

**CRAIG COUNTY, OKLAHOMA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2002**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR
OKLAHOMA CITY

CLIFTON H. SCOTT
State Auditor and Inspector

2300 N. Lincoln Blvd.
100 State Capitol
Oklahoma City, OK 73105-4896
405/521-3495

January 8, 2003

TO THE CITIZENS OF
CRAIG COUNTY, OKLAHOMA

Transmitted herewith is the audit of Craig County, Oklahoma, for the fiscal year ended June 30, 2002. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Clifton H. Scott".

CLIFTON H. SCOTT
State Auditor and Inspector

CRAIG COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

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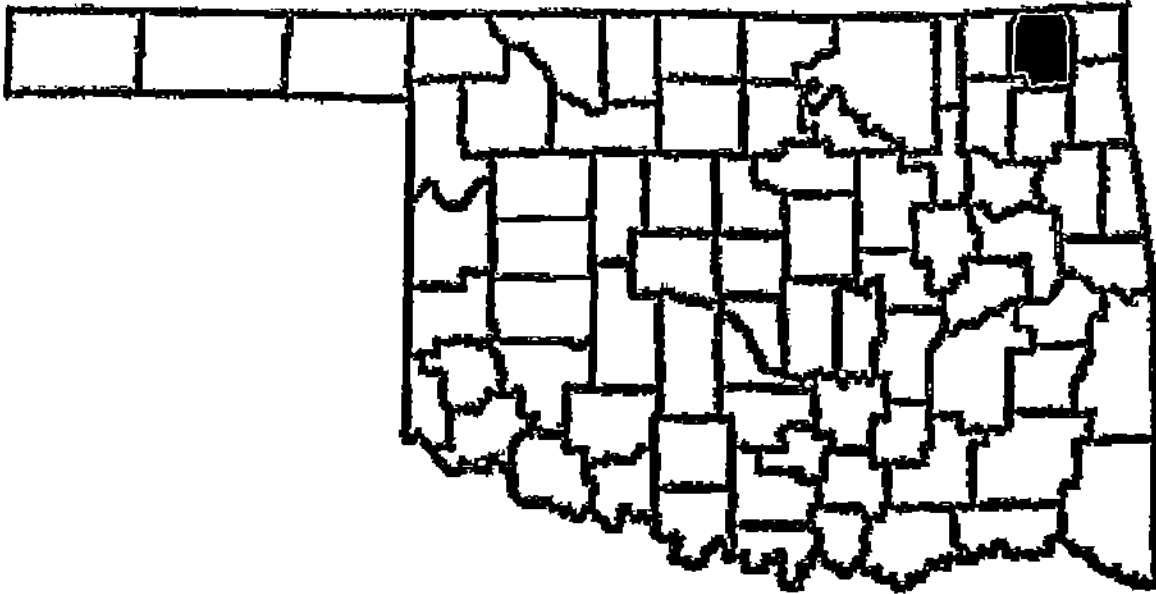
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REPORT TO THE CITIZENS
OF
CRAIG COUNTY, OKLAHOMA



Craig County was created at statehood. Named for Granville Craig, a prominent Cherokee, this area was part of the Cherokee Nation. Vinita, the county seat, was established in 1891 at the junction of the Missouri, Kansas, and Texas Railroad (KATY) and the Atlantic and Pacific Railroad, (later the Frisco), the first rail lines to enter Oklahoma.

County Seat - Vinita

Area-761.1 Square Miles

County Population - 14,468
(1999 est.)

Farms - 1,120

Land in Farms -- 418,352 Acres

Source: Oklahoma Almanac 2001-2002

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY ASSESSOR
Kelli Beisly Minson
(D) Vinita

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, §8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK
Tammy Malone
(D) Vinita

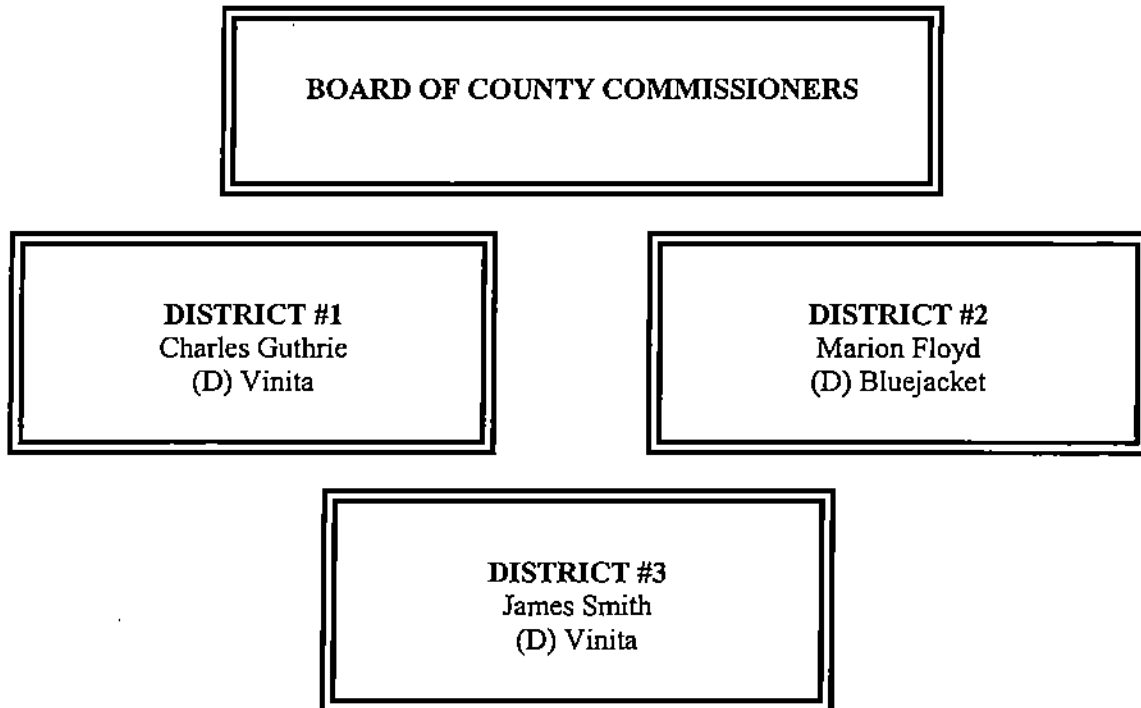
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY SHERIFF
Jimmie Sooter
(D) Vinita

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Joan Barnett
(D) Vinita

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COURT CLERK
Julie Patrick
(D) Vinita

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
Ernest "Gene" Haynes
(D) Claremore

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

ELECTION BOARD SECRETARY

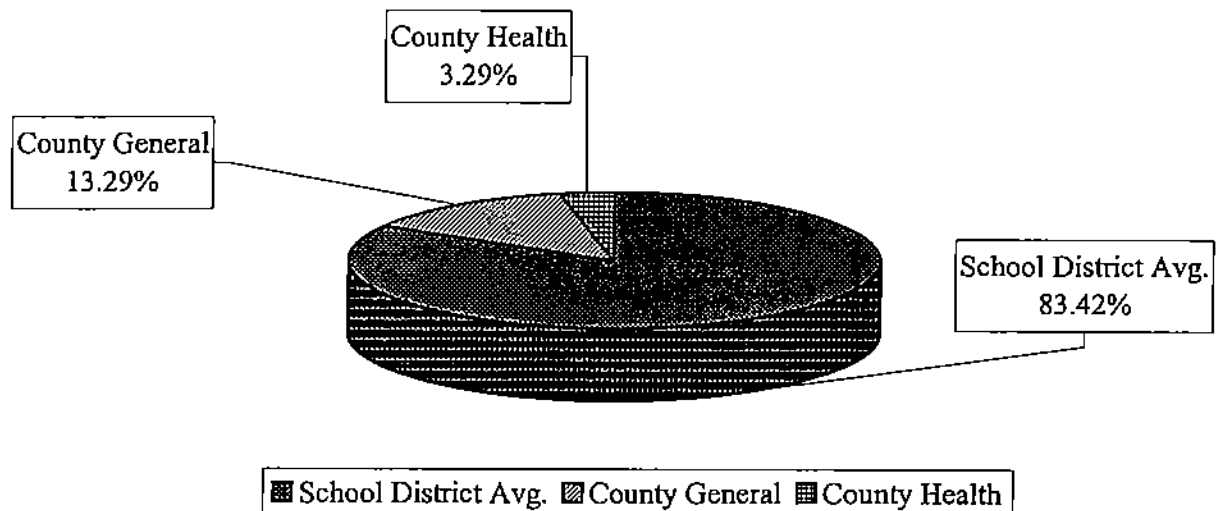
La Juana Robison
(D) Vinita

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**AD VALOREM TAX DISTRIBUTION
CRAIG COUNTY, OKLAHOMA
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages						
			Gen.	Bldg.	Skg.	Vo-tech	Common	Total
Co. General	10.37	I-1 White Oak	38.45	5.49	12.23	10.37	4.15	70.69
Co. Health	2.57	I-3 Chelsea	37.14	5.31	23.56	10.37	4.15	80.53
		D-6 Cleora	35.44	5.06	-	10.37	4.15	55.02
		I-6 Ketchum	36.01	5.14	7.59	10.37	4.15	63.26
		I-17 Welch	35.66	5.09	10.54	10.37	4.15	65.81
		I-20 Bluejacket	36.99	5.28	-	10.37	4.15	56.79
		I-26 Afton	36.82	5.26	-	10.37	4.15	56.60
		I-65 Vinita	36.08	5.15	16.45	10.37	4.15	72.20

See independent auditor's report.

Independent Auditor's Report



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR
OKLAHOMA CITY
Independent Auditor's Report

CLIFTON H. SCOTT
State Auditor and Inspector

2300 N. Lincoln Blvd.
100 State Capitol
Oklahoma City, OK 73105-4896
405/521-3495

TO THE OFFICERS OF
CRAIG COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Craig County, Oklahoma, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of Craig County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Craig County Finance Authority, a component unit of Craig County. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts included for the Craig County Finance Authority, is based on the report of other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As explained in Note (1H), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the report of the other auditors, and except for the effect on the general-purpose financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Craig County, Oklahoma, as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2002, on our consideration of Craig County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Craig County, Oklahoma, taken as a whole. The information listed in the table of contents under *Introductory Section* has not been audited by us and accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clifton H. Scott".

CLIFTON H. SCOTT
State Auditor and Inspector

September 23, 2002

General-Purpose Financial Statements

**CRAIG COUNTY, OKLAHOMA
COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUP
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Types	Account Group	Total
	General	Special Revenue	Enterprise	Trust and Agency	General Long- Term Debt	(Memorandum Only)
Cash and investments	\$ 1,097,545	\$ 982,010	\$ 114,143	\$ 354,177	\$	\$ 2,547,875
Restricted cash reserve enhancement			2,968			2,968
Ad valorem taxes receivable	9,641	2,408		63,487		75,536
Sales tax receivable	79,083					79,083
Accrued interest receivable	1,947			32		1,979
Due from other governments	4,094	173,170		8,027		185,291
Mortgage receivable			1,521,029			1,521,029
Prepaid trustee fees			944			944
Amount to be provided for retirement of general long-term debt					108,895	108,895
Amount to be provided for capitalized lease agreements					325,187	325,187
Issuance costs			140,290			140,290
Less: Accumulated amortization			(80,938)			(80,938)
Total assets	<u>\$ 1,192,310</u>	<u>\$ 1,157,588</u>	<u>\$ 1,698,436</u>	<u>\$ 425,723</u>	<u>\$ 434,082</u>	<u>\$ 4,908,139</u>
LIABILITIES AND FUND EQUITY						
Liabilities:						
Warrants payable	\$ 82,439	\$ 181,856	\$	\$	\$	\$ 264,295
Accounts payable	7,567	157,362				164,929
Mortgage service fee payable			328			328
Bonds payable			1,525,000			1,525,000
Due to other taxing units				122,310		122,310
Due to others				303,413		303,413
Judgments payable					108,895	108,895
Capitalized lease obligations payable					325,187	325,187
Total liabilities	<u>90,006</u>	<u>339,218</u>	<u>1,525,328</u>	<u>425,723</u>	<u>434,082</u>	<u>2,814,357</u>
Fund equity:						
Retained earnings:						
Restricted			2,968			2,968
Unrestricted			170,140			170,140
Fund balances:						
Reserved for encumbrances	15,943	54,417				70,360
Unreserved:						
Undesignated	1,086,361	763,953				1,850,314
Total fund equity	<u>1,102,304</u>	<u>818,370</u>	<u>173,108</u>	<u>-</u>	<u>-</u>	<u>2,093,782</u>
Total liabilities and fund equity	<u>\$ 1,192,310</u>	<u>\$ 1,157,588</u>	<u>\$ 1,698,436</u>	<u>\$ 425,723</u>	<u>\$ 434,082</u>	<u>\$ 4,908,139</u>

The notes to the financial statements are an integral part of this statement.

CRAIG COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Ad valorem taxes	\$ 618,543	\$ 190,176	\$ 808,719
Sales tax	913,097		913,097
Charges for services	78,690	222,453	301,143
Intergovernmental revenues	224,972	2,080,824	2,305,796
Miscellaneous revenues	200,927	136,687	337,614
Total revenues	<u>2,036,229</u>	<u>2,630,140</u>	<u>4,666,369</u>
Expenditures:			
Current operating:			
General government	876,240	21,048	897,288
Public safety	363,335	201,700	565,035
Culture and recreation	24,980	3,570	28,550
Education	32,056		32,056
Health and welfare	16,466	163,791	180,257
Roads and highways	721,241	2,764,048	3,485,289
Debt service:			
Principal retirement			
Interest and fiscal agent charges			
Total expenditures	<u>2,034,318</u>	<u>3,154,157</u>	<u>5,188,475</u>
Excess of revenue over (under) expenditures	1,911	(524,017)	(522,106)
Other financing sources (uses):			
Capitalized lease agreements		106,091	106,091
Total other financing sources (uses)	<u>-</u>	<u>106,091</u>	<u>106,091</u>
Excess of revenues and other sources over (under) expenditures and other uses	1,911	(417,926)	(416,015)
Beginning fund balances	<u>1,100,393</u>	<u>1,236,296</u>	<u>2,336,689</u>
Ending fund balances	<u>\$ 1,102,304</u>	<u>\$ 818,370</u>	<u>\$ 1,920,674</u>

The notes to the financial statements are an integral part of this statement.

CRAIG COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
-BUDGET AND ACTUAL-GENERAL AND SPECIAL REVENUE
(COUNTY HEALTH DEPARTMENT ONLY) FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	General			Special Revenue Funds County Health Department		
	Budget	Actual	Variance	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 997,805	\$ 997,909	\$ 104	\$ 268,252	\$ 270,598	\$ 2,346
Revenues:						
Ad valorem taxes	572,059	620,264	48,205	138,981	154,916	15,935
Sales tax	151,745	916,564	764,819			
Charges for services	71,231	78,690	7,459		66,003	66,003
Intergovernmental revenues	1,061,919	225,277	(836,642)		2,315	2,315
Miscellaneous revenues	243,395	200,883	(42,512)	66,562	8,907	(57,655)
Total revenues, budgetary basis	<u>2,100,349</u>	<u>2,041,678</u>	<u>(58,671)</u>	<u>205,543</u>	<u>232,141</u>	<u>26,598</u>
Expenditures:						
Current operating:						
General government	913,457	876,485	36,972			
Public safety	405,029	379,090	25,939			
Health and welfare	18,007	16,524	1,483	473,795	174,589	299,206
Culture and recreation	25,000	24,981	19			
Education	35,000	29,669	5,331			
Roads and highways	1,701,661	905,190	796,471			
Total expenditures, budgetary basis	<u>3,098,154</u>	<u>2,231,939</u>	<u>866,215</u>	<u>473,795</u>	<u>174,589</u>	<u>299,206</u>
Excess of revenues, other sources, and beginning fund balances over expenditures and other uses	<u>\$ -</u>	<u>807,648</u>	<u>\$ 807,648</u>	<u>\$ -</u>	<u>328,150</u>	<u>\$ 328,150</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem tax receivable		9,641			2,408	
Sales tax receivable		79,083				
Due from other governments		4,094				
Accrued interest		1,947				
Reserve for encumbrances		15,943			10,094	
Additional reserves		<u>183,948</u>				
Ending fund balances		<u>\$ 1,102,304</u>			<u>\$ 340,652</u>	

The notes to the financial statements are an integral part of this statement.

CRAIG COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002

	Component Unit Craig County Finance Authority
Revenues	\$ <u> -</u>
Expenses	
Audit expense	2,000
Enhancement fees	2,302
Mortgage service fees	1,922
Payments to Hornet Replacement Service	12,979
Repayment of interest savings to U.S. Treasury	16,316
Trustee fees	<u>1,919</u>
Total expenses	<u>37,438</u>
Operating income (loss)	<u>(37,438)</u>
Other revenues and expenses	
Interest earned	134,926
Interest expense	(110,400)
Amortization expense	<u>(2,968)</u>
Total other revenues and expenses	<u>21,558</u>
Net loss	(15,880)
Retained earnings, beginning of year	<u>188,988</u>
Retained earnings, end of year	<u>\$ 173,108</u>

The notes to the financial statements are an integral part of this statement.

**CRAIG COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Craig County Finance Authority</u>
Cash flows from operating activities:	
Net (loss)	\$ (15,880)
Adjustments to reconcile net income to net cash provided by operating activities	
Amortization	2,968
(Increase) decrease in mortgages receivable	27,542
(Increase) decrease in prepaid trustee fees	<u>(944)</u>
Net cash provided (used) by operating activities	13,686
Cash flows from investing activities	-
Cash flows from financing activities:	
Decrease in bonds payable	<u>(35,000)</u>
Net increase (decrease) in cash and cash equivalents	(21,314)
Cash and cash equivalents at beginning of year	<u>138,425</u>
Cash and cash equivalents at end of year	<u>\$ 117,111</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

I. Summary of Significant Accounting Policies

The financial statements of Craig County are required to be presented in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with accounting principles generally accepted in the United States of America the County is required to present the entities that comprise the primary government and its legally separate component units in the fiscal year 2002 general-purpose financial statements.

Blended Component Unit

The following component unit has been presented in the primary government's proprietary fund type as a blended component unit because the component unit's governing body is substantially the same as the governing body of the County or the component unit provides services almost entirely to the primary government.

Craig County Finance Authority - The Authority is a public trust organized under the provisions of Title 60 of the Oklahoma statutes for the benefit of Craig County, Oklahoma. The Craig County Board of County Commissioners is also the Board of Trustees for the Authority, and the Authority may not issue debt without the County's approval.

Separate financial statements of the Authority with a fiscal year ending December 31, 2001, are available. A copy of these financial statements is available at the Craig County Clerk's office. Those financial statements have been included in the total reporting entity, Craig County, which has a fiscal year ending June 30, 2002.

Related Organizations Excluded from the Reporting Entity

The County officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointment. This organization is not included in the financial statements.

Craig County Hospital Authority

Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into the following categories: governmental, proprietary, and fiduciary. Each category in turn is divided into separate fund types.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except those that conflict with GASB pronouncements.

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Summary of Significant Accounting Policies (continued)

Account Groups

General Fixed Assets Account Group (GFAAG) - Accounting principles generally accepted in the United States of America require that those fixed assets of a government not reported in a proprietary fund or a trust fund be reported in a general fixed assets account group (GFAAG). This account group is not a fund. It does not have a balance sheet as such, nor does it report operations. Instead, the GFAAG serves as a list of the government's fixed assets and is designed to ensure accountability.

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes, warrants), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., capitalized lease-purchase obligations and compensated absences).

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust funds, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types, pension trust funds, and nonexpendable trust funds. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Summary of Significant Accounting Policies (continued)

The modified-accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available).

“Measurable” means the amount of the transaction can be quantified, and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources.

Those revenues susceptible to accrual are property taxes, sales tax, interest revenue, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma statutes, the general fund and County Health Department are required to adopt a formal budget. The budget presented for the general and special revenue (County Health Department only) funds include the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds presents comparisons of the legally adopted budget with actual data. The “actual” data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

Summary of Significant Accounting Policies (continued)

E. Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Investments are carried at cost, which approximates market value. All funds were fully invested or deposited in interest bearing demand accounts at June 30, 2002.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits and investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

H. Fixed Assets

While the County presently maintains some individual records of personal property, it does not keep similar records for land, buildings, and improvements. For this reason, a Statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not presented on the Combined Balance Sheet - All Fund Types and Account Group.

I. Risk Management

The County is exposed to various risks of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability - Vehicle	The County participates in a public entity risk pool – Association of County Commissioners of Oklahoma – Self Insured Group. (See ACCO-SIG).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.

Summary of Significant Accounting Policies (continued)

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Worker's Compensation - Employees' Injuries	The County participates in a public entity risk pool. (See ACCO Self-Insured Fund ACCO-SIF).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life - Medical - Disability - Dental - Life	The County carries commercial insurance for these types of risk.	None.

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county pays a deductible amount (\$1,000 to \$10,000; Craig County has a \$2,500 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool pays legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

ACCO-SIF - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and pays legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

The County continues to carry commercial insurance for employees' health and accident insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. No significant reductions in insurance coverage occurred during the fiscal year ended June 30, 2002.

J. Compensated Absences

The County does not accrue any liability for future vacation benefits. Vacation benefits are earned by the employee during the year and may be accumulated. The amount of accumulated unpaid vacation benefits is not material to the financial statements for the fiscal year ending June 30, 2002.

Summary of Significant Accounting Policies (continued)

K. Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

L. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund transactions have not been eliminated from the total column of each financial statement.

M. Grant Revenue

Revenues from state grants are recognized when expenditures are incurred.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

3. Detailed Notes on Account Balances

A. Deposits

Title 62 O.S. § 348.1 authorizes the County Treasurer to invest in:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- General obligation bonds issued by counties, municipalities, or school districts
- Money judgments against counties, municipalities, or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality, or school district

CRAIG COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Detailed Notes on Account Balances (continued)

Deposits - Primary Government - At year-end, the carrying amount of the County's deposits, excluding the Craig County Finance Authority, was \$2,433,732 and the bank balance was \$2,467,323. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the County's agent in the County's name.

Public trusts that have the state or a county as a beneficiary must only invest in certificates of deposit or other evidence of deposit.

These restrictions do not apply to the proceeds of bonds issued by the Craig County Finance Authority or the revenues that service the debt in accordance with Title 62 O.S. § 72.4a.

Deposits - Craig County Finance Authority

At year-end, the carrying amount of the Authority's deposits was \$117,111 and the bank balance was \$117,111. Of the bank balance, all funds were covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

B. Receivables

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The net assessed property value as of January 1, 2001, was approximately \$59,026,731. The County levied 10.37 mills for general fund operations and 2.57 mills for the County Health Department. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2002, were approximately 96 percent of the tax levy.

Detailed Notes on Account Balances (continued)

C. Pension Plan

Plan Description. Craig County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributed between 5% and 10% of earned compensation for fiscal year 2002. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributed 10% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2002, 2001, and 2000, were \$192,855, \$175,283, and \$164,302, respectively, equal to the required contributions for each year.

D. Operating Leases

There were no operating leases for fiscal year 2002.

E. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest-free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired. The one-time fee is reported as interest. Oklahoma statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, because it is the County's intent to exercise its right to purchase this property, the lease-purchase agreements have been capitalized to conform to accounting principles generally accepted in the United States of America. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

CRAIG COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Detailed Notes on Account Balances (continued)

Providing all capital leases are renewed each year by resolution of the Board of County Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2002, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 89,091	\$ 16,003	\$ 105,094
2004	94,224	10,871	105,095
2005	86,711	5,564	92,275
2006	<u>55,161</u>	<u>1,336</u>	<u>56,497</u>
Totals	\$ <u>325,187</u>	\$ <u>33,774</u>	\$ <u>358,961</u>

During the year, the County capitalized leases totaling \$106,091 and paid \$84,501 on the outstanding balances of lease-purchase agreements.

F. Judgments Payable

The County has one judgment that will be retired by a tax levy. The County is obligated to pay the judgment over a three-year period. During the fiscal year ending June 30, 2002, there were no principal or interest payments made on this judgment.

The principal amount of the judgment is \$108,895 with a simple interest rate of 8.73% annum.

G. Long-Term Debt

Changes in Long-Term Debt

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Judgments Payable	\$ 108,895	\$	\$	\$ 108,895
Capital Leases	<u>303,597</u>	<u>106,091</u>	<u>84,501</u>	<u>325,187</u>
Total	<u>\$ 412,492</u>	<u>\$ 106,091</u>	<u>\$ 84,501</u>	<u>\$ 434,082</u>

Detailed Notes on Account Balances (continued)

H. Fund Balance

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserved for Encumbrances- The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

I. Sales Tax

On September 15, 1998, the County voted to extend an existing one-cent sales tax for five years. This tax will expire on September 14, 2003. The purpose of the tax is to provide revenue for the support of the functions of the government of Craig County, Oklahoma, and all revenue derived from this tax shall be applied thereto in the following manner:

75% Roads
15% County General
10% Law Enforcement

J. Fuel Taxes

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for road and highways only and are accounted for in the County highway fund. The County highway fund is reported herein as "special revenue," and the fuel tax revenue is presented as "intergovernmental."

4. Contingent Liabilities

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

CRAIG COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2002

Contingent Liabilities (continued)

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

5. Additional Component Unit Disclosures

The following additional notes have been excerpted from the separately issued financial statements of the Craig County Finance Authority.

Amortization

Amortization is calculated using the straight-line basis over the life of the bonds issued.

Board of Trustees

Chairman	Charles Guthrie
Secretary	Frank Floyd
Trustee	James Smith

Changes in Bonds Payable

	Balance 1/1/2001	Proceeds	Principal Paid	Balance 12/31/2001
Bond Issue 1992a	\$ <u>1,560,000.00</u>	\$ _____	\$ <u>35,000.00</u>	\$ <u>1,525,000.00</u>

Bond Issuance Costs

	Balance 1/1/01	Additions	Deletions	Balance 12/31/01
Issuance Costs	\$ 140,289.70	\$ _____	\$ _____	\$ 140,289.70
Less: Accumulated Amortization	<u>77,970.20</u>	<u>2,967.60</u>	_____	<u>80,937.80</u>
Net Issuance Costs	<u>\$ 62,319.50</u>	<u>\$ 2,967.60</u>	<u>\$.</u>	<u>\$ 59,351.90</u>

Legal Compliance

Stewardship compliance, and accountability are key concepts in defining the responsibilities of the Craig County Finance Authority.

CRAIG COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2002

Additional Component Unit Disclosures (continued)

Bonds Payable

The Authority approved a resolution authorizing the issuance of certain refunding obligations of the Craig County Finance Authority in one or more series of a total aggregate principal amount not to exceed \$2,500,000. Therefore the Oklahoma Housing Finance Agency has heretofore issued and delivered its Mortgage Revenue Bonds (FHA Insured Mortgage - Hornet Section 8 Assisted Project) under the terms and conditions of a related Bond Indenture in order to finance the construction and development of a 50 unit multi-family low to moderate income residential rental project known as Hornet Apartments.

The Authority issued (2) two bond issues during 1992 for the amounts of \$1,770,000 (referred to as Series 1992A) and \$70,000 (referred to as 1992B) for a combined total issue amount of \$1,840,000.

Series 1992A Bond Issue

The Bonds were issued on July 1, 1992, have an interest rate of 7.125%, and require semi-annual interest payments to be made on July 1st and January 1st each year until the bonds are due on January 1, 2022.

The following is a schedule of maturities for the 1992A Bond Issue:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 30,000.00	\$ 108,037.51	\$ 138,037.51
2003	35,000.00	105,984.38	140,984.38
2004	40,000.00	103,312.50	143,312.50
2005	40,000.00	100,462.50	140,462.50
2006	45,000.00	97,612.50	142,612.50
Thereafter	<u>1,335,000.00</u>	<u>907,546.46</u>	<u>2,242,546.46</u>
Total	<u>\$ 1,525,000.00</u>	<u>\$ 1,422,955.85</u>	<u>\$ 2,947,955.85</u>

CRAIG COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Additional Component Unit Disclosures (continued)

Mortgages Receivable

The Craig County Housing Finance Authority executed and delivered to the Hornet Housing Associates a Mortgage Note dated February 25, 1992, with an interest rate per annum of 10.5% to be decreased to 7.5% per annum on April 1, 2001, until the loan balance is paid. Monthly interest and principal payments required by the mortgage loan of currently \$15,199 will be reduced to \$12,188 effective May 1, 2001. The Mortgage Revenue Bonds, Series 1990, were refunded on February 1, 1992, by the issuance of \$1,700,000 Mortgage Refunding Revenue Bonds, Series 1992A and \$70,000 Mortgage Refunding Revenue Bonds, Series 1992B, issued by the Craig County Housing Finance Authority. The mortgage receivable balance at December 31, 2001, was \$1,521,029.24.

The following will be the maturities of the mortgage receivable for the following five years:

2002	\$ 33,309.55
2003	35,895.49
2004	38,682.15
2005	41,685.13
2006	44,921.25
Thereafter	<u>1,326,535.67</u>
Total	<u>\$1,521,029.24</u>

Release of Funds Authorization

The Oklahoma Housing Finance Authority, as the "Section 8" Contract Administrator, authorized the release of funds from the Craig County Housing Finance Authority Replacement Reserve to the Hornet Apartment Replacement Reserve in the total amount of \$12,979.48.

Restricted Assets

Certain proceeds of authority funds are classified as restricted assets on the balance sheet because their use is limited.

Calendar Year-End

The Craig County Finance Authority reports using the calendar year (December 31st) rather than the fiscal year ending June 30th, as the primary government. The balance sheet disclosure for the component unit is as of December 31, 2001.

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR
OKLAHOMA CITY

CLIFTON H. SCOTT
State Auditor and Inspector

2300 N. Lincoln Blvd.
100 State Capitol
Oklahoma City, OK 73105-4896
405/521-3495

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

TO THE OFFICERS OF
CRAIG COUNTY, OKLAHOMA

We have audited the financial statements of Craig County, Oklahoma, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 23, 2002. We qualified our opinion because the general fixed assets account group was not included in the general-purpose financial statements. We did not audit the financial statements of the Craig County Finance Authority, a component unit of Craig County. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts included for the Craig County Finance Authority, is based on the report of the other auditors. 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.

Compliance

As part of obtaining reasonable assurance about whether Craig County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Craig County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below.

Finding 98-1 (Repeat Finding)

Criteria: Accounting principles generally accepted in the United States of America for a governmental entity using governmental fund types require the presentation of the general fixed assets account group (GFAAG) in the financial statements.

Condition: Information is not available for reporting general fixed assets in accordance with accounting principles generally accepted in the United States of America for a government entity. The county does not maintain a summary listing with the required information for land, buildings, and improvements. The general fixed assets control account is not accurate.

Effect: This component of internal control is not effective. Accordingly, there is a greater risk that a fixed asset may not be properly accounted for and safeguarded against loss.

Recommendation: We recommend records include acquisition cost, a complete description, purchase date, location of such asset, and that a control total of the cost of these assets be maintained and reconciled annually.

Management's Corrective Action Plan -

Contact Person: Tammy Malone, County Clerk

Anticipated Completion Date: None

Corrective Action Planned: No planned corrective action is anticipated to obtain fixed assets records in such a manner that general fixed assets could be reported in accordance with accounting principles generally accepted in the United States of America.

Finding 98-2 (Repeat Finding)

Criteria: The overall goal of accounting principles generally accepted in the United States of America as they relate to governmental entities is to demonstrate accountability and stewardship in management's accounting for funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: Based on inquiries of County personnel, it was noted that the duties of receiving, receipting, recording, and depositing collections were not adequately segregated.

Cause: This lack of segregation of duties is caused by the limited number of employees.

Effect: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: Management should be aware of these conditions and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of County operations and periodic review of those operations.

Management's Corrective Action Plan -

Contact Person: Joan Barnett, County Treasurer

Anticipated Completion Date: Unknown

Corrective Action Planned: We agree the duties of receiving, receipting, recording, and depositing cash and checks should be segregated. The County acknowledges this condition and understands the risks associated with it. We plan to discuss this situation during the budget process and will comply if it is cost effective and feasible. Management is aware of County operations and will be making periodic reviews of those operations.

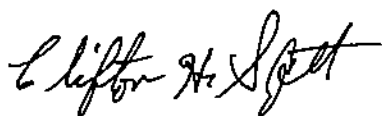
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 98-1 and 98-2 to be material weaknesses.

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the County and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



CLIFTON H. SCOTT
State Auditor and Inspector

September 23, 2002