

**CITY OF TONKAWA, OKLAHOMA
TONKAWA, OKLAHOMA**

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORTS**

**FOR THE YEAR ENDED
JUNE 30, 2014**



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Tonkawa, 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 City of Tonkawa, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tonkawa, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the City of Tonkawa, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tonkawa, Oklahoma's internal control over financial reporting and compliance.

FSW&B CPA'S- PLLC

Stillwater, OK
December 15, 2014

CITY OF TONKAWA, OKLAHOMA
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Within this section, the City of Tonkawa's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2014. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2014, the assets of the City exceeded its liabilities by \$9,008,726 (net position). Of this amount \$2,206,232 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compares favorably to the previous year when assets exceeded liabilities by \$8,326,209.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$6,095,725 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$706,769.
 - (3) Unrestricted net position of \$2,206,232 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$280,572 during the fiscal year from \$3,358,258 to \$3,077,686. The majority of this decrease is directly attributable to repayments made on outstanding debt offset by a capital lease agreement for Police vehicles.
- After transfers of \$799,344 from business-type activities to governmental activities, net position of governmental activities increased \$420,963 or 11%, and net position of business-type activities increased \$261,544 or 6%. Overall the health of the City improved when compared to prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resources available and whether the City can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the

statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including electricity, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Tonkawa Development Authority is a separate legal entity which operates independently and provides services directly to the citizens though the City remains accountable for their actions. As such, the Tonkawa Development Authority is reported as part of the primary government and included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in footnotes.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position at June 30, 2014 was \$9,008,726. This is a \$682,517 increase over June 30, 2013 net position of \$8,326,209. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$4,379,398 and \$4629,328, respectively. The City's overall financial position improved 8% during fiscal year 2014.

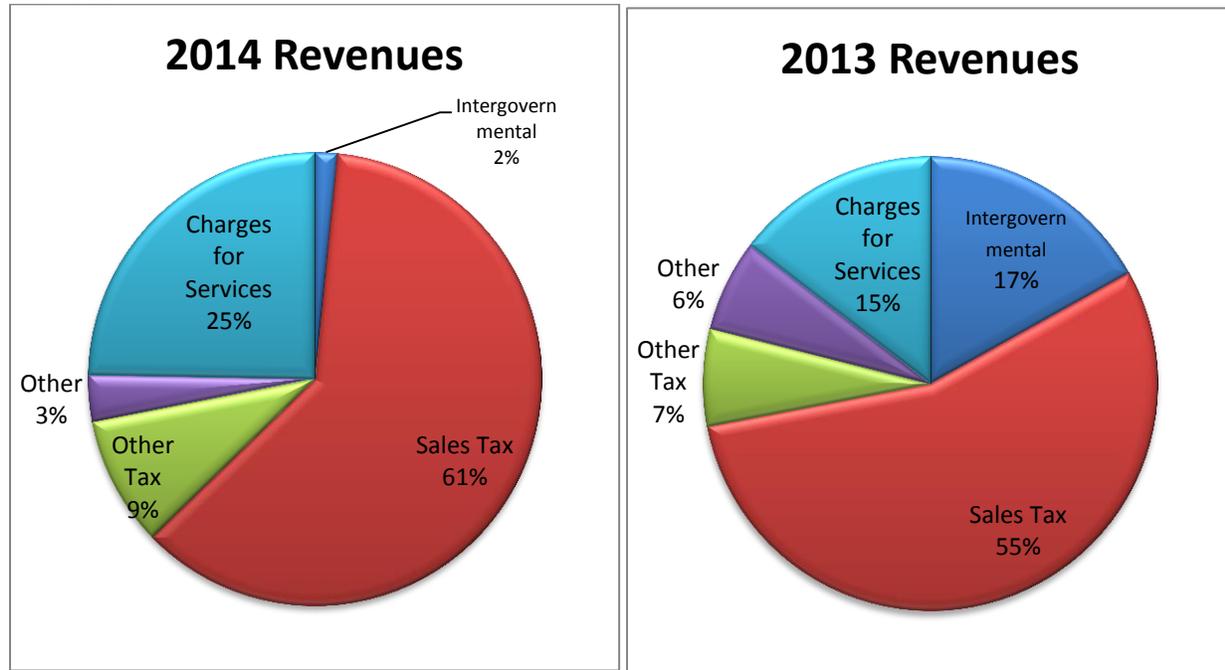
	Summary of Net Assets						\$ Change	% Change
	Governmental Activities		Business-Type Activities		Total			
	2014	2013	2014	2013	2014	2013		
Current assets	\$ 1,848,280	\$ 1,429,899	\$ 1,487,340	\$ 1,900,559	\$ 3,335,620	\$ 3,330,458	\$ 5,162	0%
Capital assets, net	3,126,185	2,731,420	5,624,607	5,540,648	8,750,792	8,272,068	478,724	6%
Total assets	4,974,465	4,161,319	7,111,947	7,441,207	12,086,412	11,602,526	483,886	4%
Current liabilities	136,368	48,013	629,871	594,627	766,239	642,640	123,599	19%
Non-current liabilities	458,699	154,871	1,852,748	2,478,806	2,311,447	2,633,677	(322,230)	-12%
Total liabilities	595,067	202,884	2,482,619	3,073,433	3,077,686	3,276,317	(198,631)	-6%
Net assets								
Invested in capital assets, net of related debt	3,013,501	2,731,420	3,082,224	2,603,256	6,095,725	5,334,676	761,049	14%
Restricted	292,708	292,708	414,061	-	706,769	292,708	414,061	141%
Unrestricted	1,073,189	934,307	1,133,043	1,764,518	2,206,232	2,698,825	(492,593)	-18%
Total net assets	\$ 4,379,398	\$ 3,958,435	\$ 4,629,328	\$ 4,367,774	\$ 9,008,726	\$ 8,326,209	\$ 682,517	8%

Summary of Changes in Net Assets

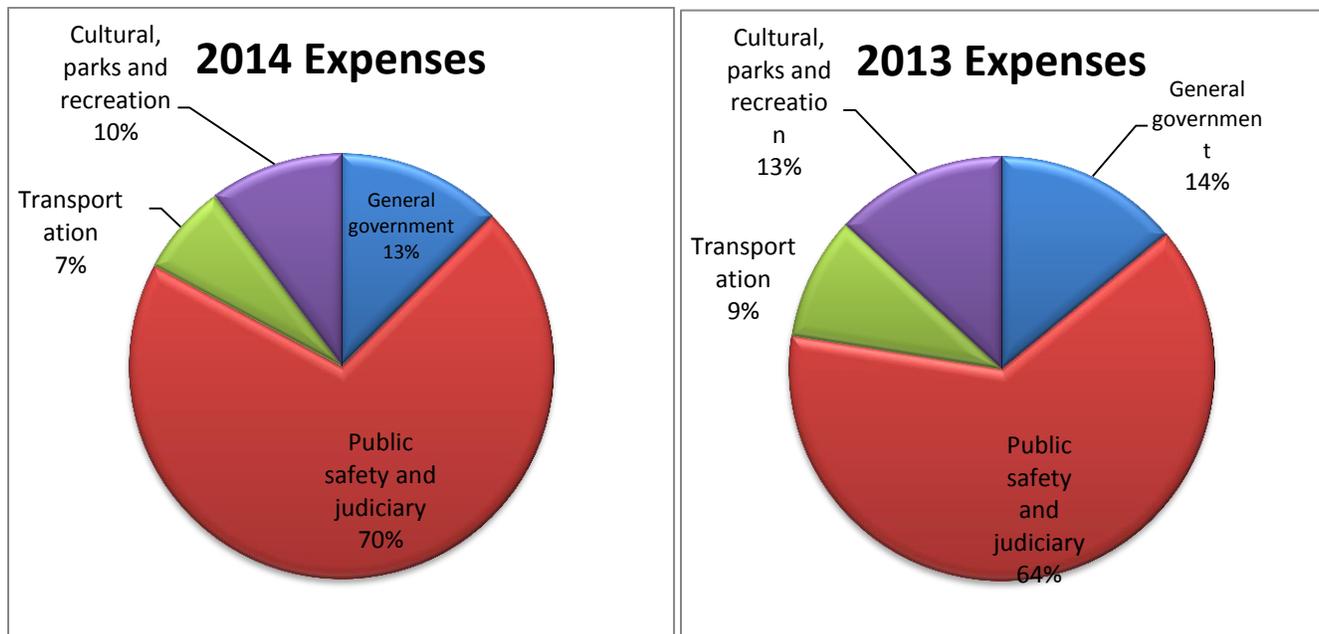
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2014	2013	2014	2013	2014	2013		
Revenues								
Program revenues	\$ 656,921	\$ 859,837	\$ 4,850,516	\$ 4,806,295	\$ 5,507,437	\$ 5,666,132	\$ (158,695)	-3%
Taxes and other general revenues	1,635,228	1,754,304	10,815	35,917	1,646,043	1,790,221	(144,178)	-8%
Total revenues	2,292,149	2,614,141	4,861,331	4,842,212	7,153,480	7,456,353	(302,873)	-11%
Expenses								
General government	333,999	336,418	-	-	333,999	336,418	(2,419)	-1%
Public safety and judiciary	1,879,099	1,517,554	-	-	1,879,099	1,517,554	361,545	24%
Transportation	185,440	223,993	-	-	185,440	223,993	(38,553)	-17%
Cultural, parks, and recreation	271,992	313,996	-	-	271,992	313,996	(42,004)	-13%
Economic development	-	-	47,308	41,443	47,308	41,443	5,865	14%
Electric	-	-	2,497,483	2,491,834	2,497,483	2,491,834	5,649	0%
Water	-	-	509,447	553,621	509,447	553,621	(44,174)	-8%
Sewer	-	-	166,097	187,545	166,097	187,545	(21,448)	-11%
Sanitation	-	-	188,720	187,450	188,720	187,450	1,270	1%
Customer service	-	-	391,378	157,259	391,378	157,259	234,119	149%
Total expenses	2,670,530	2,391,961	3,800,433	3,619,152	6,470,963	6,011,113	459,850	8%
Excess (deficiency) before transfers	\$ (378,381)	\$ 222,180	\$ 1,060,898	\$ 1,223,060	\$ 682,517	\$ 1,445,240	\$ (762,723)	-53%
Transfers	799,344	27,293	(799,344)	(27,293)	-	-	-	0%
Increase (decrease) in net assets	\$ 420,963	\$ 249,473	\$ 261,554	\$ 1,195,767	\$ 682,517	\$ 1,445,240	\$ (762,723)	-53%

Revenues for the City decreased 11% when compared to prior year. This decrease was noted most significantly in governmental activities, as tax and general revenues declined as well as program revenues. Business-type activities noted an increase year over year due to increasing customer base for utility services. Operating expenses noted an overall increase over fiscal year 2013 of 8%. This increase is a function of the increase in the cost of police and fire protection for the public, as well as increased cost of providing electric and water service to customers.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.



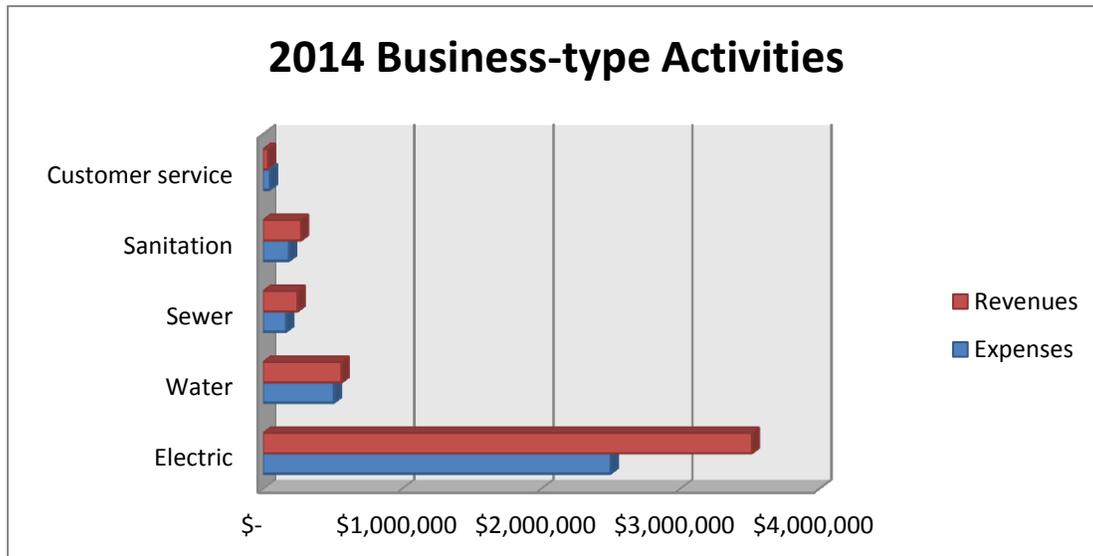
Taxes provided for 61% of the City's governmental revenues in fiscal year 2014 as compared to 55% in 2013. Charges for services provided 25% of revenues for the City, as compared to 15% in prior year. Those expenses were funded through the City's capital project fund, which is a governmental activity.



For the year ended June 30, 2014, total expenses for governmental activities were \$2,670,530 compared to \$2,390,961 in fiscal year 2013. Of this amount, public safety and judiciary with \$1,879,099, was the largest operating service department at 70% of the total cost of services for the City government, which is consistent with prior year. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues. It should be noted that governmental expenses are adjusted from the

fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2014, revenues from electric, water, sewer, and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2014 was \$2,795,498 compared to \$2,219,424 in fiscal year 2013. Budget amendments were approved by Council during the fiscal year increasing the budget by \$56,000, for a final amended budget of \$2,997,824, prior to transfers. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2014, the City had \$6,095,725 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Buildings	620,701	551,303	112,794	161,811	733,495	713,114
Machinery & equipment	530,198	157,990	102,693	179,321	632,891	337,311
Utility property & improvements	1,975,286	2,022,127	5,404,120	5,147,183	7,379,406	7,169,310
Totals	<u>\$ 3,126,185</u>	<u>\$ 2,731,420</u>	<u>\$ 5,624,607</u>	<u>\$ 5,493,315</u>	<u>\$ 8,750,792</u>	<u>\$ 8,224,735</u>

The following provides a selection of the most significant additions to the City during the fiscal year:

- Ladder truck for the fire department
- New Fire station building
- Lease/purchase of four new Police vehicles
- 2015 Ford F350 for the Street department
- Brush hog mower and 2 grasshopper mowers
- Wastewater improvements
- Rehabilitation of water wells
- Transformers for economic expansion
- 2006 bucket truck

Long-Term Debt

At year-end, the City had \$2,219,067 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Business-type	
	Activities	
	2014	2013
Notes payable	1,705,067	1,772,392
Bonds payable	950,000	1,165,000
less current portion	(436,000)	(395,702)
Totals	<u>\$ 2,219,067</u>	<u>\$ 2,541,690</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma Economic Report, the state's gross receipts are higher than ever before. State Treasurer, Ken Miller, stated when talking about July 2014 sales tax "collections have been higher than the same month of the prior year in 45 of the past 51 months, which indicates a steady economic expansion". Unemployment numbers from June 2014 reflect Oklahoma's relative economic strength compared to the nation as a whole, reporting 4.5% statewide compared to 6.1% nationally. The economic environment of the state sheds light on the local economy.

Fess and Rates

Sales tax was budgeted at 90% of prior year collections. As noted above, the City expects to see improvement in the economy; however, a conservative approach was used for budgeting purposes. Utility rate increases were included in the FY15 budget expecting to generate \$73,647. With the increase in rates, the operating departments of the utility system are projected to report a positive profit margin for fiscal year 2015.

Operating and Capital Expenses

The City budget included a 3% raise for all full time employees. Fuel expenses noted an increase based upon consumption and increase in price.

Based upon projected revenues, the City has budgeted \$1,164,481 in capital improvements for the City to be completed during fiscal year 2015. These improvements will be funded with sales tax dollars, grant awards, and the issuance of new debt. The capital improvements will be spread across multiple departments including Electric, Police, Fire, Ambulance, and Library.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Tonkawa City Hall, 113 South 7th, Tonkawa, Oklahoma, 74653.

City of Tonkawa, Oklahoma
Statement of Net Position
June 30, 2014

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 218,564	\$ 377,914	\$ 596,478
Investments	-	112,993	112,993
Accounts receivable (net)	81,372	116,953	198,325
Receivable from other governments	137,555	-	137,555
Total current assets	<u>437,491</u>	<u>607,860</u>	<u>1,045,351</u>
Restricted assets:			
Cash	1,390,789	741,530	2,132,319
Investments	20,000	137,780	157,780
Total restricted assets	<u>1,410,789</u>	<u>879,310</u>	<u>2,290,099</u>
Noncurrent Assets:			
Other assets	-	170	170
Land and construction in progress	-	23,259	23,259
Other capital assets (net of accumulated depreciation)	3,126,185	5,601,348	8,727,533
Total noncurrent assets	<u>3,126,185</u>	<u>5,624,777</u>	<u>8,750,962</u>
Total assets	<u>\$ 4,974,465</u>	<u>\$ 7,111,947</u>	<u>\$ 12,086,412</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 99,084	\$ 68,740	\$ 167,824
Notes payable, current	36,416	178,098	214,514
Total current liabilities	<u>135,500</u>	<u>246,838</u>	<u>382,338</u>
Liabilities payable from restricted assets:			
Court bonds payable	868	-	868
Accrued interest payable	-	8,053	8,053
Customer deposits payable	-	153,494	153,494
Bonds payable, current	-	235,000	235,000
Total liabilities payable from restricted assets	<u>868</u>	<u>396,547</u>	<u>397,415</u>
Noncurrent liabilities:			
Due to other funds	306,300	(306,300)	-
Compensated absences	76,131	16,249	92,380
Notes payable, non-current	76,268	1,414,285	1,490,553
Bonds payable, non-current	-	715,000	715,000
Total noncurrent liabilities	<u>458,699</u>	<u>1,839,234</u>	<u>2,297,933</u>
Total liabilities	<u>595,067</u>	<u>2,482,619</u>	<u>3,077,686</u>
NET POSITION			
Invested in capital assets, net of related debt	3,013,501	3,082,224	6,095,725
Restricted	292,708	409,061	701,769
Unrestricted	1,073,189	1,138,043	2,211,232
Total net position	<u>\$ 4,379,398</u>	<u>\$ 4,629,328</u>	<u>\$ 9,008,726</u>

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 123,896	\$ 43,170	\$ 4,453	\$ 23,419	\$ (52,854)
Administration	210,103	-	-	-	(210,103)
Total general government	<u>333,999</u>	<u>43,170</u>	<u>4,453</u>	<u>23,419</u>	<u>(262,957)</u>
Public safety and judiciary:					
Legal and courts	14,581	-	-	-	(14,581)
Code enforcement	30,834	-	-	-	(30,834)
Police	1,083,172	157,403	43,888	-	(881,881)
Fire	360,439	-	13,410	-	(347,029)
Ambulance	390,073	251,873	75,554	-	(62,646)
Total public safety and judiciary	<u>1,879,099</u>	<u>409,276</u>	<u>132,852</u>	<u>-</u>	<u>(1,336,971)</u>
Transportation:					
Streets	176,069	-	31,494	-	(144,575)
Airport	9,371	-	-	-	(9,371)
Total transportation	<u>185,440</u>	<u>-</u>	<u>31,494</u>	<u>-</u>	<u>(153,946)</u>
Cultural, parks and recreation:					
Parks	111,452	5,233	-	-	(106,219)
Library	160,540	-	7,024	-	(153,516)
Total cultural, parks and recreation	<u>271,992</u>	<u>5,233</u>	<u>7,024</u>	<u>-</u>	<u>(259,735)</u>
Total governmental activities	<u>2,670,530</u>	<u>457,679</u>	<u>175,823</u>	<u>23,419</u>	<u>(2,013,609)</u>
Business-type activities:					
Electric	2,497,483	3,514,194	-	-	1,016,711
Water	509,447	565,008	-	-	55,561
Sewer	166,097	247,910	-	-	81,813
Sanitation	188,720	272,612	-	-	83,892
Customer service	391,378	158,556	-	58,000	(174,822)
Economic development	47,308	6,001	28,235	-	(13,072)
Total business-type activities	<u>3,800,433</u>	<u>4,764,281</u>	<u>28,235</u>	<u>58,000</u>	<u>1,050,083</u>
Total primary government	<u>\$ 6,470,963</u>	<u>\$ 5,221,960</u>	<u>\$ 204,058</u>	<u>\$ 81,419</u>	<u>\$ (963,526)</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2014

Changes in Net Position

(Continued)

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (2,013,609)	\$ 1,050,083	\$ (963,526)
General revenues:			
Taxes:			
Sales taxes	1,400,068	-	1,400,068
Use taxes	91,675	-	91,675
Franchise taxes	47,277	-	47,277
Cigarette taxes	16,368	-	16,368
Alcoholic beverage tax	12,406	-	12,406
Investment income	7,186	3,872	11,058
Gain on sale of assets	-	6,943	6,943
Miscellaneous	60,248	-	60,248
Transfers-Internal activity	799,344	(799,344)	-
Total general revenues and transfers	<u>2,434,572</u>	<u>(788,529)</u>	<u>1,646,043</u>
Change in net position	420,963	261,554	682,517
Net position-beginning	3,958,435	4,367,774	8,326,209
Net position-ending	<u>\$ 4,379,398</u>	<u>\$ 4,629,328</u>	<u>\$ 9,008,726</u>

**City of Tonkawa, Oklahoma
Balance Sheet
June 30, 2014**

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 760,708	\$ 845,581	\$ 3,064	\$ 1,609,353
Investments	-	-	20,000	20,000
Accounts receivable	31,750	-	-	31,750
Fines receivable, net of allowance	49,622	-	-	49,622
Receivable from other governments	137,555	-	-	137,555
Total assets	<u>\$ 979,635</u>	<u>\$ 845,581</u>	<u>\$ 23,064</u>	<u>\$ 1,848,280</u>
LIABILITIES				
Accounts payable	\$ 99,084	\$ -	\$ -	\$ 99,084
Current portion of capital lease	36,416	-	-	36,416
Due from other funds	306,300	-	-	306,300
Court bonds payable	868	-	-	868
Total liabilities	<u>442,668</u>	<u>-</u>	<u>-</u>	<u>442,668</u>
FUND BALANCES				
Restricted	5,536	-	20,000	25,536
Committed	611,247	845,581	-	1,456,828
Assigned	38,311	-	3,064	41,375
Unassigned	(118,127)	-	-	(118,127)
Total fund balances	<u>536,967</u>	<u>845,581</u>	<u>23,064</u>	<u>1,405,612</u>
Total liabilities and fund balances	<u>\$ 979,635</u>	<u>\$ 845,581</u>	<u>\$ 23,064</u>	<u>\$ 1,848,280</u>
Total fund balance - total governmental funds				1,405,612
Amounts reported for governmental activities in the Statement of Net assets are different because:				
Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds				
	Capital assets		4,375,396	
	Less: Accumulated depreciation		<u>(1,249,211)</u>	3,126,185
Long-term liabilities are not due and payable in the current period and are not reported in the funds				
	Capital lease payable		(76,268)	
	Compensated absences		<u>(76,131)</u>	<u>(152,399)</u>
Net assets of governmental activities				<u>\$ 4,379,398</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2014

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Sales taxes	\$ 1,400,068	\$ -	\$ -	\$ 1,400,068
Use taxes	91,675	-	-	91,675
Franchise taxes	47,277	-	-	47,277
E911 fees	43,888	-	-	43,888
Cigarette tax	16,368	-	-	16,368
Alcoholic Beverage Tax	12,406	-	-	12,406
Licenses and permits	10,515	-	-	10,515
Fines and forfeitures	157,403	-	-	157,403
Investment income	4,040	3,131	15	7,186
Charges for services	365,096	-	-	365,096
Rental income	32,655	-	-	32,655
Intergovernmental	36,147	-	-	36,147
Donations	8,216	-	-	8,216
Proceeds from debt issuance	148,000	-	-	148,000
Miscellaneous	60,281	-	-	60,281
Total revenues	<u>2,434,035</u>	<u>3,131</u>	<u>15</u>	<u>2,437,181</u>
<u>EXPENDITURES</u>				
General government:				
General government	98,521	-	-	98,521
Administration	210,103	-	-	210,103
Total general government	<u>308,624</u>	<u>-</u>	<u>-</u>	<u>308,624</u>
Public safety and judiciary:				
Legal and courts	14,581	-	-	14,581
Code enforcement	30,834	-	-	30,834
Police	1,021,248	-	-	1,021,248
Fire	333,146	-	-	333,146
Ambulance	389,611	-	-	389,611
Total public safety and judiciary	<u>1,789,420</u>	<u>-</u>	<u>-</u>	<u>1,789,420</u>
Transportation:				
Street	146,718	-	-	146,718
Airport	9,371	-	-	9,371
Total transportation	<u>156,089</u>	<u>-</u>	<u>-</u>	<u>156,089</u>
Cultural, parks and recreation:				
Parks	111,446	-	6	111,452
Library	160,540	-	-	160,540
Total cultural, parks and recreation	<u>271,986</u>	<u>-</u>	<u>6</u>	<u>271,992</u>
Capital outlay	604,833	-	-	604,833
Total expenditures	<u>3,130,952</u>	<u>-</u>	<u>6</u>	<u>3,130,958</u>
Excess (deficiency) of revenues over expenditures	<u>(696,917)</u>	<u>3,131</u>	<u>9</u>	<u>(693,777)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,591,033	302,153	-	1,893,186
Transfers out	(1,093,842)	-	-	(1,093,842)
Total other financing sources and uses	<u>497,191</u>	<u>302,153</u>	<u>-</u>	<u>799,344</u>
Net change in fund balances	(199,726)	305,284	9	105,567
Fund balances - beginning	736,693	540,297	23,055	1,300,045
Fund balances - ending	<u>\$ 536,967</u>	<u>\$ 845,581</u>	<u>\$ 23,064</u>	<u>\$ 1,405,612</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2014

(Continued)

Reconciliation of the change in fund balances - total governmental funds
to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds \$ 105,567
Amounts reported for governmental activities in the Statement of Activities are
different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital asset purchases capitalized	604,833
Depreciation expense	(210,068)

The proceeds of debt issuances provide current financial resources to governmental funds,
but issuing debt increases long-term liabilities in the statement of net position.
Repayment of debt principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position

Proceeds from issuance on long term capital lease	(148,000)	
Current portion of lease payable	36,416	
Principle paid on capital lease	35,316	(76,268)

Some expenses reported in the statement of activites do not require the use of
current financial resources and are not reported as expenditures in governmental funds.

	Current Year	Prior Year	
Compensated absences	\$ 76,131	\$ 73,030	(3,101)

	\$ 420,963
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**City of Tonkawa, Oklahoma
General Fund
June 30, 2014
Budget and Actual (Non-GAAP Budgetary Basis)**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Tax revenue	\$ 1,193,103	\$ 210,000	\$ 1,403,103	\$ 1,520,517	\$ 117,414
Franchise taxes	51,601	-	51,601	47,277	(4,324)
Licenses and permits	8,000	-	8,000	10,515	2,515
Fines and forfeitures	185,000	-	185,000	201,291	16,291
Charges for services	179,500	20,000	199,500	365,096	165,596
Rental income	30,000	-	30,000	32,655	2,655
Intergovernmental	77,500	-	77,500	36,147	(41,353)
Interest income	5,000	-	5,000	4,040	(960)
Miscellaneous	24,550	348,001	372,551	214,761	(157,790)
Total revenues	<u>1,754,254</u>	<u>578,001</u>	<u>2,332,255</u>	<u>2,432,299</u>	<u>100,044</u>
EXPENDITURES					
Current:					
General government:					
General government	213,150	16,000	229,150	228,394	756
Total general government	<u>213,150</u>	<u>16,000</u>	<u>229,150</u>	<u>228,394</u>	<u>756</u>
Public safety and judiciary:					
Legal and courts	22,000	-	22,000	14,581	7,419
Code enforcement	37,000	-	37,000	30,834	6,166
Police	1,003,000	16,000	1,019,000	1,018,748	252
Fire	552,550	206,326	758,876	691,581	67,295
Ambulance	523,698	(100,000)	423,698	389,611	34,087
Total public safety and judiciary	<u>2,138,248</u>	<u>122,326</u>	<u>2,260,574</u>	<u>2,145,355</u>	<u>115,219</u>
Transportation:					
Street	163,000	5,000	168,000	146,718	21,282
Airport	7,000	3,000	10,000	9,371	629
Total transportation	<u>170,000</u>	<u>8,000</u>	<u>178,000</u>	<u>156,089</u>	<u>21,911</u>
Cultural, parks and recreation:					
Parks	120,500	49,000	169,500	157,875	11,625
Library	153,600	7,000	160,600	160,540	60
Total cultural, parks and recreation	<u>274,100</u>	<u>56,000</u>	<u>330,100</u>	<u>318,415</u>	<u>11,685</u>
Total expenditures	<u>2,795,498</u>	<u>202,326</u>	<u>2,997,824</u>	<u>2,848,253</u>	<u>149,571</u>
Revenue over (under) expenditures	(1,041,244)	375,675	(665,569)	(415,954)	(49,527)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	1,056,697	-	1,056,697	555,191	(501,506)
Net other financing sources (uses)	<u>1,056,697</u>	<u>-</u>	<u>1,056,697</u>	<u>555,191</u>	<u>(501,506)</u>
Revenues and other financing sources over (under) expenditures and other uses	15,453	375,675	391,128	139,237	(551,033)
Fund balance at beginning of year (Non-GAAP budgetary basis)	-	-	-	762,458	762,458
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 15,453</u>	<u>\$ 375,675</u>	<u>\$ 391,128</u>	\$ 901,695	<u>\$ 211,425</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and expenditure accruals				(364,728)	
Fund balance at end of year (GAAP basis)				<u>\$ 536,967</u>	

City of Tonkawa, Oklahoma
Statement of Net Position
June 30, 2014

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 328,144	\$ 49,770	\$ 377,914
Investments	98,855	14,138	112,993
Due from other funds	306,300	-	306,300
Accounts receivable (net)	116,953	-	116,953
Total current assets	<u>850,252</u>	<u>63,908</u>	<u>914,160</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	741,530	-	741,530
Investments	137,780	-	137,780
Total restricted assets	<u>879,310</u>	<u>-</u>	<u>879,310</u>
Noncurrent assets:			
Other assets	-	170	170
Capital assets (net)	5,590,029	34,578	5,624,607
Total noncurrent assets	<u>5,590,029</u>	<u>34,748</u>	<u>5,624,777</u>
Total assets	<u>\$ 7,319,591</u>	<u>\$ 98,656</u>	<u>\$ 7,418,247</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 68,740	\$ -	\$ 68,740
Compensated absences, current	16,249	-	16,249
Notes payable, current	178,098	-	178,098
Total current liabilities	<u>263,087</u>	<u>-</u>	<u>263,087</u>
Liabilities payable from restricted assets:			
Customer deposits payable	153,494	-	153,494
Accrued interest payable	8,053	-	8,053
Bonds payable, current	235,000	-	235,000
Total liabilities payable from restricted assets	<u>396,547</u>	<u>-</u>	<u>396,547</u>
Noncurrent liabilities:			
Notes payable, non-current	1,414,285	-	1,414,285
Bonds payable, noncurrent	715,000	-	715,000
Total noncurrent liabilities	<u>2,129,285</u>	<u>-</u>	<u>2,129,285</u>
Total liabilities	<u>2,788,919</u>	<u>-</u>	<u>2,788,919</u>
NET POSITION			
Invested in capital assets, net of related debt	3,047,646	34,578	3,082,224
Restricted	344,983	64,078	409,061
Unrestricted	1,138,043	-	1,138,043
Total net position	<u>\$ 4,530,672</u>	<u>\$ 98,656</u>	<u>\$ 4,629,328</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
June 30, 2014

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Operating revenues:</u>			
Charges for services:			
Electric charges	\$ 3,514,194	\$ -	\$ 3,514,194
Water charges	565,008	-	565,008
Sewer charges	247,910	-	247,910
Sanitation charges	272,612	-	272,612
Penalties	66,651	-	66,651
Total charges for services	<u>4,666,375</u>	<u>-</u>	<u>4,666,375</u>
Lease and rental income	-	6,001	6,001
Donations	58,000	27,350	85,350
Miscellaneous	91,905	-	91,905
Total operating revenues	<u>4,816,280</u>	<u>33,351</u>	<u>4,849,631</u>
<u>Operating expenses:</u>			
Cost of goods sold	2,113,647	-	2,113,647
Personal services	523,957	-	523,957
Materials and supplies	217,340	1,562	218,902
Other services and charges	356,768	33,900	390,668
Bad debt expense	215,549	-	215,549
Depreciation and amortization	235,438	11,846	247,284
Total operating expenses	<u>3,662,699</u>	<u>47,308</u>	<u>3,710,007</u>
Net operating income	1,153,581	(13,957)	1,139,624
<u>Nonoperating revenue (expense):</u>			
Investment income	3,630	242	3,872
Interest expense	(90,426)	-	(90,426)
Grant income	-	885	885
Gain/(loss) on sale of assets	-	6,943	6,943
Total nonoperating revenue (expense)	<u>(86,796)</u>	<u>8,070</u>	<u>(78,726)</u>
Net Income before contributions and transfers	1,066,785	(5,887)	1,060,898
Transfers from other funds	791,689	-	791,689
Transfers to other funds	(1,591,033)	-	(1,591,033)
Change in net position	267,441	(5,887)	261,554
Net position-beginning of year	4,263,231	104,543	4,367,774
Net position-end of year	<u>\$ 4,530,672</u>	<u>\$ 98,656</u>	<u>\$ 4,629,328</u>

City of Tonkawa, Oklahoma
Statement of Cash Flows
June 30, 2014

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Cash flows from operating activities:</u>			
Receipts from customers/contracts	\$ 4,445,631	\$ 5,831	\$ 4,451,462
Payments to suppliers	(2,657,558)	(35,462)	(2,693,020)
Payments to employees	(526,037)	-	(526,037)
Other operating revenues	149,905	27,350	177,255
Net cash provided (used) by operating activities	1,411,941	(2,281)	1,409,660
<u>Cash flows from non-capital financing activities:</u>			
Transfers from other funds	791,689	-	791,689
Transfers to other funds	(1,591,033)	-	(1,591,033)
Net cash provided (used) by non-capital financing activities	(799,344)	-	(799,344)
<u>Cash flows from capital and related financing activities:</u>			
Purchase of capital assets	(332,151)	-	(332,151)
Sales of assets	-	7,808	7,808
Principal paid on debt	(395,009)	-	(395,009)
Interest and fiscal charges paid on debt	(90,426)	-	(90,426)
Capital contributions/grants	-	885	885
Net cash provided (used) by capital and related financing activities	(817,586)	8,693	(808,893)
<u>Cash flows from investing activities:</u>			
(Purchase)/liquidation of investments, unrestricted	3,630	242	3,872
Net cash provided (used) by investing activities	3,630	242	3,872
Net increase (decrease) in cash and cash equivalents	(201,359)	6,654	(194,705)
Cash and cash equivalents, July 1, 2013	1,271,033	43,116	1,314,149
Cash & cash equivalents, June 30, 2014	<u>\$ 1,069,674</u>	<u>\$ 49,770</u>	<u>\$ 1,119,444</u>
Cash, including time deposits	\$ 328,144	\$ 49,770	\$ 377,914
Restricted cash, including time deposits	741,530	-	741,530
Total cash and cash equivalents, end of year	<u>\$ 1,069,674</u>	<u>\$ 49,770</u>	<u>\$ 1,119,444</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>			
Operating income (loss)	\$ 1,153,581	\$ (13,957)	\$ 1,139,624
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	235,438	11,846	247,284
Bad debt	(215,549)	-	(215,549)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	210,354	-	210,354
(Increase) decrease in other assets	-	(170)	(170)
Increase (decrease) in accounts payable	33,070	-	33,070
Increase (decrease) in other accrued liabilities	(2,873)	-	(2,873)
Increase (decrease) in compensated absences	(2,080)	-	(2,080)
Total adjustments	258,360	11,676	270,036
Net cash provided (used) by operating activities	\$ 1,411,941	\$ (2,281)	\$ 1,409,660

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tonkawa, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2014.

A. Reporting Entity

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Non-Major Governmental Funds

Capital Improvement Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax. Two-thirds of the tax is restricted for use for water, sewer, sanitation, and drainage. One-third of the tax is restricted for debt payments on the pool bond issue.

Blinn Park Fund

Established as a special revenue fund to account for operations at the City's Blinn Park.

Major Proprietary Funds

Tonkawa Municipal Authority

Accounts for the operating activities of the electric, water, sewer, and sanitation utilities of the City.

Tonkawa Development Authority

Accounts for the operating activities of the economic development of the City.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both 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. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Clerk and must be approved by the Council. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

D. Policies Related to Assets, Liabilities, and Fund Equity

Cash and Investments

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

Accounts Receivable

Significant receivables include sales and use tax receivables and amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Restricted Assets

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service revenues, and customer meter deposits. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

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

Interfund Balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

Capital Assets, Depreciation, and Amortization

They City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$5,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

- Buildings 10-25 years
- Other improvements 10-25 years
- Machinery, furniture & equipment 3-25 years
- Infrastructure 10-20 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Fund Equity

Fund Balance

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

Net Position

Both proprietary fund financial statements and government-wide financial statements report net position. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net position.

Invested in capital assets, net of related debt

The amount restricted 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.

Restricted net position

Amounts reported as restricted consist of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

General Revenues

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

Sales Tax

The City levied a 4.5% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to the use. The unrestricted portion (3%) is recorded as sales tax revenue within the General Fund; the remaining 1.5% is restricted and transferred to the Capital Improvement fund, allocated 1% for water, sewer, sanitation, and drainage improvements and 0.5% for debt service on the 2008 bond issue.

(2) ASSETS AND LIABILITIES

A. Assets

Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Investments

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

<u>Types of Investments</u>	<u>Primary Government</u>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 270,773	\$ 270,773	N/A	103
Total investments	<u>270,773</u>	<u>270,773</u>		
 Total primary government investments	 <u>\$ 270,773</u>	 <u>\$ 270,773</u>		

RECONCILIATION TO STATEMENT OF NET ASSETS

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Investments, unrestricted	\$ -	\$ 112,993	\$ 112,993
Investments, restricted	20,000	137,780	157,780
Total investments	<u>\$ 20,000</u>	<u>\$ 250,773</u>	<u>\$ 270,773</u>

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

Receivables and Uncollectable Amounts

Significant receivables for governmental activities include sales and use tax receivables and ambulance receivables. Based Business-type receivables consist mainly of amount due from customers primarily for utility services. The City reports accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using balances past due greater than 60 days. At June 30, 2014, the City has estimated an allowance of \$77,790 and \$230,478 for governmental and business-type activities, respectively

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
<i>Governmental Activities</i>				
Buildings & structures	\$ 641,912	\$ 87,333	\$ -	\$ 729,245
Machinery, furniture, & equipment	760,163	487,392	-	1,247,555
Infrastructure & improvements	2,368,488	30,108	-	2,398,596
	3,770,563	604,833	-	4,375,396
Less accumulated depreciation	1,039,143	210,068	-	1,249,211
	\$ 2,731,420	\$ 394,765	\$ -	\$ 3,126,185
<i>Business-type Activities</i>				
Land	\$ 14,167	\$ -	\$ 908	\$ 13,259
Construction in process	10,000	-	-	10,000
Buildings & structures	263,910	-	-	263,910
Machinery, furniture, & equipment	253,163	94,711	-	347,874
Infrastructure & improvements	6,837,100	237,440	-	7,074,540
	7,378,340	332,151	908	7,709,583
Less accumulated depreciation	1,837,692	247,284	-	2,084,976
	\$ 5,540,648	\$ 84,867	\$ (908)	\$ 5,624,607
Total primary government	\$ 8,272,068	\$ 479,632	\$ (908)	\$ 8,750,792

Depreciation Expense

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 25,376	Electric	\$ 39,614
Public safety & judiciary	88,281	Water	145,480
Transportation	29,351	Sewer	33,304
Cultural, parks & recreation	67,060	Customer service	17,040
		Economic development	11,846
Total depreciation expense	\$ 210,068	Total depreciation expense	\$ 247,284

B. Liabilities

Notes and Bonds Payable

Governmental Activities

Capital Lease Payable:

The City entered into a capital lease agreement with First Capital Equipment Leasing Corp for four Police vehicles. The lease carried an original balance of \$148,000 payable in quarterly installments of \$9,866.57, maturing April 2017. \$ 112,684

\$ 112,684

Business-Type Activities

Notes Payable:

\$530,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002 Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-02-0008, dated June 7, 2002, due in semi-annual installments over 20 years plus interest of 2.5% and an administrative fee of 0.5%, on March 15 and September 15. Note was used to fund sewer system improvements and secured by pledged sales tax and utility system revenues. 261,071

\$350,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 1995 Small Community SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-94-007, dated September 1, 1995, due in semi-annual installments over 20 years plus interest of 3%, plus and administrative fee of 0.5%, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues and an additional \$1.70 sewage fee. 57,235

\$1,070,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002A Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-007CW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues. 548,666

\$1,440,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002B Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-003DW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the clean water system. Loan is secured by pledged sales tax and utility system revenues. 725,410

\$ 1,592,382

Bonds Payable:

On April 12, 2006, TMA issued \$1,205,000 in refunding bonds, Tonkawa Municipal Authority Sales Tax Revenue Note, Series 2006 for the purpose of water system improvements. The notes mature April 1, 2019 and carry an interest rates of 4.425% per annum. The notes require monthly payments into a debt service account from which annual debt service payments are made. \$ 550,000

On October 7, 2008, TMA issued \$1,075,000 in revenue bonds, series 2008 for the purpose of improving the City swimming facilities. The notes mature June 1, 2017 and carry an interest rates of 4.95% per annum. The notes require monthly payments into a debt service account from which semi-annual debt service payments are made. The Note is secured by electric, water, sewer, and sanitation system ("system") revenues and 1% restricted sales tax revenues. 400,000

\$ 950,000

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2013</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
Governmental activities:					
<i>Capital lease payable</i>					
First Capital Equipment Leasing Corp	\$ -	\$ 148,000	\$ 35,316	\$ 112,684	\$ 36,416
Business-type activities:					
<i>Notes Payable</i>					
Farmers Exchange (bucket truck)	\$ 6,726	\$ -	\$ 6,726	\$ -	\$ -
OWRB - 2002	287,601	-	26,530	261,071	27,507
OWRB - 1995	78,757	-	21,522	57,235	21,860
OWRB - 2002A	598,607	-	49,941	548,666	54,825
OWRB - 2002B	800,701	-	75,291	725,410	73,906
Total notes payable	<u>\$ 1,772,392</u>	<u>\$ -</u>	<u>\$ 180,010</u>	<u>\$ 1,592,382</u>	<u>\$ 178,098</u>
<i>Bonds Payable</i>					
Series 2006	645,000	-	95,000	550,000	105,000
Series 2008	520,000	-	120,000	400,000	130,000
Total business-type activities	<u>\$ 1,165,000</u>	<u>\$ -</u>	<u>\$ 215,000</u>	<u>\$ 950,000</u>	<u>\$ 235,000</u>
Total primary government	<u>\$ 2,937,392</u>	<u>\$ 148,000</u>	<u>\$ 430,326</u>	<u>\$ 2,655,066</u>	<u>\$ 449,514</u>

Annual Debt Service Requirements

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>		<u>Notes Payable</u>		<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 36,416	\$ 3,051	\$ 178,098	\$ 34,138	\$ 230,000	\$ 35,690
2016	37,550	1,917	182,320	29,917	235,000	24,849
2017	38,719	748	176,887	25,644	250,000	18,191
2018	-	-	167,153	21,791	115,000	11,756
2019	-	-	170,958	17,985	120,000	5,198
2020-2024	-	-	716,966	32,160	-	-
Totals	<u>\$ 112,684</u>	<u>\$ 5,715</u>	<u>\$ 1,592,382</u>	<u>\$ 161,635</u>	<u>\$ 950,000</u>	<u>\$ 95,684</u>

(3) REVENUES AND EXPENSES

Interfund Transfers

	<u>Due From</u>	<u>Due To</u>
GENERAL FUND		
Tonkawa Municipal Authority	\$ 306,300	\$ -
Total General Fund	<u>306,300</u>	<u>-</u>
TONKAWA MUNICIPAL AUTHORITY		
General Fund	-	306,300
Total Tonkawa Municipal Authority	<u>-</u>	<u>306,300</u>
GRAND TOTAL	<u>\$ 306,300</u>	<u>\$ 306,300</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
GENERAL FUND		
Capital Improvement Fund	\$ -	\$ 302,153
Tonkawa Municipal Authority	1,591,033	791,689
Total General Fund	<u>1,591,033</u>	<u>1,093,842</u>
CAPITAL IMPROVEMENT FUND		
General Fund	302,153	-
Tonkawa Municipal Authority	-	-
Total Capital Improvement Fund	<u>302,153</u>	<u>-</u>
TONKAWA MUNICIPAL AUTHORITY		
General Fund	791,689	1,591,033
Capital Improvement Fund	-	-
Total Tonkawa Municipal Authority	<u>791,689</u>	<u>1,591,033</u>
GRAND TOTAL	<u>\$ 2,684,875</u>	<u>\$ 2,684,875</u>

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Contribution Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

A. Oklahoma Municipal Retirement Fund

Plan Description

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 3.5% of their covered compensation. The City contributed 9.73% of covered compensation for fiscal year 2014. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRF. All gains and/or losses are credited directly to each participant. Benefits vest after 10 years of service with normal retirement at age 65 and early retirement at age 55 with 10 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

The City had 26 active participants and 19 non-active participants as of January 1, 2014.

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The following is a summary of eligibility, contribution methods and benefits provisions:

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighter, and other employees who are covered under another approved system.
b. Contributions Requirement	Yes
- Actuarially Determined	9.73% of covered payroll
- Employer Rate	3.5% of covered payroll
- Employee Rate	
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 10 years of service. - Early Retirement after age 55 with 10 years or more of service. - Disability retirement upon disability with 10 years of service. - Termination before retirement age return of employee contributions with interest - Termination after vesting accrued benefit at normal retirement age
e. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 3% of final average compensation multiplied by the number of year of credited service
f. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage, non-married participants 50% of the accrued benefit is payable for 5 years
- Prior to 10 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

Funding Status and Progress

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/14	2,349,638	2,545,978	196,340	92.3%	832,929	23.6%

a. Date of last Actuarial Valuation	March 2014
b. Significant Actuarial Assumptions Used:	
1. Rate of Return on Investments	7.5%
2. Projected Salary Increase	4.0% - 7.42%
3. Retirement Age	Normal and Early Rates
4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial cost method

CITY OF TONKAWA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

c. Actuarial cost method	Entry age normal cost method
d. Amortization method	Level % of payroll
e. Fiscal Year 2014 Contributions Made	
Total Contributions	\$112,761
Employee Contributions	\$27,519
Employer Contributions	\$85,242

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

B. Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	8% of covered payroll	8% of covered payroll
City's contribution rate	13% per year, per firefighter	14% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contributions are required by Oklahoma State Statute. Funding status information is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems; Oklahoma Firefighter

Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 7316-7335.

(5) COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

B. Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.



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 City Council
City of Tonkawa, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Tonkawa, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Tonkawa, Oklahoma's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tonkawa, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Tonkawa, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tonkawa, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tonkawa, Oklahoma's financial statements are free from 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*.

Purpose of this Report

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

FSW&B CPAs- PLLC

Stillwater, OK
December 15, 2014