

REPORT OF AUDIT
TOWN OF CLEO SPRINGS
INCLUDING
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

OFFICERS

JOHN HAMAND	MAYOR/CHAIRMAN
BRANDON THOMPSON	MEMBER/TRUSTEE
LAVERDA NICKEL	MEMBER/TRUSTEE
TERI THOMAS	MEMBER/TRUSTEE
JERRY MORRISON, JR.	MEMBER/TRUSTEE
DIXIE WEBER	CLERK/TREASURER/SECRETARY

AUDIT BY

PATRICK W. CARROLL
CERTIFIED PUBLIC ACCOUNTANT

CERTIFICATE #4081

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Trustees
Town of Cleo Springs
Major County, Oklahoma

I have audited the accompanying financial statements-modified cash basis of the Town of Cleo Springs, Major County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements-modified cash basis, which collectively comprise the Town's basis 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 1D; 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 an opinion 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. Those standards require that I 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, 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, as of June 30, 2014, and the respective changes in financial position-modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1D.

Basis of Accounting

I draw attention to Note 1D of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison information and combining schedules information on pages --- which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued a report dated December 4, 2014 on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Sincerely,



Chas. W. Carroll, P.A.
December 4, 2014

BASIC FINANCIAL STATEMENTS
-STATEMENT OF NET POSITION AND ACTIVITIES-

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF JUNE 30, 2014

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
ASSETS:			
Current Asset:			
Pooled Cash and Cash Equivalents	\$328,710.23	\$5,069.75	\$333,779.98
Investments	0.00	10,000.00	10,000.00
TOTAL ASSETS	\$328,710.23	\$15,069.75	\$343,779.98
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$0.00	\$0.00	\$0.00
Total Current Liabilities	0.00	0.00	0.00
NET POSITION			
Committed	0.00	0.00	0.00
Restricted	163,519.52	0.00	163,519.52
Unrestricted	165,190.71	15,069.75	180,260.46
Total Net Position	\$328,710.23	\$15,069.75	\$343,779.98

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

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

	PROGRAM REVENUES				NET (EXPENSE) REVENUES AND CHANGES IN NET POSITION				
	EXPENSES	CHARGES FOR SERVICES	OPERATING		CAPITAL		NET		
			CONTRIBUTIONS	GRANTS AND	CONTRIBUTIONS	GRANTS AND	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	(EXPENSE)
PRIMARY GOVERNMENT									
Governmental Activities:									
General Government	\$45,702.16	\$0.00	\$0.00	\$0.00	(\$45,702.16)	\$0.00	\$0.00	(\$45,702.16)	
Public Safety	26,949.31	7,961.00	4,473.98	0.00	(14,514.33)	0.00	0.00	(14,514.33)	
Public Works	32,877.56	36,138.30	0.00	0.00	3,260.74	0.00	0.00	3,260.74	
Culture and Recreation	0.00	180.00	0.00	0.00	180.00	0.00	0.00	180.00	
Street Improvement	7,814.71	0.00	0.00	0.00	(7,814.71)	0.00	0.00	(7,814.71)	
TOTAL GOVERNMENT ACTIVITIES	113,343.74	44,279.30	4,473.98	0.00	(64,590.46)	0.00	0.00	(64,590.46)	
BUSINESS-TYPE ACTIVITIES:									
Administration	42,407.77	1,867.80	0.00	0.00	0.00	(40,539.97)	(40,539.97)		
Water and Sewer	41,325.42	77,488.90	0.00	0.00	0.00	36,163.48	36,163.48		
Sanitation	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Other	0.00	275.00	0.00	0.00	0.00	275.00	275.00		
TOTAL BUSINESS-TYPE ACTIVITIES	83,733.19	79,631.70	0.00	0.00	0.00	(4,101.49)	(4,101.49)		
TOTAL PRIMARY GOVERNMENT	197,076.93	123,911.00	4,473.98	0.00	(64,590.46)	(4,101.49)	(68,691.95)		
General Revenues:									
Taxes:									
Sales/Beverage/Vehicle					107,507.17	0.00	0.00	107,507.17	
Franchise					10,716.13	0.00	0.00	10,716.13	
Unrestricted Investment Income					288.87	44.05	44.05	332.92	
Services					0.00	0.00	0.00	0.00	
Donations and Other					17,240.68	0.00	0.00	17,240.68	
Total General Revenues					135,752.85	44.05	44.05	135,796.90	
Change In Net Position					71,162.39	(4,057.44)	(4,057.44)	67,104.95	
Net Position - Beginning					257,547.84	\$19,127.19	\$19,127.19	276,675.03	
Net Position - Ending					\$328,710.23	\$15,069.75	\$15,069.75	\$343,779.98	

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

BASIC FINANCIAL STATEMENTS
-GOVERNMENTAL FUNDS-

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 BALANCE SHEET - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL FUND	STREET AND ALLEY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$165,190.71	\$88,646.47	\$74,873.05	\$328,710.23
Investments	0.00	0.00	0.00	0.00
TOTAL ASSETS	\$165,190.71	\$88,646.47	\$74,873.05	\$328,710.23
LIABILITIES AND FUND BALANCES:				
Liabilities-				
Accounts Payable	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities (Note 2)	0.00	0.00	0.00	0.00
Fund Balances-				
Restricted	0.00	88,646.47	74,873.05	163,519.52
Committed	0.00	0.00	0.00	0.00
Assigned	0.00	0.00	0.00	0.00
Unassigned	165,190.71	0.00	0.00	165,190.71
Total Fund Balances	165,190.71	88,646.47	74,873.05	328,710.23
TOTAL LIABILITIES AND FUND BALANCES	\$165,190.71	\$88,646.47	\$74,873.05	\$328,710.23
TOTAL NET ASSETS				\$328,710.23
Amounts reported for Governmental Activities in the statement of net assets are different because:				
None				0.00
Net Assets of Government Activities				<u>\$328,710.23</u>

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

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL FUND	STREET AND ALLEY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
CASH RECEIPTS:				
Services	\$36,138.30	\$0.00	\$5,637.00	\$41,775.30
Taxes	51,843.83	34,827.20	31,552.27	118,223.30
Fines, Penalties & Permits	2,504.00	0.00	0.00	2,504.00
Interest Earned	231.16	0.00	57.71	288.87
Royalties, Rents & Other	12,585.68	0.00	4,655.00	17,240.68
Intergovernmental	0.00	0.00	4,473.98	4,473.98
Total Cash Receipts	103,302.97	34,827.20	46,375.96	184,506.13
CASH DISBURSEMENTS:				
Current-				
General Government	45,702.16	7,814.71	0.00	53,516.87
Public Safety	6,073.08	0.00	20,876.23	26,949.31
Public Works	32,877.56	0.00	0.00	32,877.56
Culture and Recreation	0.00	0.00	0.00	0.00
Capital Outlay	0.00	0.00	0.00	0.00
Total Cash Disbursements	84,652.80	7,814.71	20,876.23	113,343.74
Net Change in Fund Balances	18,650.17	27,012.49	25,499.73	71,162.39
Fund Balances - Beginning	146,540.54	61,633.98	49,373.32	257,547.84
Fund Balances - Ending	\$165,190.71	\$88,646.47	\$74,873.05	\$328,710.23

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

BASIC FINANCIAL STATEMENTS

- PROPRIETARY FUNDS-

TOWN OF CLEO SPRINGS
MAJOR COUNTY - OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
AS OF JUNE 30, 2014

BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS

PUBLIC WORKS
AUTHORITY FUND

ASSETS:

Cash and Cash Equivalents	\$5,069.75
Investments	<u>10,000.00</u>
TOTAL ASSETS	<u><u>\$15,069.75</u></u>

LIABILITIES:

Current Liabilities:	
Accounts Payable	<u>\$0.00</u>
Total Liabilities	<u>0.00</u>

NET POSITION:

Restricted	0.00
Unrestricted	<u>15,069.75</u>
Total Fund Balances	<u><u>\$15,069.75</u></u>

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

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN NET POSITION - MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

PUBLIC WORKS
AUTHORITY FUND

OPERATING REVENUES:

Charges for services	
Water	\$54,651.00
Sewer	22,837.90
Penalties	1,867.80
Other	275.00
Total Operating Revenues	<u>79,631.70</u>

OPERATING EXPENDITURES:

General and administration	42,407.77
Water and Sewer	41,325.42
Total Operating Expenditures	<u>83,733.19</u>

Operating Income (Loss) (4,101.49)

NONOPERATING REVENUES (EXPENDITURES):

Project expenditures	0.00
Miscellaneous revenues	0.00
Grant income	0.00
Interest income	44.05
Bank Charges	0.00
Total Nonoperating Revenues	<u>44.05</u>
(Expenditures)	<u>44.05</u>

Net Change in Assets (4,057.44)

Balance at 7/01/13 19,127.19

Balance at 6/30/14 \$15,069.75

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

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS

	Public Works Authority Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$79,631.70
Payments to suppliers	(29,581.23)
Payments to employees	(54,151.96)
Net Cash Provided(used)by Operating Activities	<u>(4,101.49)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Miscellaneous revenues	0.00
Operating transfers in/(out)	0.00
Net Cash Provided (used) by noncapital activities	<u>0.00</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest received	44.05
Net Cash Provided(Used) by Investing Activities	<u>44.05</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(4,057.44)
Cash and Cash Equivalents, July 1, 2013	<u>19,127.19</u>
Cash and Cash Equivalents, June 30, 2014	<u><u>\$15,069.75</u></u>
<u>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED(USED)</u>	
<u>BY OPERATING ACTIVITIES:</u>	
Operating Income(Loss)	(\$4,057.44)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	0.00
Change in assets and liabilities:	0.00
Total Adjustments	<u>0.00</u>
Net Cash Provided by(used in) Operating Activities	<u><u>(\$4,057.44)</u></u>

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

-FIDUCIARY FUNDS-

TOWN OF CLEO SPRINGS
MAJOR COUNTY - OKLAHOMA
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
AS OF JUNE 30, 2014

AGENCY FUNDS

SERVICE
CONTRACT FUND

ASSETS:

Current Assets -	
Cash and Cash Equivalents	<u>\$13,952.80</u>
 TOTAL ASSETS	 <u><u>\$13,952.80</u></u>

LIABILITIES:

Current Liabilities -	
Deposits	<u>\$13,952.80</u>
 Total Liabilities	 <u><u>\$13,952.80</u></u>

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

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

As discussed in Note 1 D, these financial statements, for the Town of Cleo Springs, Major County, Oklahoma are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

The municipality is a corporate body for public purposes created under Title II of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The general operating authority for the municipality is the Oklahoma Municipal Code contained in Title II, Oklahoma Statutes. The governing body of the municipality is the Board of Trustees composed of elected members. The mayor is the executive officer of the municipality.

The Town's financial reporting entity includes two separate legal entities reported as the primary government.

The Town of Cleo Springs - that operates the public safety, streets, health and welfare, culture and recreation, and administrative activities.

The Cleo Springs Public Works Authority - that operates the water, sewer, and sanitation services of the Town through a public trust of which the Town is the beneficiary. The Town Council serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the City Council.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Council Statement No. 14, as amended by Statement No. 61, The Financial Reporting Entity, and includes all component units for which the Town is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. The Town, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Government-Wide Financial Statements:

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted only for certain modifications stated below that have substantial support in generally accepted accounting principles (GAAP). These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- utility deposit liabilities

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

In addition, due to the use of this modified cash basis of accounting, capital asset and long-term debt transactions are excluded from reporting within the financial statements. Capital assets are expensed when purchased and long-term debts are reported as cash receipts when issued and received.

Fund Accounting

The Town uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain town functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

Fund Description

The following funds are utilized by the Town of Cleo Springs, Oklahoma.

<u>Governmental Fund Types</u>	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>
General Fund (Major)	Public Works Authority (Major)	Service Contract Fund
Special Revenue Funds		

Governmental funds

The General Fund accounts for all financial transactions not accounted for in any other fund. The revenues include taxes, utility collections, fees, licenses and permits, fines and forfeits, etc. Expenditures are for personal services, maintenance and operations and capital outlay. The primary revenue source is utility service collections.

Special Revenue Funds

Special Revenue Funds are funds which must be spent in accordance with special regulations and restrictions. There are major classifications to account for operating funds for which the use of revenues is restricted or designated by outside sources. The Town's Special Revenue Funds are the Street and Alley, Volunteer Fire Department and Park and Recreation Funds.

Proprietary Fund

The Town's proprietary fund is comprised of the following:

Cleo Springs Public Works Authority: • accounts for the operation of the water and sewer activities.

The proprietary fund is reported on a modified cash basis, as defined above, and current financial resources measurement focus.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Fiduciary Fund

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Town. When these assets are held under the terms of a formal trust agreement, either a permanent fund or an expendable trust fund is used. The terms "permanent" and "expendable" refer to whether or not the Town is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the Town holds on behalf of others as their agent and do not involve measurement of results of operations.

Permanent Fund

Service Contract Fund

Fund Balance and Net Position Classification

Fund Statements

Governmental Funds

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amount for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Town has classified Street and Alley revenue as being restricted because the use is restricted by State Statute. Debt service resources are to be used for future servicing of the general obligation bonds and are restricted through debt covenants. Capital project revenue from bond proceeds is restricted by State Statute and is legally segregated for funding of voter approved uses.

Fund Statements (continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other government fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Government-Wide Statements

Net Position:

Net position is displayed in two components:

- a. Restricted net position - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In addition, the Town has restricted net position for streets.

It is the Town's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position elements are available.

C. Internal and Interfund Balances and Transfers

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

D. Basis of Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements, made, regardless of the measurement focus made.

All governmental and fiduciary funds are accounted for using a modified cash basis of accounting. Revenues, except for certain grant revenues, are recognized when they are received rather than earned. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized when the grant expenditure is made. Under this modified cash basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred.

The Town of Cleo Springs, Oklahoma utilizes an appropriated budget system of accounting. This system has an approved budget appropriation for its General Fund. All expenditures are recorded against the appropriation on a ledger by classification.

E. Budgets and Budgetary Accounting

The Town is required by state law to prepare an annual budget. The Town must submit a budget by August 22 of each year according to Oklahoma Statutes, Title 68, Section 3002. The budget amount for the Town is the appropriated balance approved by the County Excise Board. The budget, as set by the governing board, constitutes the maximum funds that may be spent during the fiscal year by any department of the local government required to appropriate funds. The budget includes revenues which are collected by the Town or transfers into a specific fund from another fund. The Town's budget does not include an ad valorem tax levy.

A budget is legally adopted by the Board of Trustees for the General Fund that includes revenues and expenditures.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the Town.

The unencumbered balance of current fiscal year appropriations and the unexpended reserve appropriations of the previous fiscal year are lapsed and become a part of the beginning fund balance for the succeeding fiscal year.

F. Assets, Liabilities and Fund Equity

Cash, Cash Equivalents and Investments

All monies which are not invested in Certificate of Deposits are maintained in NOW Checking Accounts or Savings Accounts.

Safeguard of Deposits and Investments

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Oklahoma and its agencies that have a market value of not less than the principal amount of the deposits. The Town Treasurer is responsible for maintaining adequate coverage of all funds on deposit through security pledges approved by the Treasurer of the State of Oklahoma.

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- (C) Uncollateralized.

	<u>Category</u>			<u>Bank Balance</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	
Cash/Investments	\$ <u>250,000.00</u>	\$ <u>93,779.96</u>	\$ <u>0.00</u>	\$ <u>343,779.96</u>

Fixed Assets and Property, Plant and Equipment

Property and equipment purchases are recorded as capital outlays in the accompanying statements of revenues, expenditures and changes in fund balances. The Town does not maintain complete financial records of capital assets purchased which would include depreciation schedules.

Property Tax

The Town's property tax is levied each October 1, on the assessed value listed as of January 1, of the same year for all real and personal property located in the Town, except certain exempt property. Assessed values are established by the Oklahoma Tax Commission and the State Equalization Board. A revaluation of all property is required once every five (5) years.

The Town does not have a millage levy for the General Fund for the 2013-14 period.

Compensated Absences

The Town does not have a policy which would allow vacation leave or sick pay benefits to accrue to employees past the current year. Therefore, no liability is recorded in the accompanying financial statements for compensated absences.

Operating Leases

The Town had no operating leases during the current fiscal year; therefore, no liability is recorded in the accompanying financial statements.

2. Risk Management

Liability Protection Plan

The Town's Commercial Liability Insurance agreements cover claims against municipalities for all government functions, utilities, and services. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the State tort claims law and federal civil rights laws.

All public officials, employees, services, and municipal functions are covered unless they are specifically listed

The titles to all assets acquired by the Plan are vested in the Group. In the event of termination of the Group, such property shall belong to the then members of the Group in equal shares. Each participating Town pays all cost, premiums, or other fees attributable to its respective participation in the Plan, and is responsible for its obligation under any contract entered into with the Plan.

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for excess losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

Surety Bonds

The Town is bonded with the Public Official Position Schedule Bond thru Western Surety Company for the Position of Treasurer Clerk in the amount of \$25,000.00 and the Position of Deputy Clerk in the amount of \$5000.00. The bond number is 18261713, dated November 21, 1990 and is renewed annually.

The Public Works Authority Treasurer is bonded with the Public Official Position Schedule Bond thru Western Surety Company in the amount of \$50,000.00. The bond number is 18262760, dated December 11, 1990 and is renewed annually.

3. Consumers and Service Rates

Average Number of Consumers for Audit Period:

Residential	200
Commercial	7
Churches	4
Schools	<u>1</u>
Total Consumers	212

Monthly Service Rates:

Water- Inside Residents-	\$ 19.25 Minimum charge up to 2,000 gallons 1.50 Per each additional 1,000 gallons up to 23,000 gallons 1.70 Per each additional 1,000 gallons over 23,000 gallons
Outside Residents-	\$ 29.25 For first 5,000 gallons 2.00 Per each additional 1,000 gallons up to 25,000 gallons 2.25 Per each additional 1,000 gallons over 25,000 gallons
Sewer-	\$ 10.75 Per month minimum for first 2,000 gallons .75 Per 1,000 gallons thereafter
Sanitation-	\$ 15.00 Per month
Scale Fee-	\$.25 Per month
Deposits-	\$100.00 Water/Sewer

4. Employee Retirement Plans

The Town of Cleo Springs participates in two pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) - a statewide cost-sharing plan
2. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) - an agent multiple-employer defined contribution plan.

OFPRS Description of Plan

Only the Town's volunteer firemen are covered by a pension plan. This noncontributory plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS).

The Oklahoma Firefighters Pension and Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

Funding Policy

The Town is required to make annual contributions of \$60.00 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer fireman. Additional funding comes from a percentage of all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma. The annual contribution payment plan was changed from a fiscal year to a calendar year basis in January, 2013, therefore showing an excess contribution during the 2013 Fiscal Year. The Town's contributions to OFPRS were \$720.00 for 2012, \$2,040.00 for 2013 and \$960.00 for 2014.

OMRF Description of Plan:

The Town provides a defined contribution plan and trust known as the Town of Cleo Springs Plan and Trust (the "OMRF Plan") in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available to all full-time employees. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by J.P. Morgan Chase as authorized by Town ordinance. The defined contribution plan is mandatory to all full-time employees who are not already participating in another plan. The employee contributes to the Plan an amount up to 3.25% of their gross wages. The Town as employer, contributes a match amount up to 13.26% of the employee contribution. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited may be used to reduce the Town's current-period contribution requirements. The authority to amend the provisions of the plan rests with the Town Council. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan and may be obtained from their offices at 525 Central Park Drive, Ste. 320, Oklahoma City, OK 73105 or by calling 1-888-394-6673.

The Town's OMRF contributions were \$7,025.00 for 2012, \$6,342.00 for 2013 and \$6,468.00 for 2014.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

5. Workers' Compensation Plan

The Town participates in the Oklahoma Municipal Assurance Group (OMAG) Workers' Compensation Plan (the Plan). The Plan became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing and legal defense of any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 am July 1 in any year and ends at midnight June 30 of the following year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

Workers' Compensation Plan (continued)

Plan Participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any loss funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the Plan. Town funds on deposit with OMAG at year end June 30, 2013 were \$4,194.00.

6. Contingencies

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

7. Subsequent Events

Management has evaluated subsequent events through December 4, 2014, which is the date the financial statements were available to be issued.

8. Town Cemetery

The Town of Cleo Springs owns a parcel of land which was deeded to the Town in 1902 by an individual identified as Mr. Winters. The Town does not operate the cemetery and no accounting of revenues or expenses is maintained by the Town. A Cemetery Board is identified and appointed by the Town's people and is approved by the Town Board of Cleo Springs. At the present time the Town leases this parcel to the Cemetery Board at \$1.00 per year under a Lease Agreement and Operation and Maintenance Contract. The terms of the lease identify a ten (10) year period commencing June 5, 2002 and ending June 30, 2012. The lease shall automatically renew of an additional ten (10) years unless prior action is taken by the Town Board and the Cemetery Board at least thirty (30) days prior to the renewal date.

10. Municipal Sales Tax

The Town of Cleo Springs receives revenue from a one cent (.01) municipal sales tax on a monthly basis. The sales tax is distributed equally between the Town General, Street and Alley and Volunteer Fire Department Funds.

SUPPLEMENTAL INFORMATION

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND FUND
 BALANCES - BUDGET AND ACTUAL - MODIFIED
 CASH BASIS - GENERAL FUND ONLY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE <UNFAVORABLE>
REVENUES:				
Taxes	\$36,300.00	\$36,300.00	\$51,843.83	\$15,543.83
Services	31,000.00	31,000.00	36,138.30	5,138.30
Rentals, Royalties & Other	500.00	500.00	12,816.84	12,316.84
Police Fines & Permits	0.00	0.00	2,504.00	2,504.00
TOTAL	67,800.00	67,800.00	103,302.97	35,502.97
EXPENDITURES:				
Personal Services	40,000.00	40,000.00	17,705.18	22,294.82
Maintenance & Operation	129,840.54	129,840.54	34,070.06	95,770.48
Capital Outlay	2,500.00	2,500.00	0.00	2,500.00
Sanitation	42,000.00	42,000.00	32,877.56	9,122.44
Bank Fees	0.00	0.00	0.00	0.00
TOTAL	214,340.54	214,340.54	84,652.80	129,687.74
Excess of Revenues Over/ <Under> Expenditures	(146,540.54)	(146,540.54)	18,650.17	165,190.71
Balance at 7/01/13	146,540.54	146,540.54	146,540.54	0.00
Balance at 6/30/14	\$0.00	\$0.00	\$165,190.71	\$165,190.71

Notes to Required Supplemental Information-Budgetary Comparison Schedule

Budgetary Accounting

The Town prepares its budget for the General Fund on the modified cash basis of accounting described in Note 1 to the Financial Statements. This basis is consistent with the basis of accounting used in presenting the General Fund in the financial statements. The Town utilizes an appropriated budgetary system and all unexpended appropriations lapse at year end.

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 OTHER GOVERNMENTAL FUNDS
 AS OF JUNE 30, 2014

	VOLUNTEER FIRE DEPARTMENT FUND	PARK AND RECREATION FUND	OTHER FUND	TOTAL OTHER GOVERNMENTAL FUNDS
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$71,525.08	\$3,347.97	\$0.00	\$74,873.05
Investments	0.00	0.00	0.00	0.00
TOTAL ASSETS	\$71,525.08	\$3,347.97	\$0.00	\$74,873.05
<u>LIABILITIES AND FUND BALANCES:</u>				
Liabilities-				
Accounts Payable	\$0.00	\$0.00	\$0.00	\$0.00
Total Liabilities (Note 2)	0.00	0.00	0.00	0.00
Fund Balances-				
Restricted	71,525.08	3,347.97	0.00	74,873.05
Committed	0.00	0.00	0.00	0.00
Assigned	0.00	0.00	0.00	0.00
Unassigned	0.00	0.00	0.00	0.00
Total Fund Balances	71,525.08	3,347.97	0.00	74,873.05
TOTAL LIABILITIES AND FUND BALANCES	\$71,525.08	\$3,347.97	\$0.00	\$74,873.05

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

TOWN OF CLEO SPRINGS
 MAJOR COUNTY - OKLAHOMA
 COMBING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 OTHER GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	VOLUNTEER FIRE DEPARTMENT FUND	PARK AND RECREATION FUND	OTHER FUND	TOTAL OTHER GOVERNMENTAL FUNDS
CASH RECEIPTS:				
Services	\$5,457.00	\$180.00	\$0.00	\$5,637.00
Taxes	31,552.27	0.00	0.00	31,552.27
Fines, Penalties & Permits	0.00	0.00	0.00	0.00
Interest Earned	57.71	0.00	0.00	57.71
Royalties, Rents & Other	4,655.00	0.00	0.00	4,655.00
Intergovernmental	4,473.98	0.00	0.00	4,473.98
Total Cash Receipts	46,195.96	180.00	0.00	46,375.96
CASH DISBURSEMENTS:				
Current-				
General Government	0.00	0.00	0.00	0.00
Public Safety	20,876.23	0.00	0.00	20,876.23
Public Works	0.00	0.00	0.00	0.00
Culture and Recreation	0.00	0.00	0.00	0.00
Capital Outlay	0.00	0.00	0.00	0.00
Total Cash Disbursements	20,876.23	0.00	0.00	20,876.23
Net Change in Fund Balances	25,319.73	180.00	0.00	25,499.73
Fund Balance - beginning	46,205.35	3,167.97	0.00	49,373.32
Fund Balance - ending	\$71,525.08	\$3,347.97	\$0.00	\$74,873.05

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

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

The Honorable Mayor and Board of Trustees
Town of Cleo Springs
Major County, Oklahoma

I 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-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Cleo Springs, Major County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the Town's basic financial statements-modified cash basis and have issued my report thereon dated December 4, 2014. As described in Note 1D, the Town has elected to report on a modified cash basis of accounting, which is a 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, I considered the Town's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 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 deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

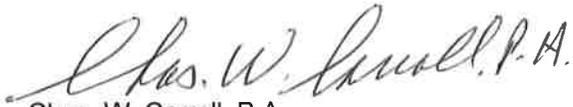
However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting as item 14-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the federal awarding agencies and pass-through entities, management, others within the organization, and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Chas. W. Carroll, P.A.".

Chas. W. Carroll, P.A.
December 4, 2014

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

DISPOSITION OF PRIOR YEAR FINDINGS
JUNE 30, 2014

13-01 Lack of Segregation of Duties

The finding that inherent limitations resulting from a small number of employees performing functions, which would normally be divided among a larger number of employees, prevented a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls continued in the current fiscal year.

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

SCHEDULE OF FINDINGS
JUNE 30, 2014

Section 1 – Findings related to the financial statements required to be reported in accordance with GAGAS.

14-01 Lack of Segregation of Duties

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: Due to its limited population, the Town employs one individual who is responsible for certain duties that are incompatible with the objectives of effective internal control.

Cause: The Town's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk increases that errors, fraud or illegal acts could occur and not be detected within a timely basis. For example, employees with access to cash and access to the accounting records could misappropriate cash and conceal the misappropriation through improper accounting entries or adjustment.

Recommendation and Benefit: Efficient segregation of duties is difficult in a small environment; however, this segregation of duties is an important one to seriously consider. We recommend the Town assess the feasibility of segregating the cash collection duties from those of posting and adjusting customer accounts and posting to the accounting ledgers, to the extent reasonably possible. The Town may want to consider the use of volunteer assistance on a monthly basis for the reconciliation duties to segregate those activities from asset custody and bookkeeping. Such duties segregation will significantly reduce the risk of undetected errors, fraud or illegal acts.

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

SCHEDULE OF OTHER MATTERS
JUNE 30, 2014

No other matters were reported.

TOWN OF CLEO SPRINGS
CLEO SPRINGS PUBLIC WORKS AUTHORITY
MAJOR COUNTY – OKLAHOMA
JULY 1, 2013 TO JUNE 30, 2014

SCHEDULE OF OTHER MATTERS – PRIOR YEAR
JUNE 30, 2014

All other matters of the prior year have since been resolved unless they are presented in the current year Schedule of Other Matters followed by "A similar exception was presented in the Schedule of Other Matters in the previous year audit report".