

**CUSTER COUNTY, OKLAHOMA
SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

April 15, 2004

TO THE CITIZENS OF
CUSTER COUNTY, OKLAHOMA

Transmitted herewith is the audit of Custer County, Oklahoma, for the fiscal year ended June 30, 2003. 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 black ink that reads "Jeff A. McMahon". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN
State Auditor and Inspector

**CUSTER COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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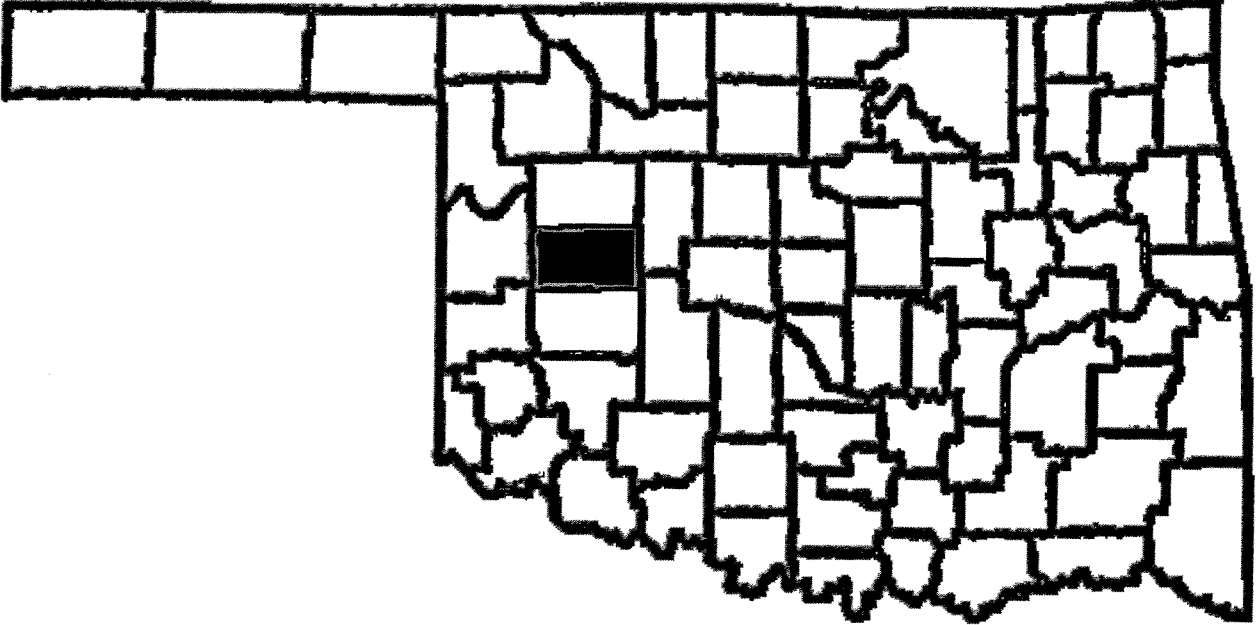
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**CUSTER COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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**REPORT TO THE CITIZENS
OF
CUSTER COUNTY, OKLAHOMA**



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 - 986.6 Square Miles

County Population - 26,142
(2000 est.)

Farms - 788

Land in Farms - 624,729 Acres

Source: Oklahoma Almanac 2003-2004

See independent auditor's report.

**CUSTER COUNTY 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 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

Connie Harris
(D) Arapaho

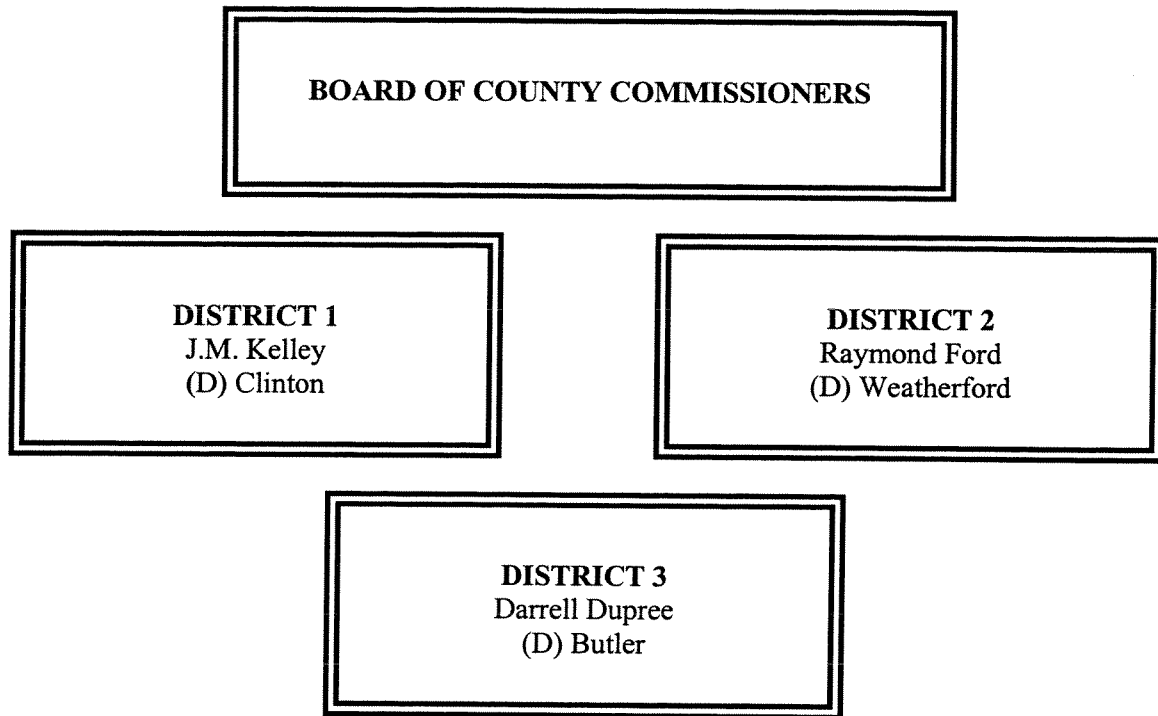
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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.

**CUSTER COUNTY 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.

See independent auditor's report.

**CUSTER COUNTY OFFICIALS
AND RESPONSIBILITIES**

COUNTY SHERIFF

Mike Burgess
(D) Clinton

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

Karen Klein Clanton
(D) Clinton

All collections 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 collections and disbursements, 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.

CUSTER COUNTY OFFICIALS AND RESPONSIBILITIES

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
Dennis Smith
(D) Arapaho

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.

See independent auditor's report.

**CUSTER COUNTY OFFICIALS
AND RESPONSIBILITIES**

ELECTION BOARD SECRETARY

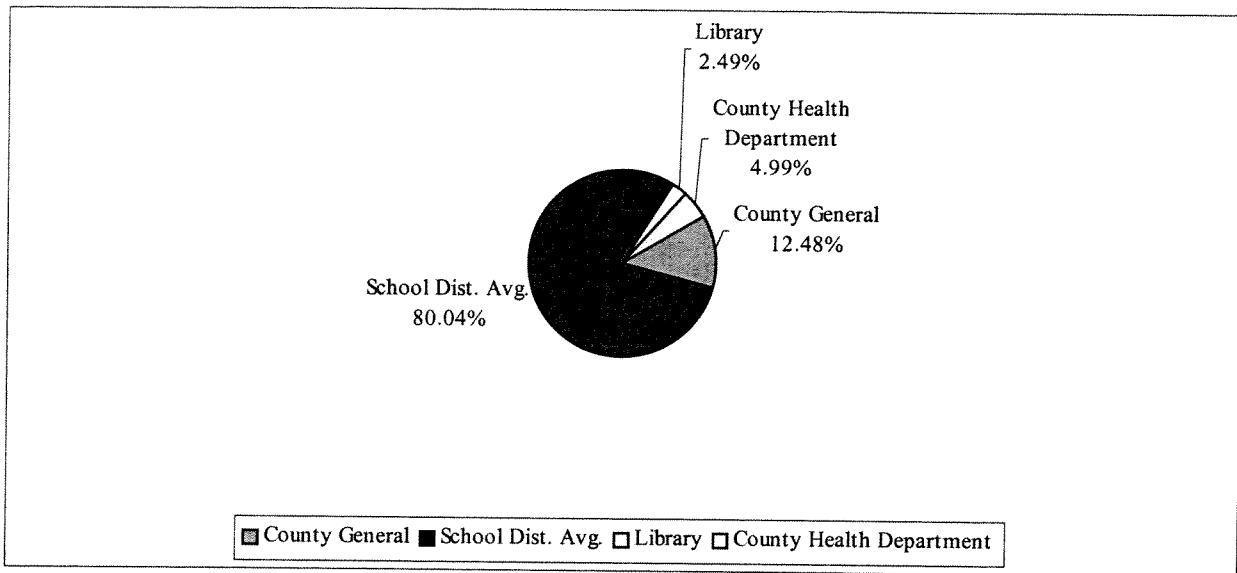
Narci K. Smith
(D) Butler

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 operation 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.

**CUSTER COUNTY, OKLAHOMA
AD VALOREM DISTRIBUTION
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						Total School	Total Levy
				Gen.	Bldg.	Skp.	Tech Cntr.	Common			
Co. General	10.00	Arapaho	I-5	35.00	5.00	4.69	10.00	4.00		58.69	70.29
County Health	2.00	TFC Unified	I-7	35.00	5.00	21.08		4.00		65.08	76.68
Multi-County Library	4.00	Weatherford	I-26	35.00	5.00	33.03	10.00	4.00		87.03	98.63
		Butler	I-46	35.00	5.00	2.87	10.00	4.00		56.87	68.47
		Clinton	I-99	35.00	5.00	10.92	10.00	4.00		64.92	76.52
		Caddo	I-1	35.00	5.00	20.93	10.00	4.00		74.93	86.53
		Roger Mills	I-3	35.00	5.00	15.02		4.00		59.02	70.62
		Beckham	I-6	35.00	5.00	13.00	10.00	4.00		67.00	78.60
		Washita	I-11	35.00	5.00		10.00	4.00		54.00	65.60
		Roger Mills	I-66	35.00	5.00		10.00	4.00		54.00	65.60

See independent auditor's report.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
CUSTER COUNTY, OKLAHOMA

We have audited the special-purpose financial statements of Custer County, Oklahoma, as of and for the year ended June 30, 2003, as listed in the table of contents. These special-purpose 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.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash of all funds of Custer County, Oklahoma, and comparisons of such information with the corresponding budgeted information for the general fund and county health department of the County, and are not intended to be a complete presentation of the financial position and results of operations of those funds or of Custer County in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash of all funds of Custer County, Oklahoma, and comparisons of such information with the corresponding budgeted information for the general fund of the County, as of and for the year ended June 30, 2003, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2004, 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.

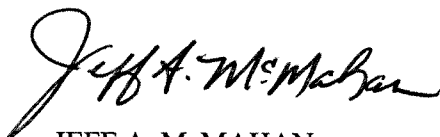
Our audit was performed for the purpose of forming an opinion on the special-purpose financial statements of Custer County, Oklahoma, taken as a whole. The information listed in the table of contents under *Introductory Section* and *Statistical Data* has not been audited by us, and accordingly, we express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

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,

A handwritten signature in black ink, reading "Jeff A. McMAHAN". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

March 29, 2004

Special-Purpose Financial Statements

**CUSTER COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL FUNDS
FOR THE YEAR ENDED, JUNE 30, 2003**

All County Funds	Beginning Cash Balances July 1, 2002	Receipts Apportioned	Disbursements	Cancelled Vouchers	Ending Cash Balances June 30, 2003
County General Fund	\$ 1,518,766	\$ 2,049,884	\$ 2,158,582		\$ 1,410,068
County Highway Cash	4,164,680	4,232,801	4,394,931		4,002,550
County Health Department	260,560	292,833	280,669		272,724
Resale Property	75,651	70,125	36,823		108,953
Sales Tax	1,916,913	1,380,707	1,373,402		1,924,218
Sheriff Service Fee	175,728	204,304	207,277		172,755
Sheriff Training	9,846		3,400		6,446
Sheriff Prisoner Revolving	7,129				7,129
Local Law Enforcement Block Grant	6,800	1,332	7,340		792
Sheriff DARE	855				855
Sheriff Drug Enforcement	1,190				1,190
Sheriff Drug Informant	500				500
Sheriff Triad	200				200
Trash Cop Grant	5,000				5,000
County Clerk Lien Fee	8,191	14,301	14,742		7,750
Treasurer Mortgage Tax Certification Fee	17,697	7,820	4,170		21,347
Assessor Revolving	3,898	10,838	745		13,991
County Assessor Visual Inspection	32,181	637	6,415		26,403
County Clerk Record's Preservation Fee	16,738	44,274	24,629		36,383
Rural Fire Protection	900	100,000	100,000		900
Rural Convenience	4,117	6,937	5,450		5,604
Custer County Local Emergency Planning Commission		9,822			9,822
Insurance Fund	1,323				1,323
Election Board	60				60
State Election	239				239
Sinking Fund	88,197	2,763			90,960
Schools	34,119	9,785,052	9,765,317		53,854
Cities and Towns	18,016	237,386	238,414		16,988
Miscellaneous Remittance	1,535	577,244	575,126		3,653
Law Library	6,003	28,901	26,993		7,911
Tax Refunds		170,053	170,053		
Protest Tax	667,331	153,808	580,082		241,057
District Attorney Incarceration Cost	46	340	85		301
Narcotics Control Assistance	2,446	3,545,748	3,313,316		234,878
Courthouse/Jail Bonds	30,090				30,090
Official Depository	499,222	5,170,104	5,015,813	6,233	659,746
Total County Funds	\$ 9,576,167	\$ 28,098,014	\$ 28,303,774	\$ 6,233	\$ 9,376,640

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

CUSTER COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN CASH BALANCES - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2003

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 1,518,766	\$ 1,518,766	\$ 1,518,766	\$ -
Less: Prior Year Outstanding Warrants	(66,370)	(66,370)	(66,370)	
Less: Prior Year Encumbrances	(67,917)	(67,917)	(54,699)	13,218
Beginning Cash Balances, Budgetary Basis	1,384,479	1,384,479	1,397,697	13,218
Receipts:				
Ad Valorem Taxes	1,197,125	1,197,125	1,336,619	139,494
Charges for Services	118,975	118,975	141,761	22,786
Intergovernmental Revenues	10,295	10,295	346,192	335,897
Miscellaneous Revenues			225,312	225,312
Total Receipts, Budgetary Basis	1,326,395	1,326,395	2,049,884	723,489
Expenditures:				
District Attorney	47,750	47,750	37,735	10,015
Capital Outlay				
Total District Attorney	47,750	47,750	37,735	10,015
County Sheriff	390,139	388,914	353,980	34,934
Capital Outlay		1,225	1,190	35
Total County Sheriff	390,139	390,139	355,170	34,969
County Treasurer	162,776	160,176	144,863	15,313
Capital Outlay		2,600	2,580	20
Total County Treasurer	162,776	162,776	147,443	15,333
County Commissioners	135,876	135,876	135,138	738
Capital Outlay				
Total County Commissioners	135,876	135,876	135,138	738
County Clerk	234,814	234,814	218,848	15,966
Capital Outlay	50	50		50
Total County Clerk	234,864	234,864	218,848	16,016
Court Clerk	152,376	227,160	215,221	11,939
Capital Outlay				
Total Court Clerk	152,376	227,160	215,221	11,939
County Assessor	130,886	130,886	122,050	8,836
Capital Outlay	10,000	10,000	2,152	7,848
Total County Assessor	140,886	140,886	124,202	16,684
Revaluation of Real Property	163,293	142,618	122,714	19,904
Capital Outlay	10	10		10
Total Revaluation of Real Property	163,303	142,628	122,714	19,914
District Court	63,056	63,056	58,416	4,640
Capital Outlay				
Total District Court	63,056	63,056	58,416	4,640

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

CUSTER COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN CASH BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

continued from previous page

	General Fund			
	Original Budget	Final Budget	Actual	Variance
General Government	956,403	902,294	507,234	395,060
Capital Outlay	1,000	1,000		1,000
Total General Government	957,403	903,294	507,234	396,060
Excise-Equalization Board	6,900	6,900	2,500	4,400
Capital Outlay				
Total Excise-Equalization Board	6,900	6,900	2,500	4,400
County Election Board	98,790	98,290	88,273	10,017
Capital Outlay	2,000	2,500	2,174	326
Total County Election Board	100,790	100,790	90,447	10,343
Charity	2,500	2,500		2,500
Capital Outlay				
Total Charity	2,500	2,500	-	2,500
County Audit Budget	13,168	13,168	13,168	
Capital Outlay				
Total County Audit Budget	13,168	13,168	13,168	-
Free Fair Budget	4,077	4,077	3,549	538
Capital Outlay	10	10		
Total Free Fair Budget	4,087	4,087	3,549	538
Capital Improvements	100,000	100,000		100,000
Capital Outlay				
Total Capital Improvements	100,000	100,000	-	100,000
Custer County Emergency Mgt.	34,950	32,485	31,813	672
Capital Outlay	50	2,515	2,509	6
Total Custer County Emergency Mgt.	35,000	35,000	34,322	678
 Total Expenditures, Budgetary Basis	 2,710,874	 2,710,874	 2,066,107	 644,767
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 -	 -	 1,381,474	 1,381,474
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			17,583	
Add: Current Year Outstanding Warrants			11,011	
Ending Cash Balance			1,410,068	

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

**CUSTER COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN CASH BALANCES - BUDGET AND ACTUAL
COUNTY HEALTH DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2003**

	County Health Department			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 260,560	\$ 260,560	\$ 260,560	\$ -
Less: Prior Year Outstanding Warrants	(375)	(375)	(375)	
Less: Prior Year Encumbrances	(88,820)	(88,820)	(87,180)	1,640
Beginning Cash Balances, Budgetary Basis	171,365	171,365	173,005	1,640
Receipts:				
Ad Valorem Taxes	239,425	239,425	267,299	27,874
Charges for Services		24,837	20,981	(3,856)
Intergovernmental Revenues			1,364	1,364
Miscellaneous Revenues			3,189	3,189
Total Receipts, Budgetary Basis	239,425	264,262	292,833	28,571
Expenditures:				
Health and Welfare	310,790	391,627	336,261	55,366
Capital Outlay	100,000	44,000	3,931	40,069
Total Expenditures, Budgetary Basis	410,790	435,627	340,192	95,435
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	\$ -	125,646	\$ 125,646
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			146,724	
Add: Current Year Outstanding Warrants			354	
Ending Cash Balance			\$ 272,724	

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

**CUSTER COUNTY, OKLAHOMA
DETAILED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - SINKING FUND
FOR THE YEAR ENDED JUNE 30, 2003**

Beginning Cash Balance	<u>\$ 88,197</u>
Receipts:	
Miscellaneous	<u>2,763</u>
Total Receipts	<u>2,763</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u><u>\$ 90,960</u></u>

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

**CUSTER COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - OFFICIAL DEPOSITORY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003**

Official Depository Accounts	Beginning Cash Balances July 1, 2002	Receipts	Disbursements	Cancelled Vouchers	Ending Cash Balances June 30, 2003
County Sheriff	\$ 31,335	\$ 218,043	\$ 238,663	\$	\$ 10,715
Court Clerk	125,349	1,991,402	1,938,395	1,956	180,312
County Treasurer	79,837	738,746	625,417	190	193,356
County Clerk	100	248,776	248,810	34	100
County Health Department	25	26,656	26,656		25
Court Fund	166,316	720,265	734,719	1,359	153,221
Bogus Check Restitution	35,924	694,199	674,750	1,341	56,714
District Attorney	1,485	408,506	405,723	26	4,294
Election Board		23,680	24,074	431	37
Victim Restitution	4,089	50,229	52,946	790	2,162
State Witness Fee	4,079	3,493	5,675		1,897
County Assessor		10,838	10,838		
Rural Convenience	100	937	937		100
Court Clerk Revolving	50,583	32,333	27,738		55,178
Restitution and Diversion		2,001	472	106	1,635
Total Official Depository Accounts	<u>\$ 499,222</u>	<u>\$ 5,170,104</u>	<u>\$ 5,015,813</u>	<u>\$ 6,233</u>	<u>\$ 659,746</u>

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

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.

The accompanying special-purpose financial statements present the receipts, disbursements, and changes in cash balances of all funds of Custer County, Oklahoma, and comparisons of such information with the corresponding budgeted information for the general fund and county health department fund of the County. The funds presented are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The government uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

C. Basis of Accounting

The financial statements are prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

D. Budgetary Policies

Under current Oklahoma Statutes, the general fund is the only fund required to adopt a formal budget. The budget presented for the general fund includes the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other 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 county health department fund.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Summary of Significant Accounting Policies (continued)

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

The Statement of Receipts, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund 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 Statement of Receipts, Disbursements, and Changes in Fund Balances - All Funds because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants 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, 2003.

F. 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-Insurance Group. (See ACCO-SIG.)	If claims exceed authorized deductibles, 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 authorized deductibles, the County would have to pay its share of the pool deficit.
Worker's Compensation - Employees' Injuries	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insurance Fund. (See ACCO-SIF.)	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, 2003

Summary of Significant Accounting Policies (continued)

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Health and Life	The County participates in	If claims exceed authorized
- Medical	the Oklahoma Public	deductibles, the County
- Disability	Employees Health and	would have surcharges
- Dental	Welfare Plan.	assessed to pay the excess
- Life	(See OPEH&WP.)	claims.

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 will pay a deductible amount (\$1,000 to \$10,000; the County has a \$10,000 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay 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 will pay 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 recently assessed additional premiums to be paid by its members.

OPEH&WP - The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance coverage. The pool provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. The pool has assessed additional premiums to be paid by its members in the current fiscal year.

G. 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 of service and nor more than 13 working days for 11 or more years of service.

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 Funds and Account Balances

A. Deposits

At year-end, the reported amount of the County's deposits was \$9,376,640 and the bank balance was \$9,419,906. 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.

Title 62 O.S. § 348.3 authorizes the County Treasurer to invest in:

- U. S. government obligations
- Certificates of deposit
- Saving accounts
- G.O. 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
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

B. Description of Funds

County General Fund - accounts for the general operations of the government.

County Highway Cash - accounts for state, local, and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

County Health Department - accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues.

Detailed Notes on Funds and Account Balances (continued)

Resale Property - accounts for the collection of interest and penalties on delinquent taxes and the disposition of same as restricted by statute.

Sales Tax - accounts for the sales tax collected and spent on behalf of the following entities: general government (50%), OSU Extension Office (8%), County Fair Board 4%), rural fire fighting services (8%), and the County Sheriff (30%).

Sheriff Service Fee - accounts for the collection and disbursements of sheriff process service fees as restricted by statute.

Sheriff Training - accounts for the proceeds from sheriff auctions and/or donations used for training purposes.

Sheriff Prisoner Revolving - accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of maintaining the jail.

Local Law Enforcement Block Grant - accounts for grant monies received and spent on what the grant was designated for.

Sheriff DARE - was established by the last sheriff over eight years ago; however, it was inactive at June 30, 2003.

Sheriff Drug Enforcement - was established by the last sheriff over eight years ago; however, it was inactive at June 30, 2003.

Sheriff Drug Informant - was established by the last sheriff over eight years ago; however, it was inactive at June 30, 2003.

Sheriff Triad - was established by the last sheriff over eight years ago; however, it was inactive at June 30, 2003. All triad expenses are now paid out of sales tax money.

Trash Cop Grant - accounts for grant funds received and spent on various sheriff expenditures.

County Clerk Lien Fee - accounts for lien collections and disbursements as restricted by statute.

Treasurer Mortgage Tax Certification Fee - accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursements of the funds as restricted by statute.

Assessor Revolving - accounts for the collection of fees for copies restricted by state statute.

County Assessor Visual Inspection - accounts for the collection and expenditure of monies by the Assessor as restricted by state statute for the visual inspection program.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Detailed Notes on Funds and Account Balances (continued)

County Clerk Record's Preservation Fee - accounts for fees collected for instruments filed with the Registrar of Deeds as restricted by statute for preservation of records.

Rural Fire Protection – accounts for sales tax money transferred over and used to purchase equipment.

Rural Convenience – accounts for depository money vouchered to pay for employee salary that runs rural convenience.

Custer County Local Emergency Planning Commission – accounts for grant monies received for various grants filed for emergency management.

Insurance Fund – accounts for interest earned on designated investments for County insurance and disbursements made for workers compensation and property insurance premiums.

Election Board – This money is left over money from outstanding vouchers. Account has been inactive for several years.

State Election – accounts for money left over from outstanding vouchers. Account has been inactive for several years.

Sinking Fund - accounts for the payment of interest and principal on the matured portion of long-term bonded indebtedness and civil judgments. Debt Service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

Schools - accounts for monies collected on behalf of the public schools in Oklahoma County from ad valorem taxes, state and local revenues, and remitted to them monthly.

Cities and Towns – accounts for Oklahoma Tax Commission collections distributed to the cities of the County and for cemetery investments.

Miscellaneous Remittance – accounts for monies levied to the County library and the County EMS. This money is used for maintenance and operations by the County library and the County EMS.

Law Library - accounts for monies received for disbursement from the state for the law library board.

Tax Refunds – account for ad valorem collected in error; therefore, unapportioned and held until refunded.

Detailed Notes on Funds and Account Balances (continued)

Protest Tax – is used to account for ad valorem collected under protest.

District Attorney Incarceration Costs – account for 5% of any amount collected for incarceration cost, and is to be used to fund personnel to process victim compensation claims.

Narcotics Control Assistance – accounts for collections of drug forfeitures, which are used for various expenses by the District Attorney.

Courthouse/Jail Bonds – accounts for money remaining from a 1982 bond to build new courthouse and jail. This money is used for capital improvements.

Official Depository - accounts for the collection and distribution of officer and board fees held in trust until the end of the month.

Additionally, the following official depository accounts are described as follows:

District Court Clerk – accounts for the collection of bond money, court fines, and fees. Money is disbursed for fees and restitution.

District Court Fund – accounts for fees transferred from District Court and interest. Money is disbursed for the purpose of fees for various entities, salaries, and operations of the Court Clerk's office.

District Court Revolving – accounts for the charge of \$5.00 for each warrant. Money is disbursed in the same manner as the Court Fund.

District Attorney Bogus Check – accounts for fees collected for bogus checks written and used to defray costs incurred in the District Attorney's office.

District Attorney Fees – account for district attorney bogus check moneys transferred over once a month to defray costs incurred in the District Attorney's office, such as salaries.

Victim Restitution – accounts for monies on deposit by defendants to be remitted to the plaintiff or victim.

State Witness Fee – accounts for the appropriated money from DAC for witness fees.

County Sheriff – accounts for all collections of foreign service fees, bond monies, and concealed weapons fees. Monies are disbursed to the Sheriff Service Fee Account and to the District Court Clerk.

Detailed Notes on Funds and Account Balances (continued)

County Clerk – accounts for the collection of filing fees and disbursed to OTC and the County Clerk Lien Fee Account.

County Treasurer – accounts for all collections of pre-paid ad valorem, pre-paid mobile homes, and the sale of motor vehicle stamps. Disbursements are for the purpose of refunds and vehicle collections, remits to OTC, schools, and the County Treasurer Mortgage Certification Fee Account.

County Health Department – accounts for the collections of charges for services performed by the health department. Disbursements are made to the health department fund for budgeting purposes.

County Election Board – accounts for reimbursements of election expenses and is disbursed for refunds of election fees and maintenance and operations of the office.

Rural Convenience – accounts for monies received for dumping of trash. Monies vouched out once a month to Rural Convenience cash to fund to pay for salaries.

County Assessor – accounts for monies received from copies made. Disbursements are made to the County Assessor's Revolving Fund.

Restitution and Diversion Account – This account was established for the deposit of a \$1 administrative fee collected and disbursed by the District Attorney on each restitution payment received from a defendant on behalf of the victim.

C. Ad Valorem Tax

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 assessed property value as of January 1, 2002, was approximately \$131,683,843.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

Detailed Notes on Funds and Account Balances (continued)

The County levied 10 mills for the general fund, 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 remits 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, 2003, were approximately 97.5 percent of the tax levy.

D. Pension Plan

Plan Description. The 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.

E. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/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.

F. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

Detailed Notes on Funds and Account Balances (continued)

G. Fuel Tax

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.

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 management's opinion, 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, 2001, and extended to October 31, 2006, 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 Office, and 4% to Free Fair. The sales tax is accounted for as a special revenue fund and for the year ended June 30, 2003. The County earned interest of \$45,801, received federal grants of \$3,120, and received sales tax of \$1,331,786, which was distributed to the County in total as \$1,373,402.

**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

JEFF A. McMAHAN
State Auditor and Inspector

**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 special-purpose financial statements of Custer County, Oklahoma, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 29, 2004. Our report contains an explanatory paragraph discussing that the financial statements are not a complete presentation. 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 special-purpose 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*. However, we noted certain immaterial instances of noncompliance, which we have reported to management in a separate letter dated March 29, 2004.

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 special-purpose 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 as item 2003-1.

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 believe that the reportable condition described above is not a material weakness.

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,

A handwritten signature in black ink that reads "Jeff A. McMAHAN". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

March 29, 2004

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

Finding 2003-1 – Security Training Policies

Criteria: According to the standards of the Information Systems Audit and Control Association (COBIT Delivery & Support), management should educate and train user to ensure that users are making effective use of technology and are aware of their risks and responsibilities.

Condition: The County does not have written policies and procedures addressing information security or provide adequate awareness training.

Effect: The lack of policies, procedures, and awareness training could result in loss of:

- Ad valorem information
- Financial information
- State and federal reporting data

Recommendation: We recommend the County establish Information Security Policies and Procedures. A security awareness-training program should be established and all employees using computers required to participate. If not corrected, this will be a reportable comment for 2004.

Management Response: The County plans to update the handbook.

**Statistical Data
(Unaudited)**

**CUSTER COUNTY, OKLAHOMA
TOP TEN TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)**

TAXPAYER NAME	JANUARY 1, 2002 NET ASSESSED	% OF TOTAL NET VALUATION
Enogex Gas Gathering LLC	\$ 4,738,154	3.60%
Public Service Co. of Oklahoma	4,090,612	3.11%
Southwestern Bell Telephone	3,986,686	3.03%
Enogex	3,602,847	2.73%
Oneok Gas Processing LLC	3,241,982	2.46%
Reliant Energy Gas Trans	3,003,164	2.28%
Enogex Products Corp	2,887,562	2.19%
American Central Western	2,152,767	1.63%
Imation Enterprises Co	2,127,953	1.62%
Bar S Foods	2,051,851	1.56%
Total	<u>\$ 31,883,578</u>	<u>24.21%</u>

Source: (Provided by Oklahoma Tax Commission - Ad Valorem Division)

**CUSTER COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)**

Total net assessed value as of January 1, 2002		<u>\$ 131,683,843</u>
Debt limit - 5% of total assessed value		\$ 6,584,192
Total bonds outstanding		
Total judgments outstanding		
Less cash in sinking fund	<u>90,960</u>	<u>-</u>
Legal debt margin		<u>\$ 6,584,192</u>

**CUSTER COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)**

	<u>2003</u>
Estimated population	<u>26,142</u>
Net assessed value	<u>\$ 131,683,843</u>
Net bonded debt	<u>-</u>
Ratio of net bonded debt to assessed value	<u>0.00%</u>
Net bonded debt per capita	<u>\$ -</u>

**CUSTER COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)**

<u>Tax Year</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
2003	\$39,492,667	\$24,611,480	\$72,953,423	\$5,248,801	\$131,683,843	\$1,118,132,118