
THE TOWN OF JONES CITY
(Including the Jones City Public Works Authority)

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Jones City, Oklahoma

Report on Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Jones City, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; 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

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 *Governmental 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 in the first paragraph present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the Town of Jones City, Oklahoma, as of June 30, 2017, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 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. Our opinions are not modified with respect to this matter.


Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Town of Jones City's basic financial statements. The budgetary comparison schedule on page 24 and the schedule of expenditures of state awards on page 25, 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, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2018, on our consideration of the internal control over financial reporting of the Town of Jones City 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 the 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 of Jones City's internal control over financial reporting and compliance.



, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
July 2, 2018

THE TOWN OF JONES CITY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2017

	Governmental Activities	Business-type Activities	Total 2017
ASSETS			
Current Assets			
Cash and demand deposits	14,168	305,624	319,792
Restricted cash	221,321	43,175	264,496
Prepaid expenses	0	595	595
Internal balances	(39,004)	39,004	0
Total current assets	196,485	388,398	584,883
Noncurrent Assets			
Depreciable property and equipment	3,002,273	3,919,833	6,922,106
Accumulated depreciation	(1,039,447)	(2,425,076)	(3,464,523)
Land	68,000	0	68,000
Construction in progress	1,419,583	47,488	1,467,071
Total noncurrent assets	3,450,409	1,542,245	4,992,654
TOTAL ASSETS	3,646,894	1,930,643	5,577,537
LIABILITIES			
Current Liabilities			
Payroll withholding payable	5,512	0	5,512
Current portion of capital leases	63,835	9,077	72,912
Current portion of notes payable	0	64,700	64,700
Total current liabilities	69,347	73,777	143,124
Noncurrent Liabilities			
Meter deposits refundable	0	43,175	43,175
Capital leases, less current portion	293,063	0	293,063
Notes payable, less current portion	0	331,002	331,002
Total noncurrent liabilities	293,063	374,177	667,240
TOTAL LIABILITIES	362,410	447,954	810,364
NET POSITION			
Net investment in capital assets	3,093,511	1,533,168	4,626,679
Restricted for:			
Debt	147,186	0	147,186
Capital improvements	47,381	0	47,381
Capital outlay	19,433	0	19,433
Splash pad	7,322	0	7,322
Unrestricted	(30,348)	(50,479)	(80,827)
TOTAL NET POSITION	\$3,284,485	\$1,482,689	\$4,767,174

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total 2017
Governmental activities:							
General government	(235,735)	0	3,335	158	(232,242)	0	(232,242)
Community building department	(18,969)	2,663	0	0	(16,306)	0	(16,306)
Code enforcement	(34,094)	32,003	0	0	(2,091)	0	(2,091)
Police department	(491,687)	115,129	6,040	0	(370,518)	0	(370,518)
Fire department*	(138,067)	2,435	6,845	23,817	(104,970)	0	(104,970)
Library department	(4,033)	0	0	277,392	273,359	0	273,359
Park department**	(66,833)	0	0	3,000	(63,833)	0	(63,833)
Street department	(106,534)	0	28,299	0	(78,235)	0	(78,235)
Total governmental activities	(1,095,952)	152,230	44,519	304,367	(594,836)	0	(594,836)
Business-type activities:							
Sewer department	(268,555)	137,497	0	0	0	(131,058)	(131,058)
Trash department	(243,366)	323,870	0	0	0	80,504	80,504
Water department	(192,733)	175,959	0	0	0	(16,774)	(16,774)
Gas department	(350,642)	328,402	0	0	0	(22,240)	(22,240)
Total business-type activities	(1,055,296)	965,728	0	0	0	(89,568)	(89,568)
Total all activities	(2,151,248)	1,117,958	44,519	304,367	(594,836)	(89,568)	(684,404)
General revenues:							
Taxes:							
					603,661	0	603,661
					178,510	0	178,510
					69,447	0	69,447
					6,259	67,537	73,796
					306	127	433
					0	12,394	12,394
					345,900	(345,900)	0
					1,204,083	(265,842)	938,241
					609,247	(355,410)	253,837
					2,675,238	1,838,099	4,513,337
					\$3,284,485	\$1,482,689	\$4,767,174

* Interest expense of \$9,816 is included in the fire department

** Interest expense of \$5,862 is included in the park department

*** Interest expense of \$1,548 is included in each of the sewer, trash, water, and gas departments

**THE TOWN OF JONES CITY
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General Fund</u>
ASSETS	
Cash and demand deposits	14,168
Restricted cash	<u>221,321</u>
TOTAL ASSETS	235,489
LIABILITIES	
Payroll withholding payable	5,512
Due to other funds	<u>39,004</u>
TOTAL LIABILITIES	44,516
FUND BALANCE	
Restricted for:	
Debt	147,186
Capital improvements	47,381
Capital outlay	19,433
Splash pad	7,322
Unassigned	<u>(30,349)</u>
TOTAL FUND BALANCE	<u>190,973</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$235,489</u>

Reconciliation of fund balance to net position of governmental activities:

Fund balance	190,973
Depreciable capital assets	3,002,273
Accumulated depreciation	(1,039,446)
Land	68,000
Construction in progress	1,419,583
Capital lease payable	<u>(356,898)</u>
Net position	<u>\$3,284,485</u>

**THE TOWN OF JONES CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>
REVENUES	
Sales and use taxes	603,661
Sales taxes - restricted	178,510
Franchise taxes	69,447
Shared taxes	32,940
Fines and forfeitures	114,928
Licenses, permits, inspections	32,003
Rental revenues	2,663
Donations	316,710
Grants	3,817
Other revenues	4,313
Interest	306
TOTAL REVENUES	<u>1,359,298</u>
EXPENDITURES	
General government	219,349
Community building	12,088
Code enforcement	34,094
Police department	463,162
Fire department	82,827
Library department	4,033
Park department	36,074
Street department	75,982
Debt service	77,093
Capital outlay	724,623
TOTAL EXPENDITURES	<u>1,729,325</u>
REVENUES OVER (UNDER) EXPENDITURES	(370,027)
OTHER FINANCING SOURCES (USES)	
Transfers-in (out)	345,900
TOTAL OTHER FINANCING SOURCES (USES)	<u>345,900</u>
NET CHANGE IN FUND BALANCES	(24,127)
BEGINNING FUND BALANCE	215,100
ENDING FUND BALANCE	<u><u>\$190,973</u></u>
Reconciliation of net change in fund balance to change in net position of governmental activities:	
Net change in fund balances - governmental funds	(24,127)
Capital asset purchases capitalized	724,624
Depreciation expense	(152,665)
Principal payments on capital leases	61,415
Change in Net Position of Governmental Activities	<u><u>\$609,247</u></u>

The accompanying notes are an integral part of these financial statements

THE TOWN OF JONES CITY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2017

	<u>Jones City Public Works Authority</u>
ASSETS	
Current Assets	
Cash and demand deposits	305,624
Restricted cash	43,175
Prepaid expenses	595
Due from other funds	39,004
Total current assets	<u>388,398</u>
Noncurrent Assets	
Depreciable property and equipment	3,919,833
Accumulated depreciation	(2,425,076)
Construction in progress	47,488
Total noncurrent assets	<u>1,542,245</u>
TOTAL ASSETS	<u><u>1,930,643</u></u>
LIABILITIES	
Current Liabilities	
Current portion of capital leases	9,077
Current portion of notes payable	64,700
Total current liabilities	<u>73,777</u>
Noncurrent Liabilities	
Meter deposits refundable	43,175
Capital leases, less current portion	0
Notes payable, less current portion	331,002
Total noncurrent liabilities	<u>374,177</u>
TOTAL LIABILITIES	<u>447,954</u>
NET POSITION	
Net investment in capital assets	1,477,545
Unrestricted	5,144
TOTAL NET POSITION	<u><u>\$1,482,689</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Jones City Public Works Authority</u>
OPERATING REVENUES	
Sewer revenues	137,497
Trash revenues	323,870
Water revenues	175,959
Gas revenues	328,402
Late fees	18,761
Other income	<u>48,776</u>
TOTAL OPERATING REVENUES	1,033,265
OPERATING EXPENSES	
Administration	100,535
Sewer department	208,074
Storm water department	33,799
Trash department	216,684
Water department	166,051
Gas department	<u>323,961</u>
TOTAL OPERATING EXPENSES	1,049,104
OPERATING INCOME	(15,839)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	127
Interest expense	(6,192)
Gain on sale of capital assets	<u>12,394</u>
NET NON-OPERATING REVENUES (EXPENSES)	6,329
INCOME BEFORE TRANSFERS	(9,510)
TRANSFERS	
Transfers-in (out)	<u>(345,900)</u>
CHANGE IN NET POSITION	(355,410)
BEGINNING NET POSITION	<u>1,838,099</u>
ENDING NET POSITION	<u><u>\$1,482,689</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF JONES CITY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Public Works Authority</u>
Cash flows from operations:	
Cash received from:	
Customers	1,033,265
Cash payments for:	
Goods and services	(633,735)
Employees	<u>(283,803)</u>
Net cash provided from operations	115,727
Cash flows from capital financing activities:	
Library transfers	(476,167)
Loan proceeds	439,624
Debt service transfers	109,023
Principal payments	(102,831)
Interest payments	(6,192)
Purchases of capital assets	<u>(55,235)</u>
Net cash from capital financing activities	(91,778)
Cash flows from non-capital financing activities:	
Interfund transfers	42,500
Sale of capital assets	<u>175,164</u>
Net cash from non-capital financing activities	217,664
Cash flows from investing activities:	
Interest income	<u>127</u>
Net cash from investing activities	<u>127</u>
Net (decrease) in cash	<u>241,740</u>
Beginning cash	<u>63,884</u>
Ending cash	<u><u>\$305,624</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income	(15,839)
Adjustments to income from operations:	
Depreciation	131,566
Change in assets and liabilities:	
(Increase) decrease in prepaid expenses	9,128
(Increase) decrease in due from other funds	<u>(9,128)</u>
Net cash provided by operations	<u><u>\$115,727</u></u>

The accompanying notes are an integral part of these financial statements

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies

1A. Introduction

The Town's financial statements are prepared using the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). 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. Generally, that means that only items arising from cash transactions are recorded. Accounts receivable and accounts payable, for instance, are not recorded.

1B. Financial Reporting Entity

The Town of Jones City, Oklahoma, was incorporated January 4, 1909, under the laws of the State of Oklahoma. The Town of Jones City (Town) operates under the Statutory Town Board of Trustees form of government and provides the following major services: public safety, streets, public improvements, planning and zoning, and general administration. Sewer, trash, water, and gas utilities are provided by the Town's public works authority.

1B1. Blended Component Units

The Jones City Public Works Authority (JCPWA) was established to finance, establish, and operate utility services for the citizens of the Town. JCPWA is a legally separate entity from the Town and is governed by the same board of trustees that governs the Town. For financial reporting purposes, the JCPWA is reported as if it were part of the Town's operations. The JCPWA does not present separate financial statements.

1C. Basis of Presentation

1C1. Fund Accounting

The Town uses fund accounting to maintain its financial records. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, equity, revenues and expenditures/expenses. The Town's funds are organized into two categories: governmental and proprietary. Within these categories, funds are further defined as major or non-major. The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories as defined by GASB 34. The Town has one governmental fund and one business-type fund.

1C2. Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Measurement focus is a term used to describe which transactions are recorded.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

1C2a. Modified Cash Basis of Accounting

The modified cash basis of accounting is a comprehensive basis of accounting other than GAAP, and is a modification of the pure cash basis of accounting. Professional standards define the cash basis of accounting *as a basis of accounting an entity uses to record cash receipts and disbursements, and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets.)* Although the modified cash basis of accounting is not separately defined by professional standards, the modifications to the cash basis have evolved over time through common practice, and generally result when cash receipts or disbursements provide a benefit or obligation covering multiple reporting periods, and the reporting of the cash transaction would be more meaningful to financial statement users if spread over those multiple periods.

For modifications to be considered to have substantial support, they should:

1. be made as a result of cash receipts or disbursements;
2. have substantial support in GAAP or other accounting literature; and
3. be logical.

1C3. Government-wide Financial Statements

The government-wide financial statements are highly aggregated financial statements that present financial information for all assets, deferred outflows, liabilities, deferred inflows, and net assets using the economic resources measurement focus within the limitations of the modified cash basis of accounting. This means that revenues are recorded when received and expenses, with the exception of capitalizing and depreciating capital assets, are recorded when paid. The government-wide financial statements required are the statement of net assets and the statement of activities. These financial statements are designed to help users assess the finances of a government in its entirety, including the year's operating results; determine whether the government's overall financial position improved or deteriorated; and evaluate whether the government's current-year revenues were sufficient to pay for current year services. They are also designed to help users assess the cost of providing services to its citizenry; determine how the government finances its programs; understand the extent to which the government has invested in capital assets; and make better comparisons between governments.

1C4. Governmental Fund Financial Statements

The general fund of the Town is a governmental fund. The governmental fund financial statements focus primarily on the sources, uses, and balances of current financial resources. They are presented using the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenditures are recorded when paid. The financial statements required for governmental funds are the balance sheet and the statement of revenues, expenditures, and changes in fund balance. The governmental fund balance sheet does not present capital assets or long-term liabilities. Instead, the statement of revenues, expenditures and changes in fund balance reports the financial resource inflows and outflows arising from the disposition and acquisition of capital assets, the issuance and repayment of long-term debt, and maturation of non-debt long-term liabilities. Capital assets and long-term liabilities associated with and generally arising from activities reported in governmental funds are reported only in the government-wide financial statements.

1C5. Proprietary Fund Financial Statements

The utility fund of the Town is a proprietary fund. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting, the objectives of which involves the determination of operating income, changes in net position, net position, and cash flows. The

**The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017**

accounting principles applicable are those similar to businesses in the private sector. The Town maintains one proprietary fund, which is an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

1D. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statement of cash flows are defined as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1E. Deposits and Investments

The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed. However, it is the policy of the governing body to require deposits in excess of FDIC limits to be collateralized as required by Oklahoma Statutes.

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

1F. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

1G. Capital Assets

Capital assets purchased or acquired with an original cost of \$3,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Vehicles and equipment	5 to 25 years
Infrastructure	25 to 40 years

GASB-34 required the Town to report and depreciate new infrastructure assets effective with the 2004 year. Infrastructure assets include roads, sidewalks, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has been reported in the financial statements. Retroactive reporting is not required.

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

Since management did not maintain sufficient financial records to adequately support the valuation of capital assets prior to July 1, 2008, the cost of significant capital assets purchased or constructed prior to July 1, 2008, is estimated based on the recollection of past board members and current employees.

1H. Equity Classifications

In the government-wide statements, equity is classified as net position and reported in three components as follows:

1. Net investment in capital assets – Capital assets, net of accumulated depreciation, are reduced by the outstanding balances of any debt attributable to their acquisition, construction, or improvement.
2. Restricted – Net assets that have had constraints placed upon them either by external sources such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted – All other net assets that do not meet the definition of the previous two classifications.

In the fund financial statements, governmental fund equity is classified as fund balance and reported as needed in five components as follows:

1. Nonspendable – amounts not in a spendable form, or legally or contractually required to be maintained intact.
2. Restricted – constraints placed on fund balance are externally imposed by creditors, grantors, or other governments; or are imposed by law through constitutional provisions or enabling legislation.
3. Committed – amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision making authority.
4. Assigned – constraints placed on fund balance are imposed by the government's intent that it be used for specific purposes but are neither restricted nor committed. An individual government must define and disclose how it expresses its intent for purposes of making assignments. For the Town, this intent is expressed by a vote of the board of trustees encumbering amounts for assigned purposes.
5. Unassigned – remaining fund balance in excess of all other classifications.

1I. Revenues and Expenditures

Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are nonoperating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

1J. Use of Restricted Resources

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

2. Deposits and Investments

Custodial credit risk relates to deposits that are uninsured and uncollateralized; collateralized with securities held by a pledging financial institution or by its trust department or agent but not in the Town's name; or collateralized without a written or approved collateral agreement. The Town's policy is to comply with state law and secure its uninsured deposits with collateral. The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

At year end, the Town had deposits of \$242,837 that were neither insured nor collateralized.

3. Restricted Cash and Investments

Restricted taxes, as discussed in note 7, and restricted donations, are maintained in separate accounts of the general fund of the Town. Customer meter deposits are maintained in separate accounts of the JCPWA.

4. Capital Assets

Capital asset activity for the year just ended is summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance	Beginning Depreciation	Additions	Disposals	Ending Depreciation	Book Value
Governmental Activities									
Construction in progress	339,431	724,623	0	1,419,583	0	0	0	0	1,419,583
Land	118,000	0	0	68,000	0	0	0	0	68,000
Total non-depreciable	457,431	724,623	0	1,487,583	0	0	0	0	1,487,583
Buildings & bldg equipment	505,549	0	0	415,006	214,918	25,292	0	240,211	174,796
Equipment	793,665	0	0	1,395,475	536,596	91,596	0	628,192	767,284
Roads, bridges, sidewalks	178,163	0	0	1,191,791	135,266	35,778	0	171,044	1,020,747
Total depreciable	1,477,377	0	0	3,002,273	886,781	152,666	0	1,039,446	1,962,826
Total governmental	1,934,809	724,623	0	4,489,855	886,781	152,666	0	1,039,446	3,450,409
Business-type Activities									
Construction in progress	36,597	10,891	0	47,488	0	0	0	0	47,488
Total non-depreciable	36,597	10,891	0	47,488	0	0	0	0	47,488
Buildings & bldg equipment	226,731	0	(146,564)	80,167	66,095	3,329	(8,794)	60,630	19,537
Equipment	364,969	6,475	0	371,444	227,896	27,899	0	255,795	115,649
Utility systems	3,436,823	37,868	(6,470)	3,468,222	2,014,783	100,338	(6,470)	2,108,651	1,359,570
Total depreciable	4,028,524	44,343	(153,034)	3,919,833	2,308,774	131,566	(15,264)	2,425,076	1,494,757
Total business-type	4,065,120	55,235	(153,034)	3,967,321	2,308,774	131,566	(15,264)	2,425,076	1,542,245

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

Depreciation (including amortization of equipment under capital leases) by department is as follows:

Governmental Activities		Business-type Activities	
General government	16,386	Sewer	68,121
Community building	6,881	Water	42,661
Police department	28,525	Gas	20,784
Fire department	45,424		<u>131,566</u>
Park department	24,897		
Street department	<u>30,553</u>		
	<u>152,666</u>		

Capital assets under capital leases	Gross Amount	Accumulated Amortization	Net Amount
Governmental	306,848.00	(30,685.00)	276,163.00
Business-type	31,704.00	(15,852.00)	15,852.00
	<u>338,552.00</u>	<u>(46,537.00)</u>	<u>292,015.00</u>

5. Capital Leases

Capital leases outstanding at June 30, 2017, consisted of the following:

Fund		Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Governmental	Tanker	3.720%	02/14/2025	306,848	245,471	Tanker truck
Governmental	Lights	4.022%	12/22/2019	178,715	111,427	Lights
Business-type	Truck	3.000%	04/14/2018	31,704	9,077	Truck

Long-term capital lease activity for the year ended June 30, 2017, was as follows:

Fund	Capital Leases	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental	Fire truck	272,579	0	(27,108)	245,471	28,148
Governmental	Ballfield lights	145,734	0	(34,307)	111,427	35,687
	Total	<u>418,313</u>	<u>0</u>	<u>(61,415)</u>	<u>356,898</u>	<u>63,835</u>
Proprietary	Truck	19,704	0	(10,627)	9,077	9,077
Proprietary	Backhoe	2,282	0	(2,282)	0	0
		<u>21,986</u>	<u>0</u>	<u>(12,909)</u>	<u>9,077</u>	<u>9,077</u>

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

Capital lease payment requirements to maturity are as follows:

Governmental	Principal	Interest	Business-Type	Principal	Interest
2018	63,835	13,258		9,077	125
2019	66,351	10,742		0	0
2020	68,948	8,145		0	0
2021	31,514	5,410		0	0
2022	32,723	4,201		0	0
2023-2025	93,528	2,945		0	0
	<u>\$356,898</u>	<u>\$44,702</u>		<u>\$9,077</u>	<u>\$125</u>

6. Notes Payable

Notes outstanding at June 30, 2017, consisted of the following:

Fund		Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Proprietary	Library building	Variable *	01/01/2023	484,624	395,702	Building and 1% sales tax
* Interest rate is 2.25% until June 1, 2017; then is a fixed rate equal to the then 5-year constant maturity treasury (CMT) plus 250 basis points to be reset on June 1 of 2017, 2022, and 2027. June 1, 2017 the rate changed to 4.26%						

Long-term debt activity for the year ended June 30, 2017, was as follows:

Fund	Notes Payable	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Proprietary	Library building	45,000	439,624	(88,921)	395,703	64,700
* The note is for \$900,000, but only \$484,624 has been drawn down. The Town is working with the bank to revise the amortization schedule for the original 11 year term since the whole amount was not needed.						

Loan payments to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	64,700	15,604
2019	67,600	12,793
2020	70,800	9,850
2021	74,100	6,771
2022	77,400	3,550
2023	41,102	526
	<u>395,702</u>	<u>49,094</u>

**The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017**

7. Restricted Taxes

1 cent of the 4-cent sales tax of the town is restricted as follows: 60% for the payment of long-term debt; 20% for capital improvements of the Town and the JCPWA; and 20% for capital outlay for the Town and JCPWA.

8. Pension Plans

Defined Benefit Pension Plans

Oklahoma Firefighters Pension and Retirement System – Defined Benefit Pension Plan

Plan Description. The Town contributes to the Oklahoma Firefighters Pension and Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System 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 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the Town is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The Town's required contribution to the System for the years ended June 30, 2017, 2016, and 2015 were \$1,080, \$1,080 and \$1,080, Those payments have not been made due to a problem with the System not being able to update their firefighter rolls. The payments will be made in 2018 and adjusted in future years as required as the rolls are corrected.

Oklahoma Police Pension and Retirement System - Defined Benefit Pension Plan

Plan Description. The city contributes to the Oklahoma Police Pension and Retirement System (OPPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OPPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The OPPRS 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 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city and employee contributions to OPPRS for 2017, 2016 and 2015 were as follows: \$31,259, \$28,951 and \$27,037; and \$19,236, \$17,816 and \$16,638, equal to the required contributions for each year. Eligible payroll was \$240,456, \$222,697 and \$207,980.

Defined Contribution Pension Plan

The Town employees participate in the Oklahoma Municipal Retirement System as authorized by Town ordinance. Title 11, Oklahoma Statutes 1981, section 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the System to the respective employer entities. All

The Town of Jones City
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2017

full-time and part-time employees of the Town are eligible to participate in the System and full-time employees are fully vested after 10 years. Covered employees are required to contribute from 1% to 4% of their gross payroll which the Town must match. Employee contributions over 4% are optional and are not matched by the Town. The payroll for Town employees for the year was \$584,334. The payroll for Town employees covered by the Fund for the year was \$268,876. Actual Town and employee contributions for the year were \$7,142 each, equal to the required contributions for the year.

9. Inter-fund Transactions

	General Fund	Utility Fund	Net Transfers
Operating	(21,244)	21,244	0
Debt	(109,023)	109,023	0
Capital assets	476,167	(476,167)	0
	<u>345,900</u>	<u>(345,900)</u>	<u>0</u>

	General Fund	Utility Fund	Net Interfund
Operating	(39,004)	39,004	0
Capital assets	0	0	0
	<u>(39,004)</u>	<u>39,004</u>	<u>0</u>

10. Budgets

The board of trustees adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for fund financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used. One budget amendment was approved during the year.

11. Risk Management

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. During the year just ended, no claims were made.

12. Subsequent Events

Management performed an evaluation of the Town's activity through July 2, 2018, the date the audit report was ready to be released and has concluded that there are no significant subsequent events requiring disclosure through that date.

**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 Board of Trustees
The Town of Jones City, Oklahoma

We have audited 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, the modified cash basis financial statements of the governmental activities, the business-type activities, and each fund of the Town of Jones City, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Town of Jones City, and have issued our report thereon, dated July 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the internal control over financial reporting of the Town of Jones City 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 the Town of Jones City's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Jones City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies 2017-1, 2017-2 and 2017-6 described in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider the deficiencies 2017-3, 2017-4, and 2017-5 to be significant deficiencies.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the financial statements of the Town of Jones City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2017-5.

The Town of Jones City's Response to Findings

The Town of Jones City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Jones City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.



Becky Fleming, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
July 2, 2018

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

2017-1 Criteria: Procedures should be established to ensure that the general ledger is reviewed at least monthly for posting errors and inappropriate account balances.

Condition: The general ledger is not being reviewed at least monthly for posting errors and inappropriate account balances.

Cause: There are no established procedures to ensure that the general ledger is reviewed at least monthly for posting errors and inappropriate account balances.

Effect: Because there are no established procedures to ensure that the general ledger is reviewed at least monthly for posting errors and inappropriate account balances, the general ledger contains posting errors and inappropriate account balances, causing the board financial statements to be misstated and town departments to be out of compliance with adopted budgets once the corrections are made.

Recommendation: We recommend that procedures be established to make sure that the general ledger is reviewed at least monthly for posting errors and inappropriate account balances.

Response: We will establish procedures to ensure that the general ledger is reviewed at least monthly for posting errors and inappropriate account balances.

2017-2 Criteria: Procedures should be established to insure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Condition: Capital assets are not being correctly recorded in the general ledger; subsidiary schedules of capital assets are not being adequately maintained; and capital assets are not being reconciled to the general ledger or to insurance policies at least annually.

Cause: There are no established procedures to ensure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Effect: Because there are no established procedures to ensure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that capital assets are reconciled to the general ledger and insurance policies at least annually, errors in either the general ledger, subsidiary schedules, or insurance policies may exist and not be corrected on a timely basis.

Recommendation: We recommend that procedures be established to make sure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Response: We will establish procedures to ensure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained;

and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

2017-3

Criteria: Policies and procedures should be established to ensure that grants are adequately administered; that grant records are adequately maintained; and that grant revenues and expenditures are correctly recorded in the general ledger.

Condition: Grants are not being adequately administered; grant records are not being adequately maintained; and grant revenues and expenditures are not being correctly recorded in the general ledger.

Cause: There are no established policies or procedures to ensure that grants are adequately administered; that grant records are adequately maintained; or that grant revenues and expenditures are correctly recorded in the general ledger.

Effect: Because there are no established policies or procedures to ensure that grants are adequately administered, grant revenues and expenditures are not being correctly recognized in the general ledger and grant records are not organized in a consistent and clear manner.

Recommendation: We recommend that policies and procedures be established to ensure that grants are adequately administered; grant records are adequately maintained; and grant revenues and expenditures are correctly recorded in the general ledger.

Response: We will establish policies and procedures to ensure that grants are adequately administered; grant records are adequately maintained; and that grant revenues and expenditures are correctly recorded in the general ledger.

2017-4

Criteria: Segregation of duties or other compensating procedures to provide oversight and review between those maintaining the general ledger and billing systems, performing reconciliations, or collecting payments should be established to make deliberate fraud more difficult to enact and make it more likely that innocent errors will be found and corrected.

Condition: The same employees maintain the general ledger, billing systems, perform reconciliations, and collect payments, with no compensating procedures to provide for oversight or review of those transactions.

Cause: There is not sufficient segregation of duties between those maintaining the general ledger and billing systems, performing reconciliations, or collecting payments, and no compensating procedures to provide for oversight or review of those transactions.

Effect: Because there is not sufficient segregation of duties between those maintaining the general ledger and billing systems, performing reconciliations, or collecting payments, and no compensating procedures to provide for oversight or review of those transactions, posting or other errors are occurring and not being found and corrected on a timely basis.

Recommendation: We recommend that procedures be established to provide segregation of duties between those maintaining the general ledger and billing systems, performing reconciliations, or collecting payments, or, where that is not possible, establish other compensating procedures to provide for oversight or review of those transactions.

Response: Since we are a small town, we will never be able to have sufficient segregation of duties. However, we are working on allocating office tasks to various personnel in order to develop better reconciling and oversight procedures for our accounting records.

2017-5

Criteria: Procedures should be established to ensure that budget to actual reports are prepared and reviewed at least monthly and that budgets are amended as needed during the year.

Condition: Budget to actual reports are not being prepared and reviewed at least monthly and budgets are not being amended as needed during the year.

Cause: There are no established procedures to ensure that budget to actual reports are prepared and reviewed at least monthly and that budgets are amended as needed during the year.

Effect: Because there are no established procedures to insure budget to actual reports are prepared and reviewed at least monthly, budgets are not being amended as needed during the year.

Recommendation: We recommend that procedures be established to ensure that budget to actual reports are prepared and reviewed at least monthly and that budgets are amended as needed during the year.

Response: We will establish procedures to insure budget to actual reports are prepared and reviewed at least monthly and that budgets are amended as needed during the year.

2017-6

Criteria: Procedures should be established to ensure that restricted sales taxes are accounted for and used in accordance with the ordinances that established them.

Condition: Restricted sales taxes are not always being accounted for or used in accordance with the ordinances that established them.

Cause: There are no established procedures to ensure that restricted sales taxes are accounted for or used in accordance with the ordinances that established them.

Effect: Because there are no established procedures to ensure that restricted sales taxes are accounted for or used in accordance with the ordinances that established them, restricted sales taxes are not always deposited timely into their restricted accounts or used in accordance with the ordinances that established them. In addition, restricted amounts reported in the monthly financial statements are inaccurate and misleading as to the cash balances that are available for restricted and unrestricted purposes which could cause cash flow issues for daily operations.

Recommendation: We recommend that procedures be established to ensure that restricted sales taxes are accounted for and used in accordance with the ordinances that established them.

Response: We will establish procedures to ensure that restricted sales taxes are accounted for and used in accordance with the ordinances that established them.

These are repeat findings.

**THE TOWN OF JONES CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales and use taxes	565,915	603,661	603,661	0
Sales taxes - restricted	168,123	178,510	178,510	0
Franchise taxes	67,223	69,447	69,447	0
Shared taxes	33,637	32,940	32,940	0
Fines and forfeitures	91,553	127,006	114,928	(12,078)
Licenses, permits, inspections	23,540	32,935	32,003	(932)
Rental revenues	0	0	2,663	2,663
Donations	0	272,472	316,710	44,238
Grants	0	0	3,817	3,817
Other revenues	10,797	52,403	4,313	(48,090)
Interest	1,573	306	306	0
TOTAL REVENUES	962,361	1,369,680	1,359,298	(10,382)
EXPENDITURES				
General government	247,624	233,621	219,349	14,272
Community building	5,803	12,088	12,088	0
Code enforcement	0	25,692	34,094	(8,402)
Police department	445,245	471,924	463,162	8,762
Fire department	59,513	92,933	82,827	10,106
Library department	4,104	6,575	4,033	2,542
Park department	28,034	32,963	36,074	(3,111)
Street department	58,222	74,729	75,982	(1,253)
Debt service	113,816	185,216	77,093	108,123
Capital outlay	552,776	711,018	724,623	(13,605)
TOTAL EXPENDITURES	1,515,137	1,846,759	1,729,325	117,434
REVENUES OVER (UNDER) EXPENDITURES	(552,776)	(477,079)	(370,027)	107,052
OTHER FINANCING SOURCES				
Loan proceeds	414,465	439,624	0	439,624
Transfers-in (out)	0	56,899	345,900	289,001
NET OTHER FINANCING SOURCES (USES)	414,465	496,523	345,900	728,625
NET CHANGE IN FUND BALANCES	(138,311)	19,444	(24,127)	(43,571)
BEGINNING FUND BALANCE	215,100	215,100	215,100	0
ENDING FUND BALANCE	\$76,789	\$234,544	\$190,973	(\$43,571)

Notes to the budgetary comparison schedule:

1. The budget is prepared on the modified cash basis.
2. One budget amendment was adopted during the year.

THE TOWN OF JONES CITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017
(Accrual Basis)

STATE GRANTOR/
PASS-THROUGH GRANTOR

<u>PROGRAM TITLE</u>	<u>EXPENSES</u>
Oklahoma Department of Agriculture N/A	
Rural Fire Protection	3,817
TOTAL EXPENDITURES OF STATE AWARDS	<u><u>\$3,817</u></u>