

**CUSTER COUNTY, OKLAHOMA
SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

February 25, 2005

TO THE CITIZENS OF
CUSTER COUNTY, OKLAHOMA

Transmitted herewith is the audit of Custer County, Oklahoma, for the fiscal year ended June 30, 2004. 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, 2004**

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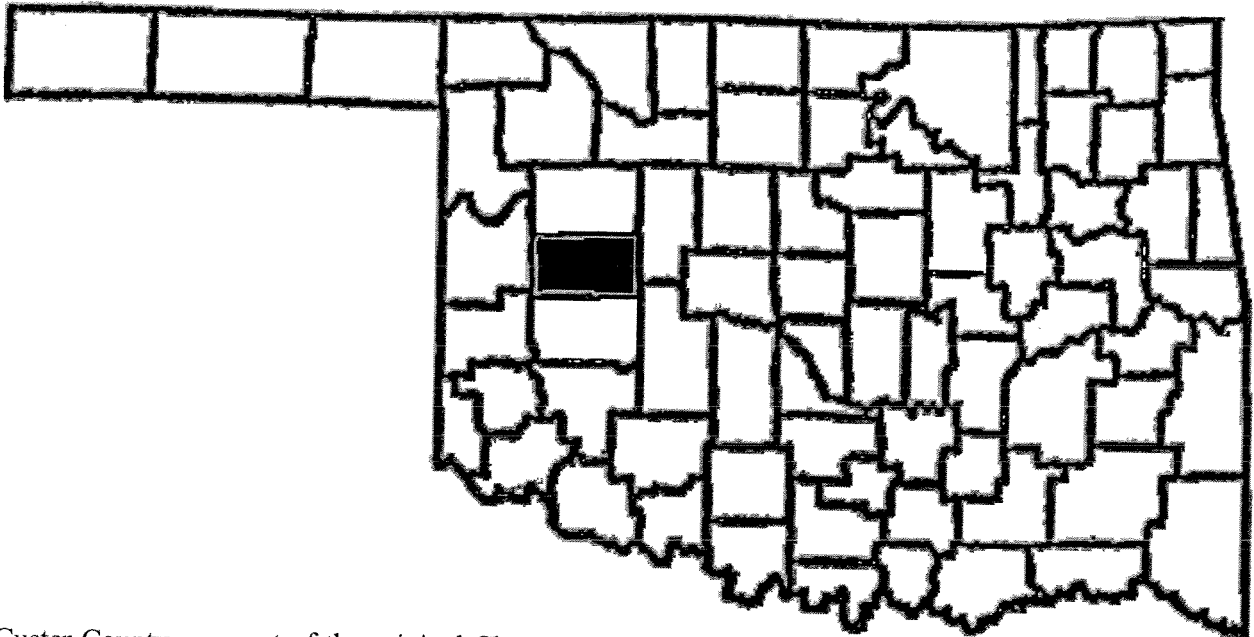
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**CUSTER COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

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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 some graduate degrees and a School of Pharmacy.

The economy of Custer County 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

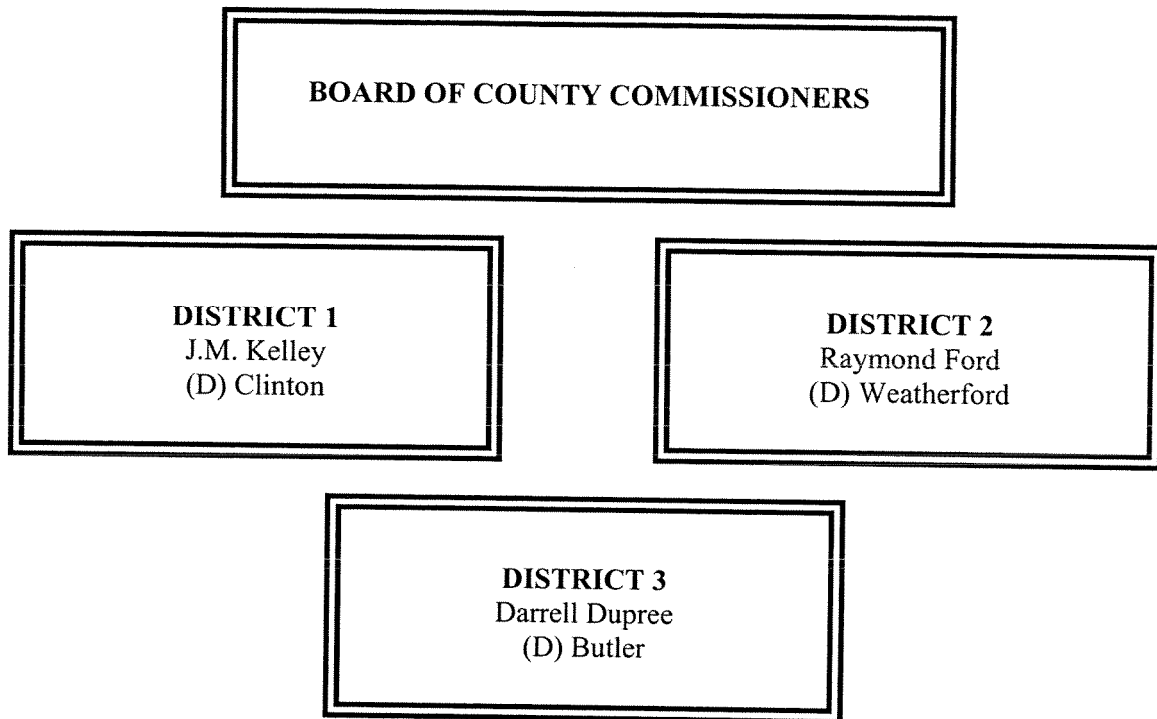
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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) Clinton

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 Smith
(D) Butler

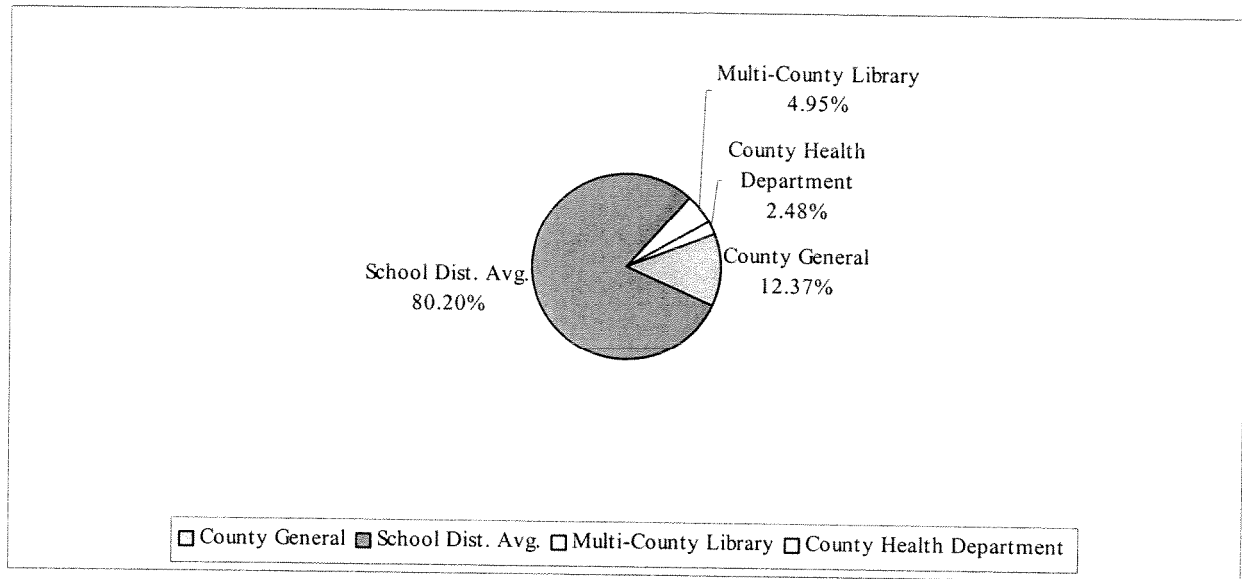
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within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

See independent auditor's report.

**CUSTER COUNTY, OKLAHOMA
AD VALOREM TAX 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
				Gen.	Bldg.	Sk.	Tech Cntr.	Tech Bldg.	Common	
Co. General	10.00	Arapaho	I-5	35.00	5.00	3.81	10.00	2.00	4.00	59.81
County Health	2.00	TFC Unified	I-7	35.00	5.00	18.70		2.00	4.00	64.70
Multi-County Library	4.00	Weatherford	I-26	35.00	5.00	25.65	10.00	2.00	4.00	81.65
		Butler	I-46	35.00	5.00	2.53	10.00	2.00	4.00	58.53
		Clinton	I-99	35.00	5.00	9.00	10.00	2.00	4.00	65.00
		Caddo	I-1	35.00	5.00	22.81	10.00	2.00	4.00	78.81
		Roger Mills	I-3	35.00	5.00	11.19		2.00	4.00	57.19
		Beckham	I-6	35.00	5.00	12.07	10.00	2.00	4.00	68.07
		Washita	I-11	35.00	5.00	7.48	10.00	2.00	4.00	63.48
		Roger Mills	I-66	35.00	5.00		10.00	2.00	4.00	56.00

See independent auditor's report.

Financial Section



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, 2004, 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. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

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 and county health department funds 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 and county health department fund of the County, as of and for the year ended June 30, 2004, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

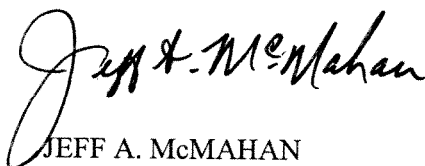
Our audit was performed for the purpose of forming an opinion on the special-purpose financial statements of Custer County, Oklahoma, taken as a whole. The information listed in the table of contents under *Introductory Section* and *Statistical Section* has not been audited by us, and accordingly, we 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,



JEFF A. McMAHAN
State Auditor and Inspector

January 31, 2005

Special-Purpose Financial Statements

CUSTER COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

All County Funds	Beginning Cash Balances July 1, 2003	Receipts Apportioned	Disbursements	Cancelled Vouchers	Ending Cash Balances June 30, 2004
County General Fund	\$ 1,410,067	\$ 2,319,219	\$ 2,165,518	\$	\$ 1,563,768
Highway Cash	4,002,550	4,425,272	4,417,027		4,010,795
County Health Department	272,724	309,437	325,270		256,891
Resale Property	108,953	58,436	36,556		130,833
Sales Tax	1,924,218	1,509,631	1,587,296		1,846,553
Sheriff Service Fee	172,755	154,476	227,921		99,310
Sheriff Training	6,446	11	2,340		4,117
Sheriff Prisoner Revolving	7,129				7,129
Law Enforcement	792	3,701	792		3,701
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	7,750	15,142	7,251		15,641
Treasurer Mortgage Tax Certification Fee	21,347	7,310	7,308		21,349
Assessor Revolving	13,991	11,179	8,206		16,964
Assessor Visual Inspection	26,403	423	150		26,676
County Clerk Records Management Preservation	36,383	41,460	31,949		45,894
Rural Fire Protection	900	100,000	62,000		38,900
Rural Convenience	5,605	801	2,394		4,012
Local Emergency Planning Commission	9,822	4,050	11,558		2,314
Insurance Fund	1,323				1,323
Election Board	60				60
State Election	239				239
Sinking Fund	90,961	1,984			92,945
Schools	53,853	9,527,436	9,477,006		104,283
Cities and Towns	16,988	241,015	238,015		19,988
Miscellaneous Remittance	3,652	578,045	573,979		7,718
Law Library	7,911	30,015	30,927		6,999
Tax Refunds		5,367	5,367		
Protest Tax	241,057	33,596	211,874		62,779
District Attorney Incarceration Cost	301	408	170		539
Narcotics Control Assistance	234,879	1,869,956	1,516,548		588,287
Courthouse Jail Bonds	30,090				30,090
Official Depository	659,747	5,140,616	5,186,593	40,951	654,721
Total County Funds	\$ 9,376,641	\$ 26,388,986	\$ 26,134,015	\$ 40,951	\$ 9,672,563

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, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 1,409,827	\$ 1,409,827	\$ 1,410,067	\$ 240
Less: Prior Year Outstanding Warrants	(10,770)	(10,770)	(10,770)	
Less: Prior Year Encumbrances	(17,583)	(17,583)	(17,414)	169
Beginning Cash Balances, Budgetary Basis	1,381,474	1,381,474	1,381,883	409
Receipts:				
Ad Valorem Taxes	1,235,816	1,235,816	1,356,807	120,991
Use Tax		240,542	240,542	
Charges for Services	127,585	127,585	146,559	18,974
Intergovernmental Revenues	12,264	12,264	444,378	432,114
Miscellaneous Revenues		51,442	130,933	79,491
Total Receipts, Budgetary Basis	1,375,665	1,667,649	2,319,219	651,570
Expenditures:				
District Attorney	42,250	42,250	34,804	7,446
Capital Outlay				
Total District Attorney	42,250	42,250	34,804	7,446
County Sheriff	382,889	386,403	345,347	41,056
Capital Outlay				
Total County Sheriff	382,889	386,403	345,347	41,056
County Treasurer	163,776	166,302	155,760	10,542
Capital Outlay	2,000	2,000	200	1,800
Total County Treasurer	165,776	168,302	155,960	12,342
County Commissioners	138,276	146,552	146,552	
Capital Outlay				
Total County Commissioners	138,276	146,552	146,552	-
County Clerk	239,014	242,295	200,359	41,936
Capital Outlay	50	50		50
Total County Clerk	239,064	242,345	200,359	41,986
Court Clerk	292,396	295,159	272,430	22,729
Capital Outlay				
Total Court Clerk	292,396	295,159	272,430	22,729
County Assessor	132,186	134,287	130,358	3,929
Capital Outlay	10,000	10,000	2,834	7,166
Total County Assessor	142,186	144,287	133,192	11,095
Revaluation of Real Property	198,037	177,012	130,849	46,163
Capital Outlay	10	785	764	21
Total Revaluation of Real Property	198,047	177,797	131,613	46,184
District Court	64,256	65,225	60,526	4,699
Capital Outlay				
Total District Court	64,256	65,225	60,526	4,699

continued on next page

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, 2004

	Original Budget	Final Budget	Actual	Variance
General Government	832,007	877,827	546,773	331,054
Capital Outlay	1,000	1,000		1,000
Total General Government	833,007	878,827	546,773	332,054
Excise-Equalization Board	6,900	6,900	2,391	4,509
Capital Outlay				
Total Excise-Equalization Board	6,900	6,900	2,391	4,509
County Election Board	97,516	99,958	89,704	10,254
Capital Outlay	3,000	3,000	189	2,811
Total County Election Board	100,516	102,958	89,893	13,065
County Audit Budget	13,594	13,594	13,594	-
Total County Audit Budget	13,594	13,594	13,594	-
Free Fair Budget	528	528	62	466
Capital Outlay	10	10		10
Total Free Fair Budget	538	538	62	476
Capital Improvement	100,000	340,542	176	340,366
Capital Outlay				
Total Capital Improvement	100,000	340,542	176	340,366
Custer County Emergency Management	31,494	31,569	30,990	579
Capital Outlay	5,950	5,875	4,727	1,148
Total Custer County Emergency Management	37,444	37,444	35,717	1,727
Total Expenditures, Budgetary Basis	2,757,139	3,049,123	2,169,389	879,734
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	\$ -	1,531,713	\$ 1,531,713
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			12,356	
Add: Current Year Outstanding Warrants			19,699	
Ending Cash Balance			<u>\$ 1,563,768</u>	

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 FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	County Health Department			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 272,669	\$ 272,669	\$ 272,724	\$ 55
Less: Prior Year Outstanding Warrants	(298)	(298)	(298)	
Less: Prior Year Encumbrances	(146,724)	(146,724)	(146,247)	477
Beginning Cash Balances, Budgetary Basis	125,647	125,647	126,179	532
Receipts:				
Ad Valorem Taxes	247,163	247,163	271,361	24,198
Charges for Services		35,540	35,540	
Intergovernmental Revenue		1,240	1,305	65
Miscellaneous Revenues			1,231	1,231
Total Receipts, Budgetary Basis	247,163	283,943	309,437	25,494
Expenditures:				
Health and Welfare	322,810	359,590	198,406	161,184
Capital Outlay	50,000	50,000	2,647	47,353
Total Expenditures Budgetary Basis	372,810	409,590	201,053	208,537
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	\$ -	234,563	\$ 234,563
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			21,962	
Add: Current Year Outstanding Warrants			366	
Ending Cash Balance			\$ 256,891	

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

**CUSTER COUNTY, OKLAHOMA
DETAILED STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN CASH BALANCES - BUDGET AND ACTUAL
SINKING FUND
FOR THE YEAR ENDED JUNE 30, 2004**

Beginning Cash Balance	<u>\$ 90,961</u>
Receipts:	
Miscellaneous	<u>1,984</u>
Total Receipts	<u>1,984</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u><u>\$ 92,945</u></u>

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 - OFFICIAL DEPOSITORY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004**

Official Depository Accounts	Beginning Cash Balances July 1, 2003	Receipts	Disbursements	Cancelled Vouchers	Ending Cash Balances June 30, 2004
District Court Clerk	\$ 180,312	\$ 1,776,703	\$ 1,691,737	\$ 4,929	\$ 270,207
District Court Fund	153,221	924,508	893,241	255	184,743
Court Clerk Revolving	55,178	49,795	22,803		82,170
District Attorney Bogus Check	56,714	761,497	780,558	1,601	39,254
District Attorney Expense Fees	4,294	424,338	457,138	30,000	1,494
Victim Restitution	2,162	54,012	56,324	2,070	1,920
State Witness Fee	1,897	7,463	6,297	203	3,266
Restitution and Diversion	1,635	22,571	19,422	1,416	6,200
County Sheriff	10,715	136,452	135,664		11,503
County Clerk	100	261,755	261,773	18	100
County Treasurer	193,357	637,357	789,118	228	41,824
County Election Board	37	21,794	17,637	231	4,425
County Health Department	25	42,726	42,701		50
Rural Convenience	100	801	801		100
County Assessor		11,179	11,179		
Probation Fee Account		7,665	200		7,465
Total Official Depository Accounts	<u>\$ 659,747</u>	<u>\$ 5,140,616</u>	<u>\$ 5,186,593</u>	<u>\$ 40,951</u>	<u>\$ 654,721</u>

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

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 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. Funds presented are established by statute, and their operations are under the control of the County officials.

B. Fund Accounting

A government entity 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 and the county health department fund are the only funds required to adopt a formal budget. The budget presented for the general fund and county health department 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.

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 Comparative Statements of Receipts, Expenditures, and Changes in Fund Balances - Budget and Actual - for the General Fund and the County Health Department Fund present 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.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, county or city-county health departments, school districts and cities and towns. These other budgetary entities produce and file their own financial statements and estimates of needs (budgets). These related receipts and disbursements of other budgetary entities are not included in the County's Estimate of Needs.

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, 2004.

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	The County participates	If claims exceed
- Torts	in a public entity risk	the authorized
- Errors and Omissions	pool; Association of	deductibles, the
- Law Enforcement	County Commissioners of	County could have to
Officers Liability	Oklahoma-Self-Insurance	pay its share of any
- Vehicle	Group (See ACCO-SIG).	pool deficit. A
Physical Plant		judgment could be
- Theft		assessed for claims in
- Damage to Assets		excess of the pool's
- Natural Disasters		limits.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Summary of Significant Accounting Policies (continued)

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Worker's Compensation - Employees' Injuries	The County carries commercial insurance for these types of risk.	A judgment could be assessed for claims in excess of coverage.
Employees - Medical - Disability - Dental - Life	The County participates in the Oklahoma Public Employees Health and Welfare Plan. (See OPEH&WP.)	If claims exceed pool assets, the members would have surcharges assessed to pay the excess 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 chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen 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 amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate worker's compensation claims. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

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. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Management believes coverage is sufficient to preclude any significant uninsured losses to the County.

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 \$9,672,563 and the bank balance was \$9,783,890. 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. § 348.1 and § 348.3 allow the following types of investments:

- U.S. Government obligations
- Certificates of deposit
- Savings 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.

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 disbursement of sheriff process service fees as restricted by statute.

Sheriff Training - accounts for the monies collected from sale of unclaimed personal property. The statutes allow for the purchase of equipment, materials, or supplies that may be used in crime prevention, education, training, or programming.

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 the collection of grant monies received for a local law enforcement block grant.

Sheriff DARE - accounts for state funds disbursed for the purpose of drug education and drug awareness.

Sheriff Drug Enforcement - established by last sheriff over 8 years ago. Account inactive.

Sheriff Drug Informant - established by last sheriff over 8 years ago. Account inactive.

Sheriff Triad - established by last sheriff over 8 years ago. Account inactive. 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 disbursement of the funds as restricted by statute.

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

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

Detailed Notes on Account Balances (continued)

County Clerk Records Management 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 – sales tax money transferred from the sales tax accounts and used to purchase equipment for rural fire districts.

Rural Convenience – accounts for depository money disbursed for employee's salary who operates rural convenience in Thomas, Oklahoma.

Local Emergency Planning Commission - accounts for grant monies received for various grants filed for emergency management.

Insurance Fund – accounts for money established to administer the County's insurance and accounts for insurance receipts and disbursements. This account is inactive.

Election Board – accounts for funds left from outstanding vouchers. This account is inactive.

State Election – accounts for funds left from outstanding vouchers. This account is inactive.

Sinking Fund – accounts for interest earned on proceeds from excess ad valorem tax collected for the jail bonds of 1982. These bonds have been paid off and the excess funds are reserved for jail roof repairs.

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.

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

Law Library - accounts for monies received for disbursement from the state for the Law Library Board.

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

Protest Tax – accounts for ad valorem collected under protest and held until issue is resolved and then apportioned or refunded as decided.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Detailed Notes on Account Balances (continued)

District Attorney Incarceration Costs – the District Attorney's office receives 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 collection of drug forfeitures, which are used for various operational expenses of the District Attorney's office.

Courthouse Jail Bonds – accounts for the unused portion of 1982 jail bond proceeds to be used for courthouse and jail 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 – the “court clerk” or “district court” trust account is for money received from attorneys, defendants, plaintiffs, estates, or others. These deposits are for court fees, cash bonds, judgments, fines, etc. The Court Clerk acts as custodian in a fiduciary capacity for these deposits until the court fees are assessed, fines imposed, judgments rendered, etc. Disbursements are made to transfer funds to the court fund, the court clerk revolving fund, the Oklahoma Supreme Court, other state agencies, for refunds of excess deposits, or for other distributions as ordered by the court.

District Court Fund – This account is established by 20 O.S. 2001 § 1301. Its purpose is for “defraying the expenses of holding court” and is the local operating fund for the court. Deposits made to the court fund are fees which have been charged to the various court cases, collected by the Court Clerk, then transferred from the court clerk (or district court) trust account.

Court Clerk Revolving – This account was established for the collection of administrative fees collected by the Court Clerk to be used to defray costs incurred for the operation of the Court Clerk's office.

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 Expense Fees – accounts for district attorney bogus check moneys transferred over once a month to defray costs incurred in the DA's office such as salaries.

Victim Restitution – administered by the District Attorney, accounts for the collection and disbursement of checks issued on bank accounts with insufficient funds. Bogus check writers make restitution to vendors and other victims through this program.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Detailed Notes on Account Balances (continued)

State Witness Fee – administered by the District Attorney's office, these are state funds for the payment of trial witnesses.

Restitution and Diversion – accounts for the \$25 fee collected from criminal cases referred to the Restitution and Diversion Program. Cases are limited to those that involve economic loss, but does not result in physical injury to another human being. Collections are to be used to make any lawful expenditure associated with the District Attorney's office.

County Sheriff – accounts for all collection of foreign service fees and bonds. Monies are vouched out at the end of the month to the Sheriff Service Fee Fund and District Court Clerk Account.

County Clerk – deposits include collections for recording fees, fax and copy fees, etc. Disbursements are made for transfers to the general fund and other county funds, to the Oklahoma Tax Commission, and for any refunds.

County Treasurer – accounts for collection of taxes paid in advance.

County Election Board – accounts for deposits from the State Election Board and from local government entities for the purpose of offsetting election costs. Disbursements are made for election workers, printing costs, and other operating expenses.

County Health Department – accounts for the fees collected for services provided to the people of the County.

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

County Assessor – accounts for deposits from all collections for copies and proceeds from sale of ownership books to be disbursed at the end of the month and deposited in the Assessor Revolving Fund for operating expenses.

Probation Fee Account – monies received for probation fees.

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

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Detailed Notes on Account Balances (continued)

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, 2003, was approximately \$135,939,800.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 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 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, 2004, were approximately 98.3 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 the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3 percent on all subsequent pieces of machinery acquired.

CUSTER COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Detailed Notes on Funds and Account Balances (continued)

F. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. There are no general obligation bonds outstanding at June 30, 2004.

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 extend 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, 2004, \$1,475,689 was collected for sales tax and \$33,942 was collected in interest.

Internal Control and Compliance Section



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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

TO THE 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, 2004, and have issued our report thereon dated January 31, 2005. Our report contains an explanatory paragraph discussing that the financial statements are not a complete presentation, and describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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.

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 an opinion 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 2004-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2004-1 to be a material weakness.

Compliance and Other Matters

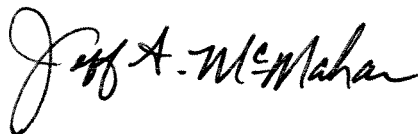
As part of obtaining reasonable assurance about whether Custer County's special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

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. McMahen". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN
State Auditor and Inspector

January 31, 2005

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

Finding 2004-1 - Segregation of Duties

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting for funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: The limited number of office personnel within the County offices prevents a proper segregation of accounting functions, which is necessary to assure an adequate internal control structure.

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

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

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

Management Response: We concur with the auditor's comments and will conduct periodic reviews of office operations.

**Statistical Section
(Unaudited)**

**CUSTER COUNTY, OKLAHOMA
TOP TEN TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

TAXPAYER	JANUARY 1, 2003 NET ASSESSED ASSESSED VALUE	% OF TOTAL NET VALUATION
Enogex Gas Gathering LLC	\$ 4,476,429	3.29%
Public Service Co. of Oklahoma	4,377,060	3.22%
Enogex	3,544,544	2.61%
American Central Western	3,283,193	2.42%
Centerpoint Energy Gas Trans.	3,267,205	2.40%
Oneok Gas Processing LLC	3,151,591	2.32%
Southwestern Bell Telephone	2,866,794	2.11%
Enogex Products Corp.	2,720,531	2.00%
Imation Enterprises Corp.	1,963,392	1.44%
Bar S Foods	1,870,626	1.38%
Total	<u>\$ 31,521,365</u>	<u>23.19%</u>

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

**CUSTER COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

Total net assessed value as of January 1, 2003		<u>\$ 135,939,800</u>
Debt limit - 5% of total assessed value		\$ 6,796,990
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>92,945</u>	<u>-</u>
Legal debt margin		<u>\$ 6,796,990</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, 2004
(UNAUDITED)

	<u>2004</u>
Estimated population	<u>26,142</u>
Net assessed value as of January 1, 2003	<u>\$ 135,939,800</u>
Gross bonded debt	-
Less available sinking fund cash balance	<u>92,945</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, 2004
 (UNAUDITED)**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2003	\$40,126,645	\$25,113,303	\$76,075,253	\$5,375,401	\$135,939,800	\$1,153,897,423