

CITY OF GROVE, OKLAHOMA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
JUNE 30, 2014

CITY OF GROVE, OKLAHOMA
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LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Grove
Grove, OK 74344

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grove, State Oklahoma ("the City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-12 and 39-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have 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 them.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Very truly yours,

A handwritten signature in cursive script that reads "Langley & Littlefield, PLLC".

LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

November 18, 2014

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

The following discussion and analysis of the City of Grove's ("the City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which begin on page 13.

Financial Highlights

- ❖ The assets of the City of Grove exceeded its liabilities at the close of the most recent fiscal year by \$39,307,625 (net assets). Of this amount, \$2,934,010 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$1,728,841 for the year ended June 30, 2014.
- ❖ As of the close of the current fiscal year the City of Grove's governmental funds reported combined ending fund balances of \$3,439, 628 and increase of \$1,457,062 in comparison with the prior year. Approximately \$938,664 is available for spending at the government's discretion (unassigned fund balance).
- ❖ The City's total debt increased by \$4,059,646 during the current fiscal year. The key factors in this increase was the additional draws of an \$8,765,000 note from the Oklahoma Water Resources Board for the expansion/upgrade of the existing Water Treatment Facility and the addition of a Lease/Purchase agreement to purchase a Hyundai Excavator, with offsetting principal payments reducing the balance of existing debt.
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$902,775 or 19.7% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Grove's basic financial statements. The City of Grove's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad view of the City of Grove's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Grove's assets and liabilities with the difference between the two reported as net assets. Over time, de/increases or de/increases in net assets may serve as a useful indicator of whether the financial position of the City of Grove is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Both of the government-wide financial statements distinguish functions of the City of Grove that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Grove include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Grove, which include the City's natural gas, water, wastewater, and sanitation utility operations, include the Grove Municipal Services Authority and the Grove Municipal Airport Managing Authority.

The government-wide financial statements include not only the City of Grove itself (known as the primary government), but also the legally separate authorities (Grove Municipal Services Authority, Grove Municipal Airport Managing Authority, and the Grove Industrial Development Authority) for which the City of Grove is financially accountable. Financial information for these component units is blended with the primary government itself. The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Grove, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Grove can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and capital projects funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds - The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utility services, Economic Development operations and municipal airport operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Grove Municipal Services Authority, the Grove Economic Development Authority and the Grove Municipal Airport Managing Authority, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 18–20 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21–38 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 39-40 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental fund. Combining statements and schedules can be found on pages 41-42 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$39,307,625 at the close of the most recent fiscal year.

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

By far the largest portion of the City's net assets (85%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET POSITION

	Governmental Activities			Business-Type Activities			Total
	2014	2013		2014	2013		
Total assets	\$ 4,020,959	\$ 2,793,810	\$ 5,738,091	\$ 4,978,399	\$ 9,759,050	\$ 7,772,209	
	11,297,365	13,156,764	44,216,039	38,032,088	55,513,404	51,188,852	
	15,318,324	15,950,574	49,954,130	43,010,487	65,272,455	58,961,061	
Total liabilities	629,955	859,025	3,941,790	3,273,559	4,571,744	4,132,584	
	896,661	919,610	20,496,424	16,330,083	21,393,086	17,249,693	
	1,526,616	1,778,635	24,438,214	19,603,642	25,964,830	21,382,277	
Net of related debt	11,093,558	12,870,268	22,702,361	19,557,987	33,795,919	32,428,255	
	2,666,171	1,197,437	-	1,165,464	2,666,171	2,362,901	
	31,979	104,235	2,813,556	2,683,393	2,845,535	2,787,628	
Total net position	\$ 13,791,708	\$ 14,171,940	\$ 25,515,917	\$ 23,406,844	\$ 39,307,625	\$ 37,578,784	

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

An additional portion of the City's net assets (7.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,934,010) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increase by \$1,728,841 during the current fiscal year. This increase resulted from the acquisition of fixed assets, namely the Water Treatment Plant Upgrade/Expansion.

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total
	2014	2013	2014	2013	
Program revenues					
Charges for services	\$ 421,090	\$ 365,273	\$ 9,870,022	\$ 8,873,234	\$ 10,291,112
Capital and other	1,430,915	1,888,614	12,500	30,800	1,443,415
General revenues	6,141,055	6,050,258	1,002,916	962,289	7,143,971
Total revenues	7,993,060	8,304,145	10,885,439	9,866,323	18,878,498
Expenses					
General government/ administration	648,571	2,131,599	-	-	648,571
Public safety	2,575,924	2,099,375	-	-	2,575,924
Public works	2,417,581	1,632,811	-	-	2,417,581
Culture and recreation	599,845	578,013	-	-	599,845
Utilities	-	-	9,706,441	8,593,115	9,706,441
Airport	-	-	778,767	729,169	778,767
Economic Development	-	-	422,527	590,951	422,527
Total expenses	6,241,921	6,441,798	10,907,736	9,913,235	17,149,657
Increase (decrease) in net assets	1,751,139	1,862,347	(22,297)	(46,912)	1,728,842
Transfers, net	(2,131,370)	(488,079)	2,131,370	488,079	-
Increase (decrease) in net assets	(380,231)	1,374,268	2,109,073	441,167	1,728,841
Net assets, beginning, as restated	14,171,939	12,797,693	23,406,844	22,965,677	37,578,783
Net assets, ending	\$ 13,791,708	\$ 14,171,961	\$ 25,515,917	\$ 23,406,844	\$ 39,307,624
					\$ 37,578,805

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

The government's net assets increased by \$1,728,841. The key elements of this increase were the acquisition of fixed assets.

	Governmental Activities			
	Program Revenues		Cost of Services	
	2014	2013	2014	2013
General government	\$ 105,051	\$ 207,685	\$ 648,571	\$ 2,131,599
Public safety	459,441	2,400	2,575,924	2,099,375
Public works	1,287,513	2,041,802	2,417,581	1,632,811
Culture and recreation	-	2,000	599,845	578,013
Total governmental activities	<u>\$ 1,852,005</u>	<u>\$ 2,253,887</u>	<u>\$ 6,241,921</u>	<u>\$ 6,441,798</u>

For the most part, decreases in expenses were because of the tightening of the budget due to revenues not reaching estimates.

Business-type activities - Business-type activities increased the City's net assets by \$547,677.

	Business-type Activities			
	Program Revenues		Cost of Services	
	2014	2013	2014	2013
Gas	\$ 5,704,266	\$ 4,741,046	\$ 3,988,375	\$ 3,146,325
Water	2,559,793	2,618,019	1,589,171	1,569,542
Wastewater	553,183	528,311	1,935,714	1,155,495
Sanitation	517,857	514,662	488,464	478,276
Service charges	42,664	51,385	-	-
Airport	387,129	264,821	778,767	729,169
Administration/other	38,908	92,882	1,704,717	2,243,567
Economic development	78,722	92,908	426,579	590,951
Total governmental activities	<u>\$ 9,882,522</u>	<u>\$ 8,904,034</u>	<u>\$ 10,911,787</u>	<u>\$ 9,913,325</u>

Increases in program revenues of \$978,488 were due to an increase in natural gas revenues. Increase in costs of \$998,462 had to do with the increases in natural gas purchases, as well as increased interest expense and depreciation expense.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,351,153, an increase of \$1,368,587 in comparison with the prior year. Approximately 27% of this total amount (\$902,775) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted, committed, or assigned to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the general fund was \$902,775. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. The unassigned portion of the fund balance (\$902,775) represents 19.7% of total general fund expenditures.

The fund balance of the City's general fund increased by \$158,872 during the current fiscal year. The key component of this increase was the tightening of the budget and not spending as much.

The capital projects fund has a total fund balance of \$2,371,539, all of which is reserved for capital improvements. The net increase in fund balance during the current year in the capital projects fund was \$1,399,091 due to receiving grant reimbursements for last year's capital projects. The major revenue during the year was sales tax.

Major capital projects fund expenditures included:

- Airport improvements
- Water Treatment Plant Upgrade/Expansion

Proprietary funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Grove Municipal Services Authority as of the end of the year amounted to \$1,788,021. The total increase in net assets was \$611,707. Operating revenues increased \$913,990 over the previous year, which had to do with an increase in natural gas revenues. An increase of \$1,082,370 in expenses was primarily due to an increase in natural gas purchases.

The Grove Municipal Airport Managing Authority had an increase in operating revenues of \$124,031.

General Fund Budgetary Highlights

There were only slight differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$4,874,661 were \$246,705 less than the estimated revenues in the budget of \$5,121,366. Actual expenditures of \$4,720,464 were \$400,902 less than the \$5,121,366 approved in budget appropriations.

CITY OF GROVE, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$52,708,044 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- Airport improvements
- Water Treatment Plant Upgrade/Expansion

	Capital Assets (net of depreciation)			
	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Land	\$ 411,075	\$ 1,046,893	\$ 2,292,666	\$ 1,266,488
Construction in progress	492,216	412,430	7,167,701	442,955
Buildings and improvements	9,584,725	10,494,501	29,088,874	30,064,542
Equipment	474,421	700,936	2,792,231	3,345,433
Vehicles	334,928	502,004	69,207	59,596
Capital assets, net	<u>\$ 11,297,365</u>	<u>\$ 13,156,764</u>	<u>\$ 41,410,679</u>	<u>\$ 35,179,014</u>

Long-term debt - As of the end of the current fiscal year, the City had total debt outstanding of \$22,382,169. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) of \$17,764,997, TIF Note of \$2,415,000, other notes payable of \$1,880,000 capital lease obligations totaling \$322,172, and accrued compensated absences of \$885,154.

	Outstanding Debt			
	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Revenue notes	\$ -	\$ -	\$ 17,764,997	\$ 13,103,935
Revenue bonds	-	-	-	200,000
TIF notes	-	-	2,415,000	2,415,000
Other notes	-	-	1,880,000	2,160,000
Capital lease obligations	246,049	286,496	76,123	157,092
Total outstanding debt	<u>\$ 246,049</u>	<u>\$ 286,496</u>	<u>\$ 22,136,120</u>	<u>\$ 18,036,027</u>

The City's total debt increased by \$4,059,646 during the current fiscal year. The key factors in the change was the increased in an \$8,765,000 note from the Oklahoma Water Resources Board for the expansion/upgrade of the existing Water Treatment Facility and the addition of a Lease/Purchase agreement to purchase a Hyundai Excavator, with offsetting principal payments reducing the balance of existing debt.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. Being as the main revenue for the City is Sales Tax, we must consider the economy, as well as unemployment, which affect sales tax revenue.

These indicators were taken into account when adopting the general fund budget for 2014.

- Population Growth
- Stagnant Sales Tax Revenue
- Commercial Growth
- Changes in Commodity Prices

All of these factors were considered in preparing the City's budget for the 2014 fiscal year.

During the current fiscal year, fund balance in the general fund increased to \$902,775. This is an increase of \$158,872 from last fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, funding agencies, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Grove, 104 West 3rd Street, Grove, Oklahoma 74344.

CITY OF GROVE, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current assets			
Cash and cash equivalents	\$ 1,928,435	\$ 2,348,113	\$ 4,276,548
Accounts receivable	17,316	726,866	744,182
Taxes receivable	1,246,564	-	1,246,564
Due from other funds	738,135	134,376	872,511
Inventory	-	776,781	776,781
Prepaid expense	2,034	11,541	13,575
Restricted assets - cash and investments	88,475	1,740,414	1,828,890
Total current assets	4,020,959	5,738,091	9,759,050
Noncurrent assets			
Investment in land held for sale	-	390,360	390,360
Capital assets, net of accumulated depreciation	11,297,365	41,410,679	52,708,044
Total noncurrent assets	11,297,365	41,801,039	53,098,404
Total assets	15,318,324	47,539,130	62,857,455
Deferred cash inflows - Tax Increment District	2,415,000	2,415,000	4,830,000
Total assets and deferred cash inflows	17,733,324	49,954,130	67,687,455
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	102,394	759,357	861,750
Payable from restricted assets:			
Accrued interest payable	6,381	140,121	146,502
Customer deposits	-	819,554	819,554
Due to other funds	478,938	390,402	869,340
Current portion of long-term obligations	42,242	1,832,356	1,874,598
Total current liabilities	629,955	3,941,790	4,571,744
Noncurrent liabilities			
Accrued compensated absences	692,854	192,661	885,514
Notes and capital leases payable	203,807	17,888,764	18,092,571
Total noncurrent liabilities	896,661	18,081,424	18,978,086
Total liabilities	1,526,616	22,023,214	23,549,830
Deferred cash outflows - Tax Increment District	2,415,000	2,415,000	4,830,000
Total liabilities and deferred cash outflows	3,941,616	24,438,214	28,379,830
Net Position			
Invested in capital assets, net of related debt	11,051,316	21,689,559	32,740,875
Restricted for			
Capital improvements & Other	2,466,171	-	2,466,171
Debt service	200,000	-	200,000
Unrestricted	74,221	3,826,357	3,900,578
Total net position	\$ 13,791,708	\$ 25,515,917	\$ 39,307,625

The accompanying notes are an integral part of these financial statements

**CITY OF GROVE, OKLAHOMA
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
JUNE 30, 2014**

	Expenses	Program Revenues				Business-Type Activities	Governmental Activities	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities			
Governmental activities								
General Government	\$ 648,571	\$ 67,484	\$ 37,567	\$ -	\$ (543,520)	\$ (543,520)		
Public safety	2,575,924	326,842	84,625	47,974	(2,116,483)	(2,116,483)		
Public works	2,417,581	26,764	-	1,260,749	(1,130,067)	(1,130,067)		
Cultural, Parks, & Recreation	599,845	-	-	-	(599,845)	(599,845)		
Total governmental activities	6,241,921	421,090	122,192	1,308,723	(4,389,916)	(4,389,916)		
Business-type activities								
Utilities	9,706,441	9,404,171	12,500	-	(289,770)	(289,770)		
Airport	778,767	387,129	-	-	(391,637)	(391,637)		
Economic development	422,527	78,722	-	-	(343,806)	(343,806)		
Total business-type activities	10,907,736	9,870,022	12,500	-	(1,025,213)	(1,025,213)		
Total government	17,149,657	10,291,112	134,692	1,308,723	(4,389,916)	(4,389,916)	(5,415,129)	
		Net (expense)/revenue	\$ (4,389,916)	\$ (1,025,213)	\$ (5,415,129)			
		General revenues and transfers						
		Sales and use tax	5,561,961		699,466	6,261,427		
		Franchise tax	196,626		-	196,626		
		Other taxes	280,494		158,921	439,415		
		Licenses and permits			-	-		
		Miscellaneous	79,110		99,116	178,225		
		Transfer	(2,131,370)		2,131,370	(0)		
		Gain/Loss	1,887		(4,051)	(2,164)		
		Interest income	20,976		49,464	70,441		
		Total general revenues and transfers	4,009,685		3,134,286	7,143,971		
		Change in net assets	(380,231)		2,109,073	1,728,842		
		Net position, beginning	14,171,939		23,406,844	37,578,783		
		Net position, ending	\$ 13,791,708		\$ 25,515,917	\$ 39,307,625		

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014

	Governmental Funds			Total Governmental Funds
	General Fund	Capital Improvement Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents	\$ 194,772	\$ 1,669,766	\$ 63,898	\$ 1,928,436
Accounts receivable	17,316	-	-	17,316
Taxes receivable	1,233,383	-	13,180	1,246,563
Due from other funds	17	738,118	-	738,135
Prepaid expenses	2,034	-	-	2,034
Restricted cash and investments	-	-	88,476	88,476
Total assets	1,447,522	2,407,884	165,554	4,020,960
Liabilities				
Accounts payable	65,809	36,345	240	102,394
Due to other funds	478,938	-	-	478,938
Total liabilities	544,747	36,345	240	581,332
Fund balances				
Restricted	-	2,371,539	94,632	2,466,171
Assigned	-	-	34,793	34,793
Unassigned	902,775	-	35,889	938,664
Total fund balances	902,775	2,371,539	165,314	3,439,628
Total liabilities and fund balances	\$ 1,447,522	\$ 2,407,884	\$ 165,554	\$ 4,020,960

Total fund balances-Governmental Funds \$ 3,439,628

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,299,252
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:	
Capital lease obligations	(246,049)
Accrued interest on long-term debt	(8,270)
Accrued compensated absences	(692,854)
Net position of governmental activities	\$ 13,791,708

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014

	Governmental Funds			Total Governmental Funds
	General Fund	Capital Improvement Fund	Other Governmental Funds	
Revenues				
Taxes	\$ 4,226,240	\$ 1,749,458	\$ 125,586	\$ 6,101,284
License and permits	50,297	-	-	50,297
Intergovernmental	148,969	1,266,104	1,000	1,416,073
Fines and forfeitures	134,115	-	3,713	137,828
Charges for services	166,080	-	4,681	170,761
Other	79,110	1,098	13,744	93,952
Interest	19,609	-	1,368	20,977
Total revenues	<u>4,824,421</u>	<u>3,016,660</u>	<u>150,092</u>	<u>7,991,172</u>
Expenditures				
Current				
General government	869,102	-	-	869,102
Public safety	2,377,550	-	138,860	2,516,410
Public works	1,209,137	-	-	1,209,137
Cultural and recreational	123,271	-	300	123,571
Debt service	-	-	53,409	53,409
Capital outlay	-	1,126,047	-	1,126,047
Total expenditures	<u>4,579,060</u>	<u>1,126,047</u>	<u>192,569</u>	<u>5,897,676</u>
Excess of revenues over (under) expenditures	245,361	1,890,613	(42,477)	2,093,496
Other financing sources (uses)				
Transfers In/(Out)	<u>(86,489)</u>	<u>(491,522)</u>	<u>(58,403)</u>	<u>(636,413)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	158,872	1,399,091	(100,880)	1,457,083
Beginning fund balance	<u>743,903</u>	<u>972,448</u>	<u>266,194</u>	<u>1,982,545</u>
Ending fund balance	<u>\$ 902,775</u>	<u>\$ 2,371,539</u>	<u>\$ 165,314</u>	<u>\$ 3,439,628</u>

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
 OF ACTIVITIES AND CHANGES IN NET POSITION**
JUNE 30, 2014

Net change in fund balances – total governmental funds \$ 1,457,083

Adjustments for the statement of activities:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.

Capital outlay expenditures - general government	35,196
Capital outlay expenditures - Public safety & judicial	38,397
Capital outlay expenditures - public works	718,641
Capital outlay expenditures - Cultural, parks, & recreation	251,658
Depreciation expense - general government	(67,601)
Depreciation Expense - Public safety & judicial	(290,236)
Depreciation expense - public works	(712,458)
Depreciation expense - Cultural, parks, & recreation	(337,914)
Net write off/transfer of assets not fully depreciated	(1,495,081)
Gain on sale of assets	1,887
	<u>(1,857,512)</u>

Governmental Funds report note and lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes In Net Assets, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period.

Principal payments on capital leases and debt	40,446
	<u>40,446</u>

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported in governmental funds.

Accrued interest payable on long-term capital leases and debt	(955)
Accrued compensated absences, net change	(19,294)
	<u>(20,249)</u>

Change in net position of governmental activities \$ (380,231)

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities - Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
Assets				
Current assets				
Cash and cash equivalents	\$ 2,180,364	\$ 90,423	\$ 77,326	\$ 2,348,113
Accounts receivable	235,817	-	20,115	255,932
Grant receivable	470,934	-	-	470,934
Due from other funds	134,376	-	-	134,376
Inventory	716,631	-	60,150	776,781
Prepaid expenses and other assets	5,215	-	6,326	11,541
Restricted assets - cash and investments	1,241,508	498,906	-	1,740,414
Total current assets	4,984,844	589,329	163,918	5,738,091
Noncurrent assets				
Non-current assets				
Investment in land held for sale	-	390,360	-	390,360
Capital assets, net of accumulated depreciation	37,126,192	2,235,236	2,049,251	41,410,679
Total noncurrent assets	37,126,192	2,625,596	2,049,251	41,801,039
Total assets	42,111,036	3,214,925	2,213,169	47,539,130
Deferred Cash Inflows - Tax Increment District				
	-	2,415,000	-	2,415,000
Total assets and deferred cash inflows	42,111,036	5,629,925	2,213,169	49,954,130
Liabilities				
Current liabilities				
Accounts payable	758,184	-	1,172	759,357
Payable from restricted assets				
Accrued interest payable	110,451	29,670	-	140,121
Customer deposits	819,554	-	-	819,554
Due to other funds	-	-	390,402	390,402
Current portion of long-term obligations	1,432,356	400,000	-	1,832,356
Total current liabilities	3,120,546	429,670	391,574	3,941,790
Noncurrent liabilities				
Accrued compensated absences	186,729	-	5,933	192,661
Notes and capital leases payable	16,408,764	1,480,000	-	17,888,764
Total noncurrent liabilities	16,595,493	1,480,000	5,933	18,081,424
Total liabilities	19,716,038	1,909,670	397,507	22,023,214
Deferred Cash Outflows - Tax Increment District				
	-	2,415,000	-	2,415,000
Total liabilities and deferred cash outflows	19,716,038	4,324,670	397,507	24,438,214
Net Position				
Invested in capital assets, net of related debt	19,285,072	355,236	2,049,251	21,689,559
Unrestricted	3,109,926	950,020	(233,590)	3,826,357
Total net position	\$ 22,394,998	\$ 1,305,255	\$ 1,815,662	\$ 25,515,917

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities - Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
Operating revenues				
Charges for services				
Water	\$ 2,559,793	\$ -	\$ -	\$ 2,559,793
Gas	5,691,766	-	-	5,691,766
Wastewater/Sewer	553,183	-	-	553,183
Sanitation	517,857	-	-	517,857
Service Fees	42,664	-	-	42,664
Pool Fees	-	78,722	-	78,722
Other	136,303	(4,053)	388,852	521,101
Total operating revenues	<u>9,501,565</u>	<u>74,668</u>	<u>388,852</u>	<u>9,965,085</u>
Operating expenses				
Administration	939,812	-	-	939,812
Gas	3,821,211	-	-	3,821,211
Water	1,226,047	-	-	1,226,047
Wastewater/Sewer	1,475,308	-	-	1,475,308
Airport	-	-	384,089	384,089
Bad Debt Expense	33,127	-	-	33,127
Depreciation and amortization	1,590,023	196,753	394,680	2,181,455
Total operating expenses	<u>9,085,527</u>	<u>196,753</u>	<u>778,769</u>	<u>10,061,049</u>
Net operating income (loss)	416,038	(122,085)	(389,917)	(95,964)
Nonoperating revenues (expenses)				
Taxes	699,466	-	-	699,466
Tax incentive financing	-	158,921	-	158,921
Economic Development	-	(157,864)	-	(157,864)
Interest income	48,087	1,245	132	49,464
Operating grants	12,500	-	-	12,500
Interest expense and fiscal charges	(621,039)	(67,911)	-	(688,950)
Total nonoperating revenues (expenses)	<u>139,014</u>	<u>(65,608)</u>	<u>132</u>	<u>73,538</u>
Operating transfers				
Transfers in (out) net	56,655	520,859	1,553,983	2,131,497
Net income (loss)	611,707	333,166	1,164,197	2,109,071
Net position, beginning	<u>21,783,291</u>	<u>972,089</u>	<u>651,464</u>	<u>23,406,844</u>
Net position, ending	<u>\$ 22,394,998</u>	<u>\$ 1,305,255</u>	<u>\$ 1,815,662</u>	<u>\$ 25,515,917</u>

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2014

	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	Totals
Cash flows from operating activities				
Receipts from customers	\$ 9,470,004	\$ 74,668	\$ 384,677	\$ 9,929,348
Payments to suppliers	(5,856,058)	(55,234)	(53,017)	(5,964,309)
Payments to employees	(1,237,367)	-	(31,754)	(1,269,122)
Net cash provided (used) by operating activities	<u>2,376,579</u>	<u>19,433</u>	<u>299,906</u>	<u>2,695,918</u>
Cash flows from noncapital financing activities				
Transfers in (out)	56,655	520,859	1,553,983	2,131,496
Miscellaneous revenues	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>56,655</u>	<u>520,858</u>	<u>1,553,983</u>	<u>2,131,496</u>
Cash flows from capital and related financing activities				
Operating grants	12,500	-	-	12,500
Capital Contributions	-	-	-	-
Proceeds from Long-term Debt	6,034,975	-	-	6,034,975
Principal paid on long-term debt	(1,654,883)	(327,714)	-	(1,982,596)
Interest expense and fiscal charges	(621,039)	(67,911)	-	(688,950)
Tax revenues received	699,466	158,921	-	858,387
(Acquisition) disposition of capital assets	(6,573,388)	40,418	(1,843,787)	(8,376,757)
Net cash provided (used) by capital and related financing activities	<u>(2,102,369)</u>	<u>(196,285)</u>	<u>(1,843,787)</u>	<u>(4,142,441)</u>
Cash flows from investing activities				
(Acquisition)/disposition of land held for resale	-	-	-	-
Interest income	48,087	1,245	132	49,464
Net cash provided (used) by investing activities	<u>48,087</u>	<u>1,245</u>	<u>132</u>	<u>49,464</u>
Net increase (decrease) in cash and cash equivalents	378,952	345,251	10,234	734,437
Cash and cash equivalents, beginning	3,513,854	244,078	67,091	3,825,023
Cash and cash equivalents, ending	<u>3,892,806</u>	<u>589,329</u>	<u>77,325</u>	<u>4,559,460</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	416,038	(122,085)	(389,917)	(95,964)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,590,023	196,753	394,680	2,181,455
Changes in assets and liabilities:				
(Increase) decrease in receivables	(73,901)	-	(4,174)	(78,075)
(Increase) decrease in prepaids	1,732	-	(6,299)	(4,567)
(Increase) decrease in inventories	(55,190)	-	(6,963)	(62,153)
Increase (decrease) in accounts payable	472,068	-	(48,803)	423,266
Increase (decrease) in customer deposits	42,339	-	-	42,339
Increase (decrease) in interfund activities	(10,668)	(56,356)	363,433	296,408
Increase (decrease) in accrued expenses	(5,863)	1,122	(2,050)	(6,791)
Total adjustments	<u>1,960,541</u>	<u>141,519</u>	<u>689,823</u>	<u>2,791,883</u>

The accompanying notes are an integral part of these financial statements

I. Organization

The City of Grove, Oklahoma (“the City”) was incorporated November 22, 1902, and operates under a council/city manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety; streets and highways; culture and recreation; public improvements; utilities including natural gas, water, sewer, and sanitation; airport services; and general government and administrative services.

II. Summary of significant accounting policies

A. Reporting entity

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

Blended component units - The Grove Municipal Services Authority (“GMSA”) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961, and Sections 176 to 180, for the use and benefit of the City. GMSA has as its purpose to develop and operate utility facilities and services including water, sewer, gas, sanitation, or other forms or types of public and municipal services within and without the corporate boundaries of the City. The city council appoints the trustees of the GMSA. The City is the beneficiary of the trust.

The Grove Municipal Airport Managing Authority (“Airport”) is a public trust created on January 5, 1960, and amended December 22, 1975, to develop, construct, and operate a municipal airport in the City. The City council appoints the trustees of the Airport board. The City is the beneficiary of the trust.

The Grove Economic Development Authority (“GEDA”), previously the Grove Industrial Development Authority, is a public trust created on September 3, 1968, and amended February 1, 1984, for the purpose of promoting industrial development within the City. The City council appoints the trustees of GEDA. The City is the beneficiary of the trust.

The Grove Healthcare Authority is a public trust created on September 21, 1999, for the purpose of developing and maintaining health care facilities to serve the needs of the people of the City. The board of trustees consists of five members, one of which is a member of the city council of the City, with the remaining four trustees being members at large. The City is the beneficiary of the trust.

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

B. Government-wide and fund financial statements

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

II. Summary of significant accounting policies (continued)

B. Government-wide and fund financial statements (continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Sales and use taxes, property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The capital projects fund accounts for the resources accumulated from grants, contributions, and transfers from other funds or entities and payments made for capital improvements and other capital outlay expenditures, as well as debt service payments on capital lease obligations.

II. Summary of significant accounting policies (continued)

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

The City reports the following major proprietary funds:

The GMSA accounts for the City's natural gas, water, and wastewater utility operations, as well as sanitation services.

The Airport accounts for the municipal airport operations and improvements.

The GEDA accounts for economic development operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department of Public Utilities and Special Utility Authority enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

II. Summary of significant accounting policies (continued)

D. Assets, liabilities, and net assets or equity (continued)

1. Deposits and investments (continued)

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

Investments for the City, as well as for its component units are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Inventories and prepaid items

All inventories are valued at the lower of weighted average cost or market and consist of expendable supplies held for consumption and fuel for sale at the airport. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the GMSA's enterprise fund Oklahoma Water Resources Board promissory note and utility and sales tax revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable debt covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

II. Summary of significant accounting policies (continued)

D. Assets, liabilities, and net assets or equity (continued)

5. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest on long-term financing of construction projects is capitalized as part of the cost of the asset as construction period interest and amortized to expense over the life of the debt.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements other than buildings	20-50
Furniture, equipment, and vehicles	5-10

6. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may accumulate from 24 to 90 days of unused vacation, depending on length of service. Sick leave may be accumulated up to a maximum of 90 days. Accumulated sick leave may be applied toward service credit for retirement benefits or may be paid for the accumulated sick leave, provided the employee has the required number of years of continuous service with the City. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

II. Summary of significant accounting policies (continued)

D. Assets, liabilities, and net assets or equity (continued)

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

III. Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted for all governmental funds, the Special Utility Authority, and Department of Public Utilities. All unencumbered, annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city council meets with the city manager and city financial officer to review the needs estimates and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council no later than June 24.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

IV. Detailed notes on all funds

A. Deposits and investments

The detail of cash and investments at year end are summarized as follows:

	<u>Cash and Cash Equivalents</u>
Current assets	
Cash and Certificates of Deposit	\$ 1,928,435
Restricted assets	
Cash and Certificates of Deposit	\$ 88,475

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

A. Deposits and investments (continued)

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes limit investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or; i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. The City has no investment policy that would further limit its investment choices. As of June 30, 2014, the City had no investments in certificates of deposit.

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. None of the City’s investments are in certificates of deposit. The investment is 100% of the City’s total investments.

B. Receivables

Receivables as of June 30, 2014, for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	Total Funds
Receivables:					
Taxes	\$ 1,233,383	\$ 13,180	\$ -	\$ -	\$ 1,246,563
Accounts	17,469	-	235,817	20,115	273,402
Gross receivables	1,250,852	13,180	235,817	20,115	1,519,965
Less: Allowance	(154)	-	(54,625)	(1,253)	(56,032)
Net total receivables	<u>\$ 1,250,699</u>	<u>\$ 13,180</u>	<u>\$ 181,192</u>	<u>\$ 18,862</u>	<u>\$ 1,463,933</u>

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

C. Restricted Cash

The GMSA Utility and Sales Tax Revenue Bonds Series 1989 includes restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. The GMSA Sales Tax Revenue Notes Series 2005, 2006, 2011 and the 2011 Note also include debt service accounts, and the 2011 Sales Tax Revenue Note includes a construction fund. The 2009 CWSRF OWRB note has a specific cash account. The meter deposit account for customer refunds is also shown as restricted. Additionally, the GEDA Series 2010 note has debt service funds. All funds are on deposit with trustee banks. Also listed as restricted cash, is the money on deposit with the Delaware County Treasurer from the Delaware County Fire Tax Revenues.

The restricted cash as of June 30, 2014 is as follows:

	Bonds Activities Bonds and Notes	Business Activities Meter Deposits	Governmental Activities
DEL CO FIRE TRAVEL CASH	-	-	1,057
DEL CO FIRE M&O	-	-	26,858
DEL CO FIRE CAP OUT	-	-	60,560
METER DEPOSITS	-	819,684	-
CASH OWRB PROJ COSTS DISB ACCT	2,713	-	-
2005 BONDS - INTEREST FUND	121,531	-	-
2006 NOTE PRINCIPAL FUND	143,339	-	-
2006 NOTE INTEREST FUND	21,731	-	-
2009 OWRB CWSRF DS FUND	44,587	-	-
2010 NOTE PRINCIPAL FUND	34,160	-	-
2010 NOTE INTEREST FUND	16,266	-	-
2011 PWF NOTE PRINCIPAL FUNDS	22,503	-	-
2011 PWF NOTE INTEREST FUND	6,073	-	-
2011 STN PRINCIPAL FUND	40,000	-	-
2011 STN INTEREST FUND	19,346	-	-
2011 TIF REVENUE FUND	34,495	-	-
2011 TIF RESERVE FUND	255,183	-	-
2011 TIF INTEREST FUND	8,796	-	-
2012 NOTE PRINCIPAL FUND	150,006	-	-
	<u>\$ 920,730</u>	<u>\$ 819,684</u>	<u>\$ 88,476</u>

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2014, were as follows:

	Governmental Activities				6/30/2014
	6/30/2013	Additions	Dispositions	Transfers	
Land	\$ 1,046,893	\$ -	\$ -	\$ (635,817)	\$ 411,076
Buildings and Improvements	14,468,854	528,993	-	(1,117,622)	13,880,225
Equipment	2,512,203	87,196	(24,983)	(16,396)	2,558,020
Vehicles	2,078,746	-	-	-	2,078,746
Furnitures and Fixtures	305,629	4,473	-	-	310,102
Construction in Process	412,430	423,729	-	(343,943)	492,217
Total Property, Plant, and Equipment	20,824,755	1,044,392	(24,983)	(2,113,778)	19,730,386
Accumulated Depreciation	(7,668,491)	(1,408,209)	24,983	618,696	(8,433,021)
Net Property, Plant, and Equipment	<u>\$ 13,156,264</u>	<u>\$ (363,817)</u>	<u>\$ -</u>	<u>\$ (1,495,082)</u>	<u>\$ 11,297,365</u>

A significant change was noted to have occurred in the capital assets of the Governmental Activities and the Business-Type Activities, more specifically the Business-Type Activity of the Airport. The change of \$2,118,540, as well as its respective accumulated depreciation of \$(618,696), resulted from a correction in the fund reporting of capital assets due to the fact that these capital assets were used in the operation of the Airport; however, were reported improperly reported under Governmental Activities.

	Business Type Activities				6/30/2014
	6/30/2013	Additions	Dispositions	Transfers	
Land	\$ 1,266,488	\$ -	\$ -	\$ 635,817	\$ 1,902,305
Buildings and Infrastructure	45,323,818	104,290	(40,418)	1,466,327	46,854,017
Equipment	5,035,163	49,430	-	16,396	5,100,989
Furnitures and Fixtures	194,267	-	-	-	194,267
Vehicles	435,870	38,865	-	-	474,735
Construction in Process	442,955	6,724,746	-	-	7,167,701
Total	52,698,561	6,917,331	(40,418)	2,118,540	61,694,014
Accumulated Depreciation	(17,519,546)	(2,181,456)	36,365	(618,696)	(20,283,333)
Net book value	<u>\$ 35,179,015</u>	<u>\$ 4,735,875</u>	<u>\$ (4,053)</u>	<u>\$ 1,499,844</u>	<u>\$ 41,410,679</u>

Depreciation expense was charged to functions/programs as follows:

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ 1,408,209
Public Safety	591,433
Public Works	1,590,023
Total	<u>\$ 3,589,664</u>

CITY OF GROVE, OKLAHOMA
 NOTES TO BASIC FINANCIALS STATEMENTS
 JUNE 30, 2014

IV. Detailed notes on all funds (continued)

E. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2014, restricted cash and investments included \$819,684 available for refund of customer deposits, while the liability to customers was \$819,554.

F. Leases

Capital leases – The City has entered into two lease agreements as lessee for financing the acquisition of fire vehicles utilizing its portion of the Delaware County Fire Tax Funds. GMSA has entered into a lease agreement as lessee for financing the acquisition of equipment. These lease agreement qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The Capital lease obligations at June 30, 2014 are as follows:

Government-type activities

Capital leases

First National Bank and Trust Co. of Chickasha, OK dated October 26, 2009, in the amount of \$273,870, payable in annual installments of \$35,128.63 plus interest at 4.8% for a 2011 Freighliner 4 door commercial pumper	\$ 66,615
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Welch State Bank dated March 28, XXXX, in the amount of \$110,200, payable in annual installments of \$18,280.48 plus interest of 3.76% for a 1989 Pierce 75' Quint Ladder Truck	<u>179,434</u>
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Total governmental-type capital lease activities	<u>\$ 246,049</u>
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Business-type activities

Capital leases

Kansas State Bank of Manhattan dated May 28, 2013, in the amount of \$126,940, payable in annual installments of \$26,854.83 plus interest of 2.89% for a 2012 Hyundai R140LC9 Excavator	<u>\$ 76,123</u>
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Total business-type capital lease activities	<u>\$ 76,123</u>
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CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

F. Leases (continued)

Operating Leases – The City has entered into two operating lease agreements for a copy machine and a postage machine. GMSA has entered into two operating lease agreements for a folder/sorter machine and a printer. The balance of those operating lease are as follows:

Government-type activities

Operating Leases

Standley Systems, Inc. for a Savin C9155SP Color Multi Function Copier beginning June 2011 for a period of 60 months with monthly installments of \$203.14	\$ 4,849
Great American Leasing for an FP Ultimail 95 postage machine beginning February 2012 for a period of 60 months with monthly installments of \$240.73	<u>8,024</u>
Total governmental-type operating lease activities	<u>\$ 12,873</u>

Business-type activities

Operating Leases

Leaf for an Okidata B930N Printer beginning February 2012 for a period of 60 months with monthly installments of \$91.00	\$ 2,912
Wells Fargo Financial Leasing for an FP Folder/Sorter machine beginning January 2011 for a period of 60 months with monthly installments of \$309.56	<u>6,191</u>
Total business-type operating lease activities	<u>\$ 9,103</u>

G. Long-term debt

Long-term liabilities of the City as of June 30, 2014, are summarized as follows:

Business-type activities

Grove Municipal Services Authority (GMSA):

Notes payable:

\$945,000 GMSA, Series 2011 Promissory Note to the Bank of Grove, Dated March 30, 2012, payable in semi-annual installments ranging from \$109,322 – \$116,680, with payments commencing on October 1, 2012. Payments are plus interest at a rate of 3.47%, for the construction of a Public Works Facility. The note matures on April 1, 2021. Balance as of June 30, 2014 is \$700,000.

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

G. Long-term debt (continued)

\$1,900,000 GMSA, Series 2009 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, Dated August 21, 2009, payable in semi-annually with repayment commencing no later than one (1) year after the date construction of the project is completed, and shall mature on the earlier of (i) March 15 or September 15 next preceding the date which is twenty (20) years after completion of construction of project as certified to the OWRB by the borrower, or (ii) September 15, 2021. Payments are plus interest at a rate of 1.87% and an administrative fee of 0.5%, for the construction of an upgrade/expansion to the existing wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City. Balance as of June 30, 2014 is \$907,982.

\$8,765,000 GMSA, Drinking Water SRF Loan to the Oklahoma Water Resources Board, dated June 1, 2013, for the purpose of financing drinking water treatment Systems improvements. The loan is payable semi-annually, commencing on September 15, 2013 and continuing each March 15 and September 15 thereafter for the term of the loan. The interest on the loan is at a rate of 2.25%, plus an administrative fee of 0.5%. Note shall mature on the earlier of (1) March 15 or September 15 next preceding the date which is twenty (20) years after completion of construction, or (2) on September 15, 2034. Balance as of June 30, 2014 is \$6,260,100.

\$7,500,000 GMSA, Series 2003 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, dated November 6, 2003, payable semi-annually commencing on the earlier of (1) the March 15 or September 15 next following the date construction of the project is completed or (2) March 15, 2005, over twenty years, plus interest at 2.157% and an administrative fee of 0.5% beginning March 15, 2004, for the construction of a wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City. Balance as of June 30, 2014 is \$4,364,915.

\$4,080,000 GMSA, Sales Tax Revenue Note Series 2005, dated September 26, 2005, payable in semi-annual installments of \$75,000 to \$185,000 plus interest at 3.00%, beginning March 1, 2007, to finance water, sewer, and natural gas line relocation costs and improvements to the water and sanitary sewer systems, secured by a year-to-year pledge of sales tax from the City. Balance as of June 30, 2014 is \$2,120,000.

\$4,170,000 GMSA, Sales Tax Revenue Refunding Notes Series 2006, dated February 15, 2006, payable in semi-annual installments of \$165,000 to \$225,000 beginning September 1, 2008, plus interest at 4.10% beginning September 1, 2007, to refund the \$6,540,000 Utility and Sales Tax Revenue Bonds Series 1996, secured by a pledge of sales tax from the City. Balance as of June 30, 2014 is \$1,590,000.

\$2,050,000 GMSA, Sales Tax Revenue Note Series 2011, dated October 27, 2011, payable in semi-annual installments of \$110,000 to \$180,000 beginning September 1, 2012, plus interest of 3.18% to finance the acquisition and installation of an automated meter reading system for water and gas meters, secured by a year-to-year pledge of sales tax from the City. Balance as of June 30, 2014 is \$1,825,000.

Total Grove Municipal Services Authority:

\$17,764,997

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

G. Long-term debt (continued)

Revenue Bonds:

Grove Economic Development Authority (GEDA):

GEDA Series 2011 Promissory Notes, dated February 1, 2011, in the amount of \$1,435,000, payable in semi-annual payments ranging from \$35,000 to \$60,000, with an interest rate of 3.47% over 15 years. These notes are obligations of the GEDA payable solely from a year-to-year pledge of revenues and funds and accounts established by indenture. Balance as of June 30, 2014 is \$1,125,000.

GEDA Series 2011 TIF Tax Increment Revenue Note dated September 28, 2011 in the principal amount of \$2,415,000, to mature on June 1, 2036. The Note shall bear interest at a variable rate of interest equal to BBA LIBOR 6-month rate plus 200 basis points, initially 2.29%, with rate being reset every June 1 and December 1, not to exceed 14%. The note is payable on a semi-annual basis. This note will be paid with ad valorem tax received on the property. Balance as of June 30, 2014 is \$2,415,000.

GEDA Series 2012 Promissory Note, dated July 25, 2013 in the principal amount of \$1,000,000, payable in semi-annual payments ranging from \$55,000 to \$156,000, with an interest rate of 2.33% over 4 years. The Note is for a Parking Facility Project. Balance as of June 30, 2014 is \$755,000.

Total Grove Economic Development Authority: \$ 4,295,000

Total Business Type Activities: \$22,059,997

CITY OF GROVE, OKLAHOMA
 NOTES TO BASIC FINANCIALS STATEMENTS
 JUNE 30, 2014

IV. Detailed notes on all funds (continued)

G. Long-term debt (continued)

Long-term liabilities transactions for the year ended June 30, 2014, and changes therein were as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount due</u> <u>in one year</u>
Governmental activities:					
Lease/Purchase obligations					
89 Ladder Truck	\$ 81,760	\$ -	\$ (15,145)	\$ 66,615	\$ 15,726
2010 FL Pumper	204,735	-	(25,301)	\$ 179,434	26,516
Total governmental activities	<u>286,495</u>	<u>-</u>	<u>(40,446)</u>	<u>246,049</u>	<u>42,242</u>
Business-type activities:					
GMSA:					
Notes payable:					
OWRB 2003	4,724,185	-	(359,270)	4,364,915	366,138
OWRB 2009	1,013,926	-	(108,944)	904,982	111,563
OWRB 2013	225,125	6,034,975	-	6,260,100	-
Series 2005	2,395,000	-	(275,000)	2,120,000	285,000
Series 2006	2,005,000	-	(415,000)	1,590,000	435,000
Series 2011 Promissory Note	785,000	-	(85,000)	700,000	90,000
Series 2011 Sales Tax Note	1,940,000	-	(115,000)	1,825,000	120,000
Lease/Purchase obligations:					
KSBM Excavator	101,393	-	(25,271)	76,123	24,655
GEDA:					
Series 2011 Promissory Note	1,205,000	-	(80,000)	1,125,000	90,000
Series 2011 Tax Increment Note	2,415,000	-	-	2,415,000	10,000
Series 2012 Promissory Note	955,000	-	(200,000)	755,000	300,000
Total business-type activities	<u>17,764,629</u>	<u>6,034,975</u>	<u>(1,663,485)</u>	<u>22,136,120</u>	<u>1,832,356</u>
Total long-term debt	<u>\$ 18,051,124</u>	<u>\$ 6,034,975</u>	<u>\$ (1,703,931)</u>	<u>\$ 22,382,169</u>	<u>\$ 1,874,598</u>

CITY OF GROVE, OKLAHOMA
NOTES TO BASIC FINANCIALS STATEMENTS
JUNE 30, 2014

IV. Detailed notes on all funds (continued)

G. Long-term debt (continued)

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30,	Governmental Activities			
	Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	66,897	13,368	-	-
2016	69,485	10,779	-	-
2017	72,162	8,102	-	-
2018	48,124	5,284	-	-
2019	31,984	3,144	-	-
Thereafter	33,520	1,609	-	-
Totals	<u>\$ 322,172</u>	<u>\$ 42,286</u>	<u>\$ -</u>	<u>\$ -</u>

Year Ending June 30,	Business-Type Activities			
	Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	1,797,701	383,945	10,000	55,246
2016	1,844,993	330,981	30,000	84,903
2017	1,513,273	291,765	35,000	54,216
2018	1,416,573	234,177	40,000	53,357
2019	1,365,226	196,013	45,000	52,441
Thereafter	11,707,231	291,954	2,255,000	314,072
Totals	<u>\$ 19,644,997</u>	<u>\$ 1,728,835</u>	<u>\$ 2,415,000</u>	<u>\$ 614,235</u>

H. Conduit Debt

GEDA is involved in conduit debt for Precision Leasing Co, LLC, through GE Government Finance, Inc. The proceeds are to be utilized to purchase equipment. The amount of this debt is not to exceed 8 million dollars. GEDA has no obligation whatsoever in repaying this debt. Repayment of this debt obligation rests solely with Precision Leasing Co, LLC.

I. Tax Increment Financing District 2011 Note

The City adopted and approved the Harbor Point Economic Development project Plan which envisions the generation of substantial capital investment and creation of significant new retail opportunities with the reinvestment area by establishment of the Project within the Increment District. The Increment District is generally described as an area bordered on the west by South Broadway Street, on the north by West 13th Street, on the east by Main Street (State Highway 59), and on the south by Elm Branch Creek. The City has used sales tax revenues as collateral of the note, with ad valorem taxes to pay the future note obligations.

CITY OF GROVE, OKLAHOMA
 NOTES TO BASIC FINANCIALS STATEMENTS
 JUNE 30, 2014

IV. Detailed notes on all funds (continued)

J. Compensated absences

Full-time employees with at least one year of service earn vacation of twelve to twenty-four days per year depending on years of service completed. Employees may accrue up to a maximum of two years entitlement. Additionally, employees receive compensatory time off for overtime worked. Upon separation from service, any accumulated compensatory time not taken would be paid to the employee.

In accordance with the guidelines set forth by GASB Statement No. 16, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, a provision has been made for accumulated vacation, sick and compensatory time as follows:

Governmental activities	\$ 692,854
Business-type activities	<u>\$ 192,661</u>
Total accrued compensated absences	<u>\$ 885,514</u>

Full-time employees earn sick leave at the rate of eight hours per month, up to 720 hours. Employees may be paid for unused accumulated sick leave upon separation from service, provided they have at least 7 ½ years of service.

K. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2014 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Municipal Court	\$ 17
City Capital Fund	Airport	402,025
City Capital Fund	General Fund	336,093
GMSA Debt Service	General Fund	<u>134,376</u>
Total		<u>\$ 872,511</u>

Interfund transactions:

	<u>Transfers In</u>					
	<u>General</u>	<u>Capital</u>	<u>GMSA</u>	<u>GEDA</u>	<u>Airport</u>	<u>Total</u>
Transfers Out:						
General Fund	\$ 86,489	\$ -	\$ 5,274,048	\$ -	\$ (1,553,981)	\$ 3,806,555
Street & Alley	-	-	-	-	-	-
Capital Projects	-	2,272,695	-	-	-	2,272,695
Del Co Fire	-	-	(4,762)	-	-	(4,762)
GMSA	(950,000)	-	(6,098,710)	-	-	(7,048,710)
Airport	-	-	-	-	-	-
Nonfund	-	-	-	-	1,495,081	1,495,081
GEDA	(520,859)	-	-	-	-	(520,859)
Totals	<u>\$ (1,384,370)</u>	<u>\$ 2,272,695</u>	<u>\$ (829,424)</u>	<u>\$ -</u>	<u>\$ (58,900)</u>	<u>\$ 0</u>

V. Other information

A. Risk management

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

B. Contingent liabilities

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

C. Employee retirement systems and pension plans

The City participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other the City's employees not covered by the other plans, the City maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Grove, Oklahoma (“the Plan”).

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2014, for employees and employer were \$71,509 and \$116,203, respectively, on covered payroll of \$893,868.

V. Other information (continued)

C. Employee retirement systems and pension plans (continued)

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2014, for employees and employer were \$19,796.90 and 31,215.12, respectively, on covered payroll of \$228,365.

Oklahoma Public Employees Retirement System of Grove, Oklahoma (OPERS)

Plan Description – The OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to OPERS members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPERS. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the public employees of the City. The report may be obtained by writing to the Oklahoma State Public Employees Pension and Retirement System, 4545 N. Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 405-525-7813.

Funding Policy – OPERS members are required to contribute 3.5% of their annual covered salary and the City contributes 11.5%. The contribution requirements of OPERS members and the City are established and may be amended by the state legislature. Contributions to the OPERS for the year ended June 30, 2014, for employees and employer were \$75,766 and \$357,177, respectively, on covered payroll of \$2,164,696.

D. Subsequent Events

Management has evaluated and disclosed subsequent events up to the date of this audit report.

CITY OF GROVE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund				Capital Projects Fund			
	2014 Budget		Actual	Variance with Final Budget Positive (Negative)	2014 Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Revenues								
Taxes	\$4,506,416	\$4,506,416	\$4,309,443	\$ (196,973)	\$ 1,748,530	\$ 1,748,530	\$ 1,722,770	\$ (25,760)
Licenses and permits	48,000	48,000	50,297	2,297	-	-	-	-
Intergovernmental	64,600	74,600	69,969	(4,631)	4,169,217	3,634,920	1,253,604	(2,381,316)
Fines and forfeitures	130,000	130,000	134,305	4,305	-	-	-	-
Charges for services	225,750	225,750	168,245	(57,505)	-	-	-	-
Miscellaneous	123,600	123,600	122,793	(807)	1,665,880	1,136,730	621,407	(515,323)
Interest	13,000	13,000	19,609	6,609	-	-	-	-
Total revenues	5,111,366	5,121,366	4,874,661	(246,705)	7,583,627	6,520,180	3,597,781	(2,922,399)
Expenditures								
General government:								
Administration	543,776	543,776	513,451	(30,325)	179,100	317,087	35,197	(281,890)
Governing board	286,730	286,730	219,608	(67,122)	-	-	-	-
Legal court	59,050	59,050	56,221	(2,829)	-	-	-	-
Finance	60,970	60,970	54,746	(6,224)	-	-	-	-
City hall	34,350	34,350	28,935	(5,415)	-	-	-	-
Public safety:								
Police	1,537,447	1,537,447	1,533,451	(3,996)	230,400	230,400	31,081	(199,319)
Dispatch and jail	352,428	352,428	304,498	(47,930)	-	-	-	-
Animal Control	56,450	56,450	50,551	(5,899)	-	-	-	-
Emergency management	50,000	60,000	60,000	-	-	-	-	-
Fire	440,660	440,660	401,004	(39,656)	19,000	19,000	17,594	(1,406)
Public works:								
Building and grounds	405,525	405,525	353,741	(51,784)	1,830,500	508,400	313,870	(194,530)
Streets	603,800	603,800	553,128	(50,672)	1,289,427	714,093	499,320	(214,773)
Vehicle maintenance	110,425	110,425	98,117	(12,308)	55,500	55,500	3,499	(52,001)
Community Development	234,305	234,305	207,357	(26,948)	15,000	15,000	14,705	(295)
Airport	58,900	58,900	58,900	-	3,409,000	4,157,000	556,494	(3,600,506)
Cemetery	4,350	4,350	1,362	(2,988)	-	-	-	-
Culture and recreation:								
Library	12,250	12,250	-	(12,250)	-	-	-	-
Senior center	19,225	19,225	15,655	(3,570)	-	-	-	-
Civic center	75,025	75,025	76,143	1,118	-	-	-	-
Sports and recreation	12,250	12,250	9,404	(2,846)	-	-	-	-
Parks	21,400	21,400	13,394	(8,006)	-	-	-	-
NEO Higher Ed	2,900	2,900	2,500	(400)	-	-	-	-
Swimming pool	128,850	128,850	108,298	(20,552)	-	-	-	-
Old library Building	300	300	-	(300)	-	-	-	-
Total expenditures	5,111,366	5,121,366	4,720,464	(400,902)	7,027,927	6,016,480	1,471,760	(4,544,720)
Excess of revenues over expenditures	-	-	154,197	154,197	555,700	503,700	2,126,021	1,622,321
Other financing sources (uses)								
Transfers in	3,584,076	3,584,076	3,495,540	88,536	1,800,530	1,800,530	1,781,173	(19,357)
Transfers (out)	(3,584,076)	(3,584,076)	(3,612,841)	28,765	(2,304,230)	(2,304,230)	(2,272,695)	31,535
Total other financing source	-	-	(117,301)	117,301	(503,700)	(503,700)	(491,522)	12,178
Net change in fund balances	-	-	36,896	271,498	52,000	-	1,634,499	1,634,499
Fund balances, beginning	764,134	764,134	764,134		1,504,483	1,504,483	1,504,483	
Fund balances, ending	\$ 764,134	\$ 764,134	\$ 801,030	\$ 271,498	\$ 1,556,483	\$ 1,504,483	\$ 3,138,982	\$ 1,634,499

CITY OF GROVE, OKLAHOMA
**EXPLANATION OF DIFFERENCES BETWEEN REVENUES, EXPENDITURES, AND
OTHER FINANCING SOURCES (USES) FOR BUDGETARY FUNDS**
JUNE 30, 2014

<u>Budgetary funds</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>
<u>Financial statement major funds</u>		
Revenues		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$4,874,661	\$3,597,781
Adjustments:		
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(50,240)	(581,121)
	<hr/>	<hr/>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>4,824,421</u>	<u>3,016,660</u>
Expenditures		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	4,720,464	1,471,760
Adjustments:		
	<u>(141,404)</u>	<u>(345,713)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>4,579,060</u>	<u>1,126,047</u>
Other financing sources (uses)		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	(117,301)	(491,522)
Adjustments:		
	<u>30,812</u>	<u>0</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ (86,489)</u>	<u>\$ (491,522)</u>

CITY OF GROVE, OKLAHOMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Governmental Funds											Total Non-Major Governmental Funds
	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Fire Department Fund	Drug Forefeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Veteran's Memorial Perpetual Care Fund	Grove Dei Co Fire Tax Fund		
Assets												
Cash and cash equivalents	\$ -	\$ 10,826	\$ 24,256	\$ 10,034	\$ 742	\$ 4,334	\$ 7,604	\$ 6,101	\$ -	\$ -	\$ -	\$ 63,898
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-
Taxes receivable	7,023	-	-	-	-	-	-	-	-	6,157	-	13,180
Restricted assets	-	-	-	-	-	-	-	-	-	-	-	-
Cash and investments	-	-	-	-	-	-	-	-	-	88,476	-	88,476
Total assets	<u>7,023</u>	<u>10,826</u>	<u>24,256</u>	<u>10,034</u>	<u>742</u>	<u>4,334</u>	<u>7,604</u>	<u>6,101</u>	<u>-</u>	<u>94,632</u>	<u>-</u>	<u>165,554</u>
Liabilities												
Accounts payable	-	-	-	240	-	-	-	-	-	-	-	240
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240</u>
Fund balances												
Unreserved:												
Restricted:	-	-	-	-	-	-	-	-	-	94,632	-	94,632
Committed	-	-	24,256	9,795	742	-	-	-	-	-	-	34,793
Assigned	7,023	10,826	-	-	-	4,334	7,604	6,101	-	-	-	35,889
Total fund balances	<u>7,023</u>	<u>10,826</u>	<u>24,256</u>	<u>9,795</u>	<u>742</u>	<u>4,334</u>	<u>7,604</u>	<u>6,101</u>	<u>-</u>	<u>94,632</u>	<u>-</u>	<u>165,314</u>
Total liabilities and fund balances	<u>\$ 7,023</u>	<u>\$ 10,826</u>	<u>\$ 24,256</u>	<u>\$ 10,034</u>	<u>\$ 742</u>	<u>\$ 4,334</u>	<u>\$ 7,604</u>	<u>\$ 6,101</u>	<u>\$ -</u>	<u>\$ 94,632</u>	<u>\$ -</u>	<u>\$ 165,554</u>

**CITY OF GROVE, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Governmental Funds											Total Non-Major Governmental Funds
	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Veteran's Memorial Perpetual Care Fund	Grove Del Co Fire Tax Fund		
Revenues												
Taxes	\$ 63,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,202	\$ -	\$ 125,586
License and permits	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	1,000	-	-	-	-	-	1,000
Fines and forfeitures	-	-	-	-	-	-	3,713	-	-	-	-	3,713
Charges for services	-	-	4,061	-	-	-	-	320	300	-	-	4,681
Other	-	-	75	13,619	-	-	-	50	-	-	-	13,744
Interest	-	189	378	183	7	95	143	105	-	268	-	1,368
Total revenues	63,384	189	4,514	13,802	7	1,095	3,856	475	300	62,471	-	150,092
Expenditures												
Current:												
Public safety	-	-	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	13,359	-	2,983	2,842	-	-	119,676	-	138,860
Culture and recreation	-	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	300	-	-	300
Capital outlay	-	-	-	-	-	-	-	-	-	53,409	-	53,409
Total expenditures	-	-	-	13,359	-	2,983	2,842	-	300	173,085	-	192,569
Excess of revenues over (under) expenditures	63,384	189	4,514	443	7	(1,888)	1,014	475	-	(110,615)	-	(42,477)
Other financing sources (uses)												
Transfers In/(Out)	(58,403)	-	-	-	-	-	-	-	-	-	-	(58,403)
Net change in fund balances	4,981	189	4,514	443	7	(1,888)	1,014	475	-	(110,615)	-	(100,880)
Beginning fund balance	2,045	10,637	19,742	9,351	735	6,222	6,590	5,627	-	205,247	-	266,194
Ending fund balance	\$ 7,024	\$ 10,826	\$ 24,256	\$ 9,794	\$ 742	\$ 4,334	\$ 7,604	\$ 6,102	\$ -	\$ 94,632	\$ -	\$ 165,314

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

918-803-4868 OFFICE

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*

Honorable Chairman and Board of Directors
City of Grove
Grove, State of Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grove, State of Oklahoma ("the City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 18, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

Very truly yours,

A handwritten signature in cursive script that reads "Langley & Littlefield, PLLC".

LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

November 18, 2014

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

918-803-4868 OFFICE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Chairman and Board of Directors
City of Grove
Grove, State of Oklahoma

We have audited the City of Grove, State of Oklahoma's ("the City") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

OTHER MATTERS

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A- 133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Very truly yours,



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

November 18, 2014

CITY OF GROVE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

15.605 Sport Fish Restoration Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000 or 33% of total Federal expenditures

Auditee qualified as low-risk auditee? yes no

Section II—Financial Statement Findings

There were no reported significant deficiencies as presented in the Schedule of Findings and Responses related to internal control deficiencies over financial reporting.

There were no reported material weaknesses as presented in the Schedule of Findings and Responses related to internal control deficiencies over financial reporting.

Section III—Federal Award Findings and Questioned Costs

There were no reported deficiencies in the Schedule of Findings and Responses related to internal control deficiencies over compliance with federal awards.

CITY OF GROVE, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Direct Programs			
Federal Emergency Management Agency	20.106	N/A	\$ 28,000
U.S. Department of Transportation			
Federal Aviation Commission	20.106	N/A	93,933
		Total Direct Programs	<u>121,933</u>
Pass Through Programs			
U.S. Department of Education			
<i>Oklahoma State Department of Education - Drug Abuse Resistance Education (D.A.R.E)</i>			
Safe and Drug-Free Schools and Communities—State Grants	84.186	FY14	51,000
U.S. Department of Transportation			
<i>Oklahoma Highway Safety Office</i>			
State and Community Highway Safety	20.600	164AL-14-03-13-05	14,827
State and Community Highway Safety	20.600	PT-13-03-08-04	4,492
State and Community Highway Safety	20.600	PT14-03-18-05	15,500
U.S. Department of Interior			
<i>OK Dept. of Wildlife Conservation</i>			
Sport Fish Restoration Program	15.605	Oklahoma AMD 12	115,500
U.S. Environmental Protection Agency			
<i>OK Water Resources Board</i>			
OK Water Resources Board	66.468	ORF-13-007-DW	1,448,692
		Total Pass Through Programs	<u>1,650,011</u>
		Total Expenditure of Federal Awards	<u>\$ 1,771,944</u>

See accompanying notes to schedule of expenditures of federal awards.

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Grove, Oklahoma under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is pr

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. whc

(2) Pass-through entity identifying numbers are presented where available.