments which is $12,436.56. The funds are to be set aside at the rate of $103.63 per month over the loan term. At June 30, 2013, the Town had not set up the debt reserve account.

**Note 12: Summary of Capital Assets:**

Capital asset activity for the year ended June 30, 2013, was as follows:

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| **Governmental Activities** | | | | |
| Non-Depreciable Assets: | | | | |
| Land | 27,200 | - | - | 27,200 |
| Depreciable Assets: | | | | |
| Infrastructure | 104,900 | 74,679 | | 179,579 |
| Buildings | 35,679 | - | - | 35,679 |
| Equipment | 79,738 | 14,041 | - | 93,779 |
| Vehicles | - | - | - | - |
| Furniture/Fixtures | 7,454 | - | - | 7,454 |
| **Totals at historical cost** | 254,971 | 88,720 | - | 343,691 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 2,226 | 5,004 | | 7,230 |
| Buildings | 5,861 | 1,402 | - | 7,263 |
| Equipment | 37,842 | 10,266 | - | 48,108 |
| Vehicles | - | - | - | - |
| Furniture/Fixtures | 3,100 | 746 | - | 3,846 |
| **Total accumulated depreciation** | 49,029 | 17,418 | - | 66,447 |
| **Governmental activities capital assets, net** | $ 205,942 | $ 71,302 | $ - | $ 277,244 |
| **Business-type Activities** | | | | |
| Non-Depreciable Assets | | | | |
| Construction in Progress | $ 112,787 | $ 4,506 | $ - | $ 117,293 |
| Depreciable Assets | | | | |
| Equipment | 38,153 | 13,428 | - | 51,581 |
| Buildings | 3,825 | - | - | 3,825 |
| Sewer system | 1,277,716 | - | - | 1,277,716 |
| Water system | 557,889 | 97,561 | - | 655,450 |
| **Totals at historical cost** | 1,990,370 | 115,495 | - | 2,105,865 |
| Less accumulated depreciation for: | | | | |
| Equipment | 17,319 | 6,068 | - | 23,387 |
| Buildings | 1,130 | 340 | - | 1,470 |
| Sewer system | 718,408 | 26,956 | - | 745,364 |
| Water system | 216,225 | 16,454 | - | 232,679 |
| **Total accumulated depreciation** | 953,082 | 49,818 | - | 1,002,900 |
| **Business-type activities capital asset, net** | $ 1,037,288 | $ 65,677 | $ - | $ 1,102,965 |

**Depreciation expense was charged to governmental functions as follows:**

| | |
|---|---|
| Public Works | $ 5,004 |
| Public Safety | 2,265 |
| General Government | 10,149 |
| **Total depreciation expense** | $ 17,418 |

**Town of Ochelata, Oklahoma**
Combining Balance Sheet
Modified Cash Basis - Nonmajor Governmental Funds

Year Ended June 30, 2013

| | Special Revenue | | |
|---|---|---|---|
| | Street and Alley | Cemetery Perpetual Care | Total Nonmajor Governmental Funds |
| **Assets** | | | |
| Cash and cash equivalents | 15,159 | 10,313 | 25,472 |
| Investments | - | 4,000 | 4,000 |
| Due from other funds | 82 | 41 | 123 |
| Total assets | $ 15,241 | $ 14,354 | $ 29,595 |
| **Liabilities** | | | |
| Due to other funds | - | - | - |
| Total liabilities | - | - | - |
| **Fund balances** | | | |
| Nonspendable | - | - | - |
| Restricted | - | 14,354 | 14,354 |
| Committed | - | - | - |
| Assigned | 15,241 | - | 15,241 |
| Unassigned | - | - | - |
| Total fund balances | 15,241 | 14,354 | 29,595 |
| Total liabilities and fund balances | $ 15,241 | $ 14,354 | $ 29,595 |

## Town of Ochelata, Oklahoma

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis - Nonmajor Governmental Funds

Year Ended June 30, 2013

| | Special Revenue | | |
|---|---|---|---|
| | Street and Alley | Cemetery Perpetual Care | Total Nonmajor Governmental Funds |
| **Revenues** | | | |
| Taxes | 4,968 | - | 4,968 |
| Intergovernmental | - | - | - |
| Charges for services | - | - | - |
| Other | - | - | - |
| Interest | 10 | 13 | 23 |
| Total revenues | $ 4,978 | $ 13 | $ 4,991 |
| **Expenditures** | | | |
| Maintenance and operations | 2,376 | - | 2,376 |
| Capital Outlay | 12,000 | - | 12,000 |
| Total expenditures | 14,376 | - | 14,376 |
| Excess of revenues over (under) expenditures | (9,398) | 13 | (9,385) |
| **Other financing sources (uses)** | | | |
| Transfers in | - | 37 | 37 |
| Transfers (out) | - | - | - |
| Capital Contributions | - | - | - |
| Total other financing sources (uses) | - | 37 | 37 |
| **Net change in fund balances** | (9,398) | 50 | (9,348) |
| Fund balances, beginning | 24,639 | 14,304 | 38,943 |
| Fund balances, ending | $ 15,241 | $ 14,354 | $ 29,595 |

JUDITH K. BALLARD, CPA, PC

*Certified Public Accountant*
*(Member AICPA & OSCPA)*
220 W. Main Street – PO Box 746, Stroud, OK 74079
Phone: 918-968-3511 [Fax: 918-968-3512]

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

To the Mayor and City Council
Town of Ochelata, Oklahoma

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ochelata, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated October 22, 2014. As described in my report on the financial statements the Town prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting
In planning and performing my audit of the financial statements, I considered the Town of Ochelata, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Town of Ochelata, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses (2013-1 and 2013-2).

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

Judith K. Ballard, CPA, PC.

JUDITH K. BALLARD, CPA, PC
Stroud, Oklahoma

October 22, 2014

# TOWN OF OCHELATA
## Schedule of Findings and Responses
## June 30, 2013

### #2013-1 Debt Reserve Account

| | |
|---|---|
| Criteria: | The loan from Community Resource Group, Inc. requires funds to be set aside in a debt reserve account equal to 12 month's worth of payments. This amounts to $12,437 |
| Condition: | The Town has not set up a separate debt reserve. |
| Cause: | The Town personnel believed they would soon pay this loan off and would not need the debt reserve funds. |
| Effect: | The Town is in non-compliance with this provision of the loan agreement. |
| Recommendation: | The Town should set up a debt reserve fund and begin accumulating the required monthly payments into it. |
| Views of Responsible Officials and Planned Corrective Action: | The Town will set up the debt reserve fund during the current fiscal year and begin making monthly payments into it. Update 11/04/14 - the loan was paid in full in October 2014. |

### #2013-2 Federal Form 941 Payroll Tax Deposits

| | |
|---|---|
| Criteria: | Federal form 941 payroll tax deposits are to be made to the Internal Revenue Service on a timely basis throughout the year. |
| Condition: | The Town did not make any of the required form 941 payrol l tax deposits during the fiscal year. |
| Cause: | The Town had an outside accountant who prepared all their payroll and payroll taxes. This accountant quit doing this in the current fiscal year and the Town did not get another accountant. |
| Effect: | The Town is in violation of the Internal Revenue Service rules requiring timely payroll tax deposits. |
| Recommendation: | The Town needs to find another accountant immediately and get the taxes calculated and paid in to the IRS. |
| Views of Town: | The Town will find another accountant and pay the payroll taxes due to the IRS. |