

**CUSTER COUNTY, OKLAHOMA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2001**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR
OKLAHOMA CITY

CLIFTON H. SCOTT
State Auditor and Inspector

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Oklahoma City, OK 73105-4896
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May 22, 2002

TO THE CITIZENS OF
CUSTER COUNTY, OKLAHOMA

Transmitted herewith is the audit of Custer County, Oklahoma, for the fiscal year ended June 30, 2001. 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,

CLIFTON H. SCOTT
State Auditor and Inspector

CUSTER COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

TABLE OF CONTENTS

INTRODUCTORY SECTION (Unaudited)

Report to the Citizens of Custer County	ii
County Elected Officials and Responsibilities	iii
Ad Valorem Tax Distribution.....	vii

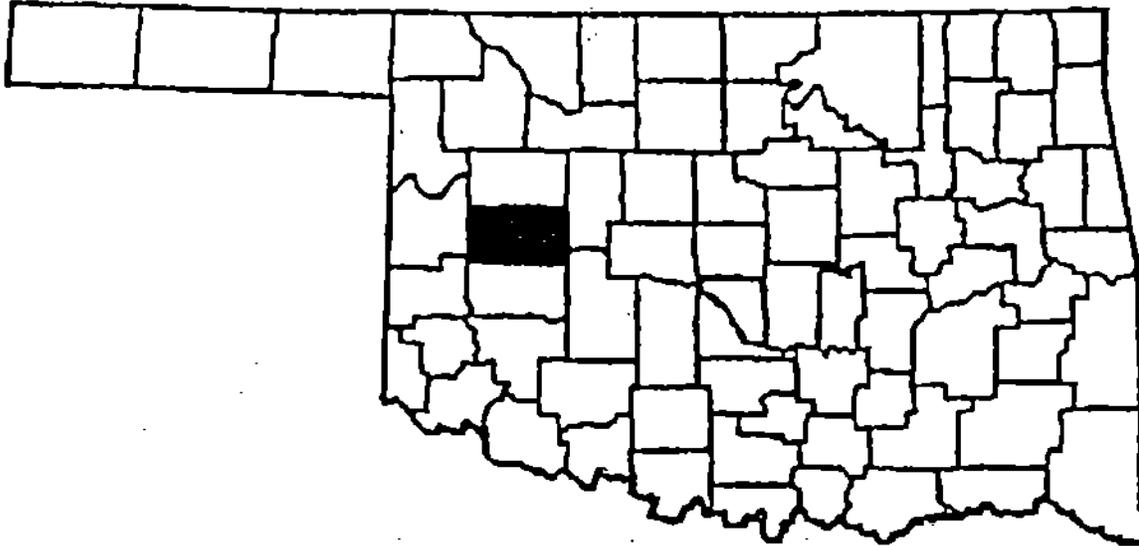
FINANCIAL SECTION

Report of State Auditor and Inspector.....	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups.....	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds	5
Notes to the Financial Statements.....	6
Supplementary Schedule:	
Schedule of Expenditures of Federal Awards	16

COMPLIANCE/INTERNAL CONTROL SECTION

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	19
Schedule of Findings and Questioned Costs	21
Management Response	23

REPORT TO THE CITIZENS
OF
CUSTER COUNTY



Custer County was part of the original Cheyenne-Arapaho Reservation established by treaty in 1867. It was named for General George A. Custer and was part of 3.5 million acres opened for settlement by the Land Run of April 19, 1892.

Both Clinton and Weatherford (15 miles east of Clinton) were established largely as a result of the westward expansion of the railroads. The Rock Island Railroad completed its east-west line to present day Clinton, then called Washita Junction, in 1903. A special act of Congress allowed four Indians to sell half of each of their 160 acre allotments to create the Clinton townsite.

The Territorial government established a two-year college for training teachers at Weatherford. This college has become a four-year university offering graduate degrees in the School of Pharmacy.

The economy of Custer is allied with oil and gas prices as the area lies atop the rich Anadarko Basin.

County Seat - Arapaho

Area - 981 Square Miles

County Population - 26,300
(1995 est.)

Farms - 864

Land in Farms - 634,176

Source: Oklahoma Almanac 2000-2001

See independent auditor's report

COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES

COUNTY ASSESSOR
Debbie Collins
(D) Butler

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, and assesses it at no more than 35 percent of its fair cash value.

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.

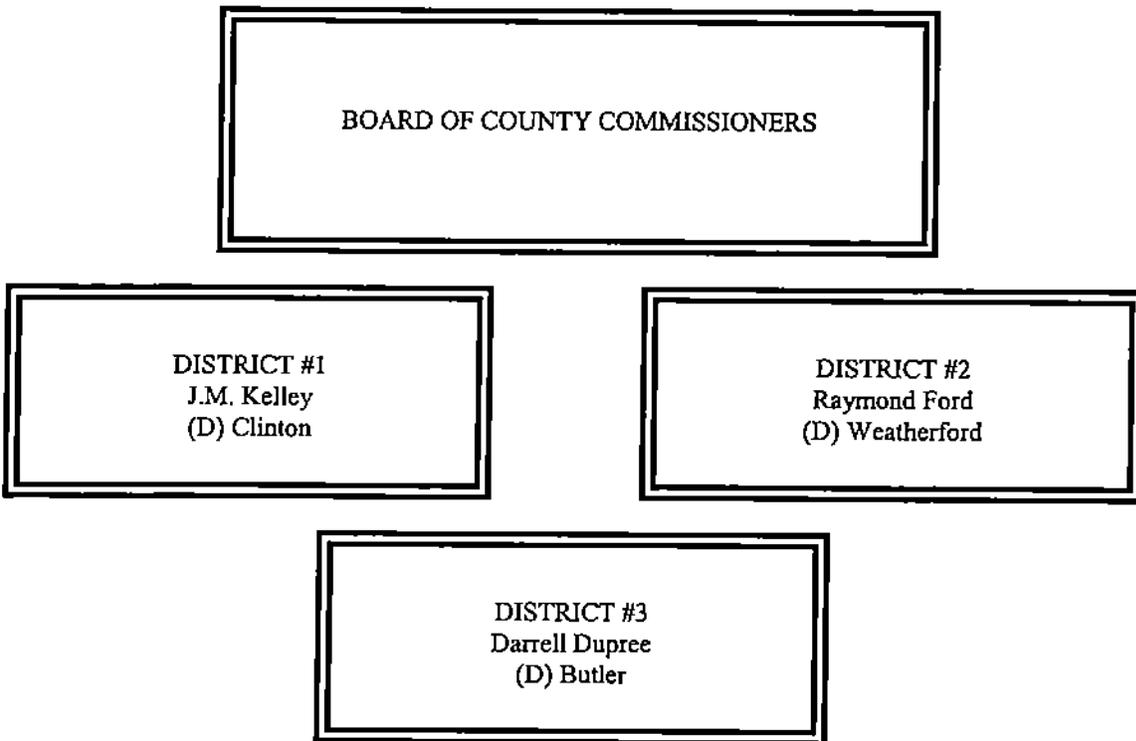
COUNTY CLERK
Connie Harris
(D) Arapaho

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.

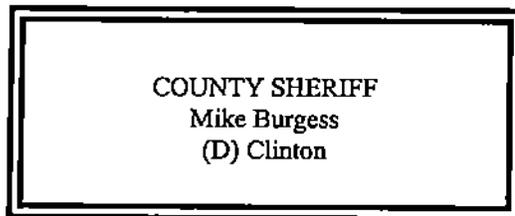
See independent auditor's report.



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.



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.

See independent auditor's report.

COUNTY TREASURER
Karen Klein Clanton
(D) Clinton

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.

COURT CLERK
Connie S. Burden
(D) Clinton

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
Richard Dugger
(D) Elk City

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. When any county in the district is involved in civil litigation, the District Attorney serves as its defender or prosecutor. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

ELECTION BOARD SECRETARY
Narci Smith
(D) Butler

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.

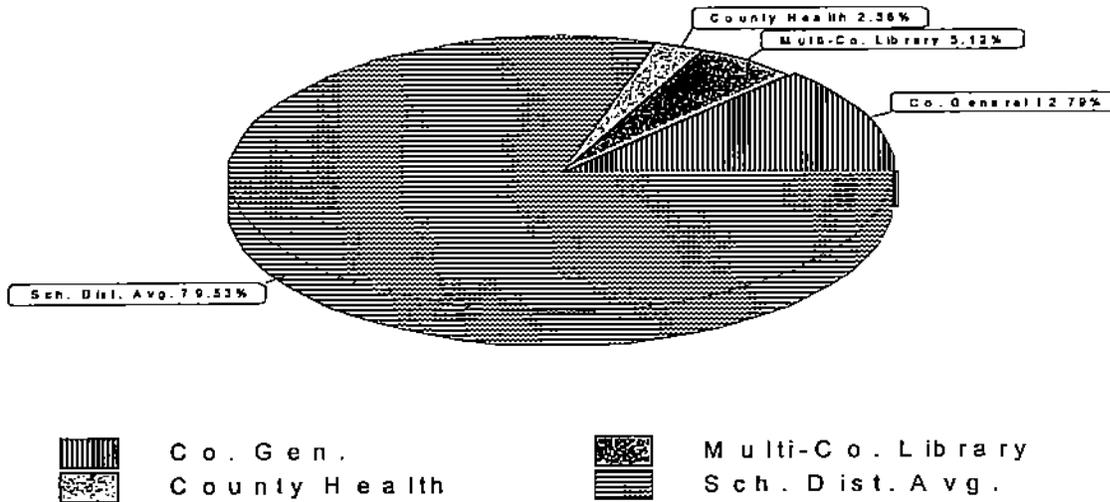
See independent auditor's report.

AD VALOREM TAX DISTRIBUTION

CUSTER 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

County General Fund	10.00
Multi-County Library	4.00
County Health	2.00

School District Millages:

	General	Sinking	Building	Vo-Tech	Common	Totals
1-5 Arapaho	35.00	5.04	5.00	10.00	4.00	59.04
1-7 TFC Unified	35.00	2.66	5.00		4.00	46.66
1-26 Weatherford	35.00	23.66	5.00	10.00	4.00	77.66
1-46 Butler	35.00	3.56	5.00		4.00	47.56
1-99 Clinton	35.00		5.00	10.00	4.00	54.00
1-1 Caddo	35.00	23.08	5.00	11.00	4.00	78.08
1-3 Roger Mills	35.00	19.06	5.00		4.00	63.06
1-6 Beckham	35.00	15.01	5.00	10.00	4.00	72.06
1-11 Washita	35.00		5.00	10.00	4.00	69.70
1-66 Roger Mills	35.00		5.00	10.00	4.00	54.00

See independent auditor's report.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

CLIFTON H. SCOTT
STATE AUDITOR AND INSPECTOR

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OKLAHOMA CITY, OK 73105-4896
405/521-3495

INDEPENDENT AUDITOR'S REPORT

TO THE OFFICERS OF
CUSTER COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Custer County, Oklahoma, as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of Custer County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

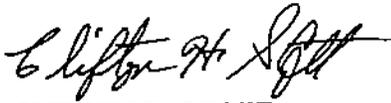
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Custer County, Oklahoma, as of June 30, 2001, and the results of its operations 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 March 28, 2002, on our consideration of Custer 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 Custer County, Oklahoma, taken as a whole. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Such information has governmental financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. The other 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,



CLIFTON H. SCOTT
State Auditor and Inspector

March 28, 2002

GENERAL-PURPOSE FINANCIAL STATEMENTS

CUSTER COUNTY, OKLAHOMA
 COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			FIDUCIARY	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	FUND TYPE	GENERAL	GENERAL	
				AGENCY	LONG - TERM DEBT	FIXED ASSETS	
ASSETS							
Cash and investments	\$ 1,465,910	\$ 7,098,361	\$ 83,077	\$ 1,071,451	\$	\$	\$ 9,718,799
Ad valorem taxes receivable	7,216	1,443		49,439			58,098
Sales tax receivable		120,481					120,481
Due from other governments	4,273	376,261		20,098			400,632
Accrued interest receivable	13,892	25,624	51	1,530			41,097
Fixed assets						12,037,926	12,037,926
Amount to be provided for capitalized lease purchase agreements					55,378		55,378
Total assets	<u>\$ 1,491,291</u>	<u>\$ 7,622,170</u>	<u>\$ 83,128</u>	<u>\$ 1,142,518</u>	<u>\$ 55,378</u>	<u>\$ 12,037,926</u>	<u>\$ 22,432,411</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Warrants payable	\$ 19,771	\$ 29,208	\$	\$	\$	\$	\$ 48,979
Accounts payable	46,697	241,273					287,970
Due to other taxing units				506,016			506,016
Due to others				636,502			636,502
Capitalized lease obligations payable					55,378		55,378
Total liabilities	<u>66,468</u>	<u>270,481</u>	<u>-</u>	<u>1,142,518</u>	<u>55,378</u>	<u>-</u>	<u>1,534,845</u>
Fund equity:							
Investment in general fixed assets						12,037,926	12,037,926
Fund balances:							
Reserved for encumbrances	2,860	27,051					29,911
Unreserved:							
Undesignated	1,421,963	7,324,638	83,128				8,829,729
Total fund equity	<u>1,424,823</u>	<u>7,351,689</u>	<u>83,128</u>	<u>-</u>	<u>-</u>	<u>12,037,926</u>	<u>20,897,566</u>
Total liabilities and fund equity	<u>\$ 1,491,291</u>	<u>\$ 7,622,170</u>	<u>\$ 83,128</u>	<u>\$ 1,142,518</u>	<u>\$ 55,378</u>	<u>\$ 12,037,926</u>	<u>\$ 22,432,411</u>

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

CUSTER COUNTY, OKLAHOMA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES			TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	
Revenues:				
Ad valorem taxes	\$ 1,212,253	\$ 276,582	\$	\$ 1,488,835
Sales tax		1,358,832		1,358,832
Charges for services	132,530	186,289		318,819
Intergovernmental revenues	312,913	5,642,431		5,955,344
Miscellaneous revenues	218,471	187,422	5,672	411,565
Total revenues	<u>1,876,167</u>	<u>7,651,556</u>	<u>5,672</u>	<u>9,533,395</u>
Expenditures:				
Current operating:				
General government	1,405,686	1,090,210		2,495,896
Public safety	371,622	161,567		533,189
Health and welfare	32,462	246,244		278,706
Roads and highways	126,276	3,587,424		3,713,700
Total expenditures	<u>1,936,046</u>	<u>5,085,445</u>	<u>-</u>	<u>7,021,491</u>
Excess revenues over (under) expenditures	<u>(59,879)</u>	<u>2,566,111</u>	<u>5,672</u>	<u>2,511,904</u>
Beginning fund balances	<u>1,484,702</u>	<u>4,785,578</u>	<u>77,456</u>	<u>6,347,736</u>
Ending fund balances	<u>\$ 1,424,823</u>	<u>\$ 7,351,689</u>	<u>\$ 83,128</u>	<u>\$ 8,859,640</u>

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

CUSTER 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, 2001

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 1,430,125	\$ 1,432,623	\$ 2,498	\$ 166,188	\$ 166,039	\$ (149)
Revenues:						
Ad valorem taxes	1,141,096	1,211,986	70,890	228,219	242,397	14,178
Charges for services	121,895	132,530	10,635		13,399	13,399
Intergovernmental revenues	47,136	312,913	265,777	18,771	1,001	(17,770)
Miscellaneous revenues		245,000	245,000		4,803	4,803
Total revenue, budgetary basis	<u>1,310,127</u>	<u>1,902,429</u>	<u>592,302</u>	<u>246,990</u>	<u>261,600</u>	<u>14,610</u>
Expenditures:						
General government	2,177,026	1,404,765	772,261			
Public safety	390,335	372,405	17,930			
Health and welfare	33,000	32,962	38	413,178	246,244	166,934
Culture and recreation	13,615		13,615			
Roads and highway	126,276	126,276				
Total expenditures, budgetary basis	<u>2,740,252</u>	<u>1,936,408</u>	<u>803,844</u>	<u>413,178</u>	<u>246,244</u>	<u>166,934</u>
Excess of revenues and beginning fund balances over expenditures, budgetary basis	\$ -	1,398,644	\$ 1,398,644	\$ -	181,395	\$ 181,395
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem receivable		7,216			1,443	
Accrued interest		13,892			352	
Due from other governments		4,273				
Reserved for encumbrances		2,860				
Adjustment to prior year reserved for encumbrances		(2,062)			1,141	
Ending fund balances		<u>\$ 1,424,823</u>			<u>\$ 184,331</u>	

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

NOTES TO THE FINANCIAL STATEMENTS

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

1. Summary of Significant Accounting Policies

The financial statements of Custer 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 the GASB Statement No. 14, *The Financial Reporting Entity*, the County is required to present the entities that comprise the primary government and its legally separate component units in the fiscal year 2001 general-purpose financial statements. The County had no component units in the fiscal year 2001.

B. Fund Accounting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 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.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Summary of Significant Accounting Policies (continued)

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.

Account Groups

General Fixed Assets Account Group (GFAAG) - Generally accepted accounting principles (GAAP) 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).

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.

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. Principal and interest on general long-term debt are recorded as fund expenditures when paid or when amounts for principal and interest have been accumulated in the debt service fund for payments to be made early in the following year.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Summary of Significant Accounting Policies (continued)

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 is required to adopt a formal budget. The budget presented for the general fund includes 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 fund 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.

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, 2001.

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.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Summary of Significant Accounting Policies (continued)

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, and drainage systems are not capitalized since these assets are immovable and of value only to the government.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment, and vehicles in the proprietary fund types is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Summary of Significant Accounting Policies (continued)

Worker's Compensation - Employees' Injuries	The county participates in a public entity risk pool.	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; Custer 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.

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, 2001.

J. Compensated Absences

The County does not accrue any liability for future vacation benefits. Vacation benefits are earned by the employees during the year and employees may accumulate no more than 10 working days for 1 to 10 years service and no more than 13 working days for 11 or more year's service. The amount of accumulated unpaid vacation benefits could not be determined for inclusion in the financial statements for the fiscal year ending June 30, 2001; hence no amount for compensated absences is reflected in the financial statements. In management's opinion, such an amount, if recorded, would not be material to the financial statements.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Summary of Significant Accounting Policies (continued)

The County does accumulate sick leave. From the date of employment, a full-time employee accrues up to 6.67 hours of sick leave per month. An employee may accrue up to 19 days of sick leave. No liability for such has been recorded. Sick leave can accrue up to a maximum of 120 days or 960 hours. If employment is terminated this benefit is lost. Accumulated unused sick leave, up to a maximum of 120 days, may be credited toward retirement upon the employee's retirement. In management's opinion, such an amount if recorded would not be material to the financial statements.

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 or results of operations in conformity with generally accepted accounting principles. Interfund transactions, if any, have not been eliminated from the total column of each financial statement.

M. Grant Revenue

Revenues from federal and 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 Custer County Board of County 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. 1996 Supp., § 348.1 authorizes the County Treasurer to invest in:

- U.S. Government obligations
- Certificates of deposit

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Detailed Notes on Account Balances (continued)

- 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

At year-end, the carrying amount of the County's deposits was \$9,718,799, and the bank balance was \$9,800,492. 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.

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. A continuous and systematic program of visual inspection of all taxable real property within the County is required at least once every four years.

The net assessed property value as of January 1, 2000, was \$125,520,551.

The County levied 10 mills (the legal maximum) for general fund operations, 4 mills for the Multi-County Library and 2 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 before 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, 2001, were approximately 98.14 percent of the levy for tax year 2000.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Detailed Notes on Account Balances (continued)

C. Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2001</u>
Land and buildings	\$ 5,410,134	\$ 47,003	\$ -	\$ 5,457,137
Machinery and equipment	<u>6,509,468</u>	<u>689,247</u>	<u>617,926</u>	<u>6,580,789</u>
Total general fixed assets	<u>\$11,919,602</u>	<u>\$736,250</u>	<u>\$617,926</u>	<u>\$12,037,926</u>

D. Pension Plan

Plan Description. Custer 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 5.0% and 10% of earned compensation for fiscal year 2001. 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, 2001, 2000, and 1999, were \$235,550, \$220,354, and \$265,539, respectively, equal to the required contributions for each year.

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. 1991, § 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.

CUSTER COUNTY, OKLAHOMA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Detailed Notes on Account Balances (continued)

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 generally accepted accounting principles. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

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, 2001, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 32,562	\$ 2,437	\$ 34,999
2001	<u>22,816</u>	<u>516</u>	<u>23,332</u>
Totals	\$ <u>55,378</u>	\$ <u>2,953</u>	\$ <u>58,331</u>

During the year, the County paid \$28,183 on the outstanding balances of lease-purchase agreements.

F. Changes in Long-Term Liabilities

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2001</u>
Capital leases	\$83,561	\$ -	\$28,183	\$55,378
Total	\$ <u>83,561</u>	\$ -	\$ <u>28,183</u>	\$ <u>55,378</u>

G. Operating Leases

The government is committed under various leases for road equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2001, amounted to \$45,200. There are no future payments for the leases for 2002.

H. Fund Balances

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. Designations of fund balances represent tentative plans for future use of financial resources, which are available for appropriation. Specific reservations of the fund balance accounts are summarized below.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2001

Detailed Notes on Account Balances (continued)

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. 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 roads 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.

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. Sales Tax

The citizens voted on a one half cent sales tax to begin October 1, 1996, and extend to October 31, 2001, for a five year period. The sales tax is apportioned 50% to general government, 30% to the Sheriff, 8% to Rural Fire, 8% to the OSU Extension, and 4% to Free Fair. The sales tax is accounted for as a special revenue fund and reported on the modified accrual basis. For the year ended June 30, 2001, \$1,358,832 in sales tax was distributed.

SUPPLEMENTARY SCHEDULE

Custer County, Oklahoma
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2001

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity ID Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed through the District Attorney's Council			
Local Law Enforcement Block Grant	16.592	LE99-533	\$ 6,102
 <u>U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Passed through the Oklahoma Department of Civil Emergency Management			
Public Assistance Grants	83.544	1355-DR	<u>499,417</u>
Total Expenditures of Federal Awards			<u>\$ 505,519</u>

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Custer County, and is presented on the *modified accrual basis of accounting*. Grant expenditures reported were paid or incurred as of June 30, 2001. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**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
CUSTER COUNTY, OKLAHOMA

We have audited the financial statements of Custer County, Oklahoma as of and for the year ended June 30, 2001, and have issued our report thereon dated March 28, 2002. 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 Custer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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

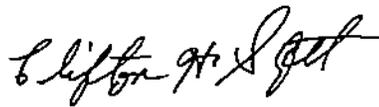
In planning and performing our audit, we considered Custer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2000-1.

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, federal awarding agencies, and pass-through entities 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

March 28, 2002

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

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 WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

TO THE OFFICERS OF
CUSTER COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Custer County, Oklahoma with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 County'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 of our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Custer County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

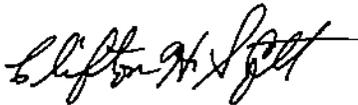
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider 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 for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

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

March 28, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CUSTER COUNTY, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2001

SECTION 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? 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 Circular A-133? No

Identification of Major Programs

<u>CFDA Number(s)</u> 83.544	<u>Name of Federal Program or Cluster</u> FEMA Public Assistance Grant
---------------------------------	--

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

CUSTER COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

SECTION 2 - Financial Statement Findings

Finding 2000-1 - Compensated Absences (Repeat Finding)

Criteria: Accounting principles generally accepted in the United States of America for governmental entities, namely GASB 16 (Accounting for Compensated Absences) establishes standards for the measurement of the compensated absences liability for governmental and proprietary fund types. The portion of the estimated future payments for compensated absences that will not require current expendable resources should be reported in the General Long-Term Debt Account Group.

Condition: Information is not available for reporting compensated absences in accordance with accounting principles generally accepted in the United States of America.

Effect: The County's financial statements are incomplete.

Recommendation: We recommend the County maintain adequate records of accumulated annual leave and compensated overtime, and that the records be reconciled annually to record the liability in the financial statements report.

SA&I Response: Per Custer County management, their response covers the fiscal year 2001 audit period.

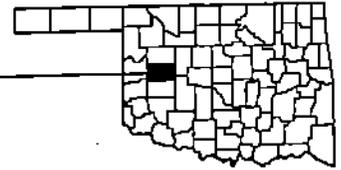
SECTION 3 - Federal Award Findings and Questioned Costs

No matters were reported.

MANAGEMENT RESPONSE

CUSTER COUNTY

Office of the County Commissioners



J.M. KELLEY, *Dist. #1*
580/323-1670
Larry Beboul, *Secretary*

RAYMOND FORD, *Dist. #2*
580/772-3220
Margie Lovelace, *Secretary*

DARRELL DUPREE, *Dist. #3*
580/664-3365
DeAnne Shelton, *Secretary*

CONNIE HARRIS, *County Clerk*
580/323-1221

ANNETTE REED, *Secretary*
580/323-4420

State Auditor and Inspector
1401 Lera, Suite G
Weatherford, OK 73096

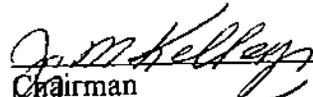
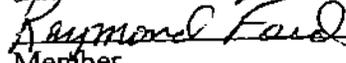
Re: FY 2002 Audit Response

Dear Ms. Merle;

This Board deems it necessary to submit a complete and accurate accounting of the County's financial statement for each fiscal year. Therefore, we have notified all officials that an annual reporting of accumulated annual leave must be filed with the County Clerk as of June 30th of each fiscal year.

Respectfully submitted,

Board of County Commissioners
Custer County, Oklahoma


Chairman

Member

Member