

AUDIT REPORT

TOWN OF TALIHINA, OKLAHOMA

JUNE 30, 2009



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF TALHINA, OKLAHOMA  
JUNE 30, 2009

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TOWN OF TALHINA, OKLAHOMA  
JUNE 30, 2009

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TOWN OF TALIHINA, OKLAHOMA  
LIST OF BOARD MEMBERS  
JUNE 30, 2009

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
JACQUILINE ENGLAND	MAYOR / CHAIRPERSON
GINA GREGSON	VICE MAYOR / POLICE COMM.
BILL MORGAN	TRUSTEE
SHELDON KING	TRUSTEE

TOWN CLERK/TREASURER

TRUDYE CANTERO

PUBLIC UTILITY CLERK

LADALE COMPTON

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Town of Talihina, Oklahoma

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Talihina, Oklahoma, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Town of Talihina, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Talihina, Oklahoma's management.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As described in Item 09-06 on Page 37, the Town of Talihina and the Talihina Public Works Authority (Management) did not make all financial records and related information available to us in a timely manner for our audit; Management did not properly record transactions in the books of account; Management did not assume responsibility for the selection and method of appropriate accounting principles and their application; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including reviewing proposed entries and understanding the nature and impact of proposed entries to the financial statements; Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for adjusting the financial statements for all material adjustments, individually and in the aggregate, to the financial statements taken as a whole.

Because of the significance of the matter(s) described in the preceding paragraph, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Talihina, Oklahoma, as of and for the year ended June 30, 2009. Accordingly, we do not express an opinion on these financial statements as of and for the year ended June 30, 2009.

In accordance with Government Auditing Standards, we have also issued our report dated April 25, 2013, on our consideration of the Town of Talihina, Oklahoma'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 compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

# KERSHAW CPA & ASSOCIATES, PC

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The Town of Talihina has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was to be conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Talihina's basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Generally Accepted Governmental Auditing Standards require independent auditors to exercise professional judgment by making inquiries of those charged with governance, and those in a position to provide the auditor with information which might have a bearing on the financial and accounting attributes of the entity. Management adopted a policy of attempting to restrict auditor independence by directing the auditor to refrain from making inquiries of those charged with governance, and those in a position to provide the auditor with information which might have a bearing on the financial and accounting attributes of the Town of Talihina and the Talihina Public Works Authority. This management-imposed restriction constituted a limitation on the scope of our audit work.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

April 25, 2013

**TOWN OF TALIHINA, OKLAHOMA**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**  
**JUNE 30, 2009**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2009 Total</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 231,696	\$ 196,434	\$ 428,130
Due from Other Funds	52,990	2,749	55,739
Out of Balance	626,490	-	626,490
Total Current Assets	<u>911,176</u>	<u>199,183</u>	<u>1,110,359</u>
<b><u>Other Assets:</u></b>			
Restricted Cash and cash equivalents	-	102,436	102,436
Total Other Assets	<u>-</u>	<u>102,436</u>	<u>102,436</u>
<b><u>Capital Assets:</u></b>			
Capital Assets, net of Accum. Depreciation	1,328,128	3,224,445	4,552,573
Total Capital Assets	<u>1,328,128</u>	<u>3,224,445</u>	<u>4,552,573</u>
<b>TOTAL ASSETS</b>	<u><u>2,239,304</u></u>	<u><u>3,526,064</u></u>	<u><u>5,765,368</u></u>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Due to Other Funds	51,846	2,953	54,799
Accounts Payable	66,158	58,413	124,571
Notes Payable - Current Portion	-	-	-
Refundable Customer Deposits	-	27,999	27,999
Total Current Liabilities	<u>118,004</u>	<u>89,364</u>	<u>207,368</u>
<b><u>Long-Term Liabilities:</u></b>			
Notes Payable - Long-Term	-	64,340	64,340
Total Long-Term Liabilities	<u>-</u>	<u>64,340</u>	<u>64,340</u>
<b>TOTAL LIABILITIES</b>	<u><u>118,004</u></u>	<u><u>153,704</u></u>	<u><u>271,709</u></u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	1,328,128	3,160,105	4,488,233
Restricted for:			-
Debt Service	-	102,436	102,436
Other Purposes	-	-	-
Unrestricted	793,171	109,820	902,990
<b>TOTAL NET ASSETS</b>	<u><u>\$ 2,121,299</u></u>	<u><u>\$ 3,372,360</u></u>	<u><u>\$ 5,493,659</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF TALIHINA, OKLAHOMA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
<b>Current:</b>					
General Government	\$ 136,809	\$ -	\$ -	\$ -	\$ (136,809)
Public Safety	201,734	-	-	5,100	(196,634)
Highways & Streets	9,927	-	-	-	(9,927)
Culture & Recreation	11,932	-	-	-	(11,932)
Debt Service - Interest	-	-	-	-	-
Depreciation Expense	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>360,401</b>	<b>-</b>	<b>-</b>	<b>5,100</b>	<b>(355,301)</b>
<b>Business-type activities:</b>					
General & Administration	106,131	-	-	-	(106,131)
Water	266,072	490,978	-	-	224,906
Sewer	61,628	110,476	-	-	48,848
Sanitation	121,561	116,869	-	-	(4,692)
Depreciation Expense	-	-	-	-	-
<b>Total Business-type Activities</b>	<b>555,392</b>	<b>718,324</b>	<b>-</b>	<b>-</b>	<b>162,931</b>
<b>Total</b>	<b>\$ 915,794</b>	<b>\$ 718,324</b>	<b>\$ -</b>	<b>\$ 5,100</b>	<b>\$ (192,370)</b>

## Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (355,301)	\$ 162,931	\$ (192,370)
<b>General revenues:</b>			
<b>Taxes:</b>			
Sales Tax	386,412	-	386,412
Use Tax	17,933	-	17,933
Cigar Tax	5,141	-	5,141
Franchise Tax	32,958	-	32,958
<b>Intergovernmental:</b>			
Alcoholic Beverage Tax	7,970	-	7,970
Gasoline Excise Tax	1,179	-	1,179
Motor Vehicle Tax	7,902	-	7,902
Fines & Forfeitures	18,407	-	18,407
Donations	-	-	-
Licenses and Permits	-	-	-
Miscellaneous Income	18,313	25,521	43,834
Interest Income	195	124	320
Transfers - Internal Activity	-	-	-
<b>Total general revenues &amp; transfers</b>	<b>496,409</b>	<b>25,646</b>	<b>522,055</b>
<b>Changes in net assets</b>	<b>141,108</b>	<b>188,577</b>	<b>329,685</b>
Net assets - beginning	1,521,455	3,275,083	4,796,538
Net assets - prior year adjustment	458,736	(91,300)	367,436
<b>Net assets - ending</b>	<b>\$ 2,121,299</b>	<b>\$ 3,372,360</b>	<b>\$ 5,493,659</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



**TOWN OF TALIHINA, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 119,975	\$ 111,721	\$ 231,696
Due from other funds	18,266	34,723	52,990
Out of Balance	616,037	10,452	626,490
<b>TOTAL ASSETS</b>	<b><u>\$ 754,278</u></b>	<b><u>\$ 156,897</u></b>	<b><u>\$ 911,176</u></b>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>			
<b>LIABILITIES:</b>			
Due to Other Funds	\$ -	\$ 51,846	\$ 51,846
Accounts Payable	60,154	6,004	66,158
<b>TOTAL LIABILITIES</b>	<b><u>60,154</u></b>	<b><u>57,850</u></b>	<b><u>118,004</u></b>
<b>FUND BALANCES:</b>			
Unreserved	694,124	-	694,124
Unreserved, reported in nonmajor special revenue funds	-	99,047	99,047
<b>TOTAL FUND BALANCES</b>	<b><u>694,124</u></b>	<b><u>99,047</u></b>	<b><u>793,171</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 754,278</u></b>	<b><u>\$ 156,897</u></b>	

**Reconciliation to Statement of Net Assets:**

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

Capital assets used in governmental activities of \$1,378,257, net of accumulated depreciation of \$50,129, are not financial resources and, therefore, are not reported in the funds.	1,328,128
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>-</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 2,121,299</u></b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Sales Tax	\$ 386,412	\$ -	\$ 386,412
Use Tax	17,933	-	17,933
Cigar Tax	5,141	-	5,141
Franchise Tax	32,958	-	32,958
Intergovernmental:			
Alcoholic Beverage Tax	7,970	-	7,970
Gasoline Excise Tax	-	1,179	1,179
Motor Vehicle Tax	-	7,902	7,902
Grants	5,100	-	5,100
Fines & Forfeitures	18,407	-	18,407
Donations	-	-	-
Licenses and permits	-	-	-
Miscellaneous Income	10,407	7,906	18,313
Interest Income	-	195	195
<b>TOTAL REVENUES</b>	<b>484,327</b>	<b>17,182</b>	<b>501,509</b>
<b>EXPENDITURES:</b>			
Current:			
General Government	91,042	11,618	102,660
Public Safety	201,734	-	201,734
Highways & Streets	2,545	7,382	9,927
Culture and recreation	11,932	-	11,932
Debt Service	-	-	-
Capital Outlay	34,149	-	34,149
<b>TOTAL EXPENDITURES</b>	<b>341,402</b>	<b>19,000</b>	<b>360,401</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>142,926</b>	<b>(1,818)</b>	<b>141,108</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>142,926</b>	<b>(1,818)</b>	<b>141,108</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>126,141</b>	<b>67,630</b>	<b>193,771</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>425,058</b>	<b>33,234</b>	<b>458,292</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 694,124</b>	<b>\$ 99,047</b>	<b>793,171</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	141,108
 Amounts reported for governmental activities in the Statement of Activities are different because:		
 Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital debt obligation principal payments		-
 Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:		
Capital Debt Proceeds		-
 Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		-
Depreciation expense		-
		-
Change in Net Assets of Governmental Activities	\$	141,108

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2009**

	<u>Talihina Public Works Authority Enterprise Fund June 30, 2009</u>
<b><u>ASSETS</u></b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 196,434
Due from Other Funds	<u>2,749</u>
Total Current Assets	<u>199,183</u>
<b>Noncurrent Assets:</b>	
Restricted cash and cash equivalents	102,436
Capital assets, net of accumulated depreciation	<u>3,224,445</u>
Total Noncurrent Assets	<u>3,326,881</u>
<b>TOTAL ASSETS</b>	<u><u>3,526,064</u></u>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>	
<b>Current Liabilities:</b>	
Due to Other Funds	2,953
Refundable Customer Deposits	27,999
Accounts Payable	<u>58,413</u>
Total Current Liabilities	<u>89,364</u>
<b>Noncurrent Liabilities:</b>	
Notes Payable	64,340
Less: Current portion of Long-Term Debt	<u>-</u>
Total Noncurrent Liabilities	<u>64,340</u>
<b>TOTAL LIABILITIES</b>	<u><u>153,704</u></u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	3,160,105
Restricted for debt service	102,436
Unrestricted	<u>109,820</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 3,372,360</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**- MODIFIED CASH BASIS -**  
**PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Talihina Public Works Authority Enterprise Fund</u>
	<u>June 30, 2009</u>
<b><u>OPERATING REVENUES:</u></b>	
Water	\$ 490,978
Wastewater	110,476
Sanitation	116,869
Miscellaneous	25,521
<b>TOTAL OPERATING REVENUES</b>	<u>743,845</u>
<b><u>OPERATING EXPENSES:</u></b>	
<b>Current:</b>	
General and administration	106,131
Water treatment	119,540
Water distribution	146,532
Sewer	61,628
Sanitation	121,561
Depreciation	-
<b>TOTAL OPERATING EXPENSES</b>	<u>555,392</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>188,453</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	124
Interest Expense	-
Grant Income	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>124</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	<u>188,577</u>
Transfers in	-
Transfers out	-
<b>CHANGE IN NET ASSETS</b>	<u>188,577</u>
<b>TOTAL NET ASSETS - BEGINNING</b>	3,275,083
<b>TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT</b>	<u>(91,300)</u>
<b>TOTAL NET ASSETS - ENDING</b>	<u><u>\$ 3,372,360</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF TALIHINA, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>June 30, 2009</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 743,845
Payments to Suppliers, Employees & Laborers	(496,980)
Receipts of Customer Utility Deposits, Net of Refunds	<u>(4,249)</u>
Net Cash Provided (Used) by Operating Activities	<u>242,616</u>
<b><u>Net Cash Flows from Non-Capital Financing Activities:</u></b>	
(Increase)Decrease in due from/to other funds	2,952
Operating Transfers in	-
Operating Transfers Out	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>2,952</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	-
Loan Proceeds received	-
Grant Income	-
(Increase) Decrease in Restricted Assets	47,955
Principal paid	-
Interest paid	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>47,955</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>	
(Increase) Decrease in Investments	-
Interest Earned	<u>124</u>
Net Cash Provided (Used) by Investing Activities	<u>124</u>
Net Increase (Decrease) in Cash and Cash Equivalents	293,648
Cash & Cash Equivalents, Beginning of Year	125,742
Cash & Cash Equivalents, Prior Year Adjustment	<u>(222,955)</u>
Cash & Cash Equivalents, End of Year	<u>\$ 196,434</u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Net Operating Income (Loss)	\$ 188,453
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation Expense	-
Increase(Decrease) in Accounts Payable	58,413
Customer Deposits	<u>(4,249)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 242,616</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF TALIHINA, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUND TYPES  
JUNE 30, 2009

	<u>Agency Funds</u>
	<u>Police Bonds</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 6,121
Investments	-
<b>TOTAL ASSETS</b>	<u>6,121</u>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>	
Due to other funds	<u>6,121</u>
<b>TOTAL LIABILITIES</b>	<u>6,121</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	-
Restricted for debt service	-
Unrestricted	-
<b>TOTAL NET ASSETS</b>	<u><u>\$ -</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 1 - ORGANIZATION

The Town of Talihina, Oklahoma, (the Town) was established in 1905 and operates under a Town Board of Trustees form of government under Title 11 of the Oklahoma Statutes, and provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, culture and recreation, utilities, and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standard (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, have been applied to the extent they are applicable to the basis of accounting utilized by the fund, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements), as applicable to the modified cash basis. The Town has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.



TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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A. Reporting Entity

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

Blended Component Units

The Talihina Public Works Authority (PWA) is a public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180, for the purpose of financing, operating, constructing, and administering any public works, improvements, facilities, and for other public purposes. The Town is named as the beneficiary of the Authority and the board of trustees is also the governing body of the Talihina Public Works Authority. The board of trustees approves the Authority's budget, budget revisions, and surpluses that are transferred to the Town; therefore, the Town significantly influences operations and designated the management of the Authority. The Talihina Public Works Authority is reported as an enterprise fund type.

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

B. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

TOWN OF TALIHINA, OKLAHOMA  
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JUNE 30, 2009

Fund Financial Statements

The Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of government and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. There was on non-major fund to present.

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are two categories of funds: governmental a proprietary.

Governmental Fund Types

Governmental Fund Types are used to account for the Town's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

The following are the Town's major governmental funds:

General Fund is the general operating fund of the Town. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds account for revenue sources that are either legally restricted to expenditures for specific purposes or designated

TOWN OF TALIHINA, OKLAHOMA  
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to finance particular functions of the Town. The reporting entity includes the following special revenue funds.

Proprietary Fund Types

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, water and trash, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues and expenses are recorded when they result from cash transactions. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

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

The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. Revenues are recorded when received and expenses when paid, with the exception of proceeds from long term debt which is recorded as a liability, and capital assets acquired, which are capitalized, with a provision for depreciation.

In the fund financial statements, the current financial resources measurement focus, as applied to the modified cash basis of accounting, is used for governmental funds, while the economic resources measurement focus is used for proprietary funds. The current financial resources measurement focus includes only current financial assets and liabilities on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

TOWN OF TALIHINA, OKLAHOMA  
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As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed and provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the Talihina PWA enterprise fund are charges to customers for sales and services. Operating expenses for enterpriser funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Town to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma county, school district, or municipality.

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

TOWN OF TALIHINA, OKLAHOMA  
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2. Restricted Assets

The Talihina Public Works Authority has set aside certain resources in debt service and reserve accounts for repayment of loans, in accordance with the loan indentures. These funds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

3. Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund-type and proprietary fund inventories are recorded as expenditures when purchased rather than when consumed.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method over the following ranges of estimated useful lives:

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<u>Assets</u>	<u>Useful life</u>
Land	N/A
Buildings, storage, etc.	10-15 Years
Furniture, equipment and vehicles	5-10 Years
Water treatment facility	10-50 Years
Sewer treatment facility	50 Years
Water distribution system	50 Years

The Town has not maintained accurate capital asset records to support historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost is not readily available. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental Activities is not readily determinable.

6. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees may accumulate and carryover up to 240 hours of unused vacation. No liability for accumulated vacation and sick leave is included in the financial statements.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

8. Fund equity

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

9. Revenues, Expenditures and Expenses

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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Property Tax

For the year ended June 30, 2009, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on generally obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current  
(further classified by activity)

Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted for the Town general fund, the Talihina Public Works Authority and Talihina, Oklahoma Community Medical Authority. All unencumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the Town submit requests for appropriations to the Town treasurer so that a budget may be prepared. The Town council meets with the Town treasurer so that a budget may be prepared. The Town council meets with the Town treasurer and Public Works clerk to review the needs estimates and request of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the Town council in July.

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

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

Budgets are prepared on the budget basis of accounting, with demonstrates compliance with cash basis and budget laws of the State of Oklahoma, and is another comprehensive basis of accounting.

NOTE 4 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2009, the Town held deposits of approximately \$480,005 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.



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- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

As of June 30, 2009, the Towns' investments in certificates of deposit, U.S. Treasury Bills, and U.S. Treasury Mutual Funds were all federally insured.

Concentration of Credit Risk

The Town places no limit on the amount it may invest in any one issuer. Investments reported in the meter deposit fund are certificates of deposit.

NOTE 5 - RESTRICTED ASSETS

The Talihina Public Works Authority notes payable to OWRB required the TPWA to set aside funds in a sinking fund for payments on the debt, as well as a reserve fund to be used for payment of the debt principal and interest in the event that funds are not otherwise available to pay the debt service payments when due. The TPWA has also set aside funds in a sales tax reserve to be used for debt payments. Funds are also reserved for meter deposits due back to the utility customers.

CRG, Inc. loan #10149 requires the PWA to establish a debt reserve fund that will be used only to repay CRG, Inc. and only in the event that adequate revenue is not available from operations to make a monthly installment. The debt reserve fund shall be funded at the rate of not less than \$183.90 per month starting no later than the last day of the first full month following the loan closing. After a minimum of \$22,068.48 has been accumulated in the debt reserve fund, no more deposits are required unless money is taken out the fund. If money is taken out of the fund, monthly deposits of not less than \$183.90 will be resumed until the fund again reaches at least \$22,068.48. The balance in this account at June 30, 2009 was \$1,051.70 which exceeds the required amount of \$3,126.30.

The Town has the following restricted cash and investments in the enterprise funds:

	<u>TPWA</u>
Sinking fund	\$ 19,135
Sales tax reserve	30,904
Reserve fund	60,500
Meter deposits	42,788
REAP Grant Sewer Project	83
CRG Debt Service Reserve	3,223
RD Debt Service Reserve	<u>18,410</u>
Total restricted assets	<u><u>\$175,043</u></u>

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 6 - CAPITAL ASSETS

Town of Talihina:

As described above the Town does not keep detailed capital asset information. However, the following information is included in the financial statements.

	Balance at June 30, 2008	Additions	Deductions	Balance at June 30, 2009
Capital Assets, not being depreciated				
Construction in Progress	\$ 5,625	\$ -	\$ -	\$ 5,625
Total Capital Assets, not being depreciated	<u>5,625</u>	<u>-</u>	<u>-</u>	<u>5,625</u>
<u>Capital Assets, being depreciated</u>				
Buildings and improvements	342,294	-	-	342,294
Equipment and Vehicles	241,794	-	-	241,794
Infrastructure	788,544	-	-	788,544
Subtotal	<u>1,372,632</u>	<u>-</u>	<u>-</u>	<u>1,372,632</u>
Less: Accum. Depr.	<u>(50,129)</u>	<u>-</u>	<u>-</u>	<u>(50,129)</u>
Total Capital Assets, being depreciated (Net of Depreciation)	<u>1,322,503</u>	<u>-</u>	<u>-</u>	<u>1,322,503</u>
Governmental activities capital assets, net	<u>\$ 1,328,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,328,128</u>

Talihina Public Works Authority:

Activity of capital assets consists of the following:

	Balance at June 30, 2008	Additions	Deductions	Balance at June 30, 2009
Capital Assets, not being depreciated				
Land	\$ 69,994	\$ -	\$ -	\$ 69,994
Total Capital Assets, not being depreciated	<u>69,994</u>	<u>-</u>	<u>-</u>	<u>69,994</u>
<u>Capital Assets, being depreciated</u>				
Buildings and improvements	3,768	-	-	3,768
Equipment	32,311	-	-	32,311
Vehicles	26,231	-	(4,500)	21,731
Sewer treatment facility	2,454,068	-	(210,818)	2,243,250
Water treatment facility	706,666	-	(10,000)	696,666
Water distribution facility	2,083,719	-	-	2,083,719
Subtotal	<u>5,306,763</u>	<u>-</u>	<u>(225,318)</u>	<u>5,081,445</u>
Less: Accum. Depr.	<u>(2,143,273)</u>	<u>-</u>	<u>216,279</u>	<u>(1,926,994)</u>
Total Capital Assets, being depreciated (Net of Depreciation)	<u>3,163,490</u>	<u>-</u>	<u>(9,039)</u>	<u>3,154,451</u>
Business-type activities capital assets, net	<u>\$ 3,233,484</u>	<u>\$ -</u>	<u>\$ (9,039)</u>	<u>\$ 3,224,445</u>

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - DEPOSITS SUBJECT TO REFUND

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2009, cash and investments included \$42,788 available for refund of customer deposits, while the liability to customers was \$40,260.

NOTE 8 - LEASE OBLIGATIONS

Capital lease

The Town entered into a lease agreement as lessee for financing the acquisition of a police vehicle. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been reported at the present value of its future minimum lease payments as of the inception date. The governmental activities capital lease obligations are as follows:

Government Leasing Company, dated August 9, 2005, in the amount of \$14,000, payable in monthly installments of \$449, including interest at 9.90%, for the purchase of a police vehicle. This lease was paid in full during the current year.

The following is a summary of capital lease additions and deductions for the year ended June 30, 2009:

	Balance 7/1/2008	Additions	Deductions	Balance 6/30/2009
Capital Lease	\$ 444	\$ -	\$ (444)	\$ -
	\$ 444	\$ -	\$ (444)	\$ -
	\$ 444	\$ -	\$ (444)	\$ -

A summary of future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, are as follows:

	Governmental Activities
Year Ending June 30,	Capital Lease Obligations
2010	\$ -
Total required payments	-
Less: amount representing interest	-
Net principal payments	\$ -

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NOTE 9 - LONG-TERM DEBT

TALHINA PUBLIC WORKS AUTHORITY

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt  
June 30, 2009

Oklahoma Water Resources Board dated April 15, 1989, with total Authorized amount of \$605,000, payable in semi-annual installments of \$5,000 to \$27,000 plus interest at a rate as determined by the OWRB, currently 1.83%. The note is secured by the assets of water and sewer systems, a pledge of water and sewer revenues, and one-third (1/3) of one cent of sales tax revenue received \$ 103,200.00

Community Resource Group, Inc. dated January 3, 2008, with total Authorized amount of \$166,400, payable in monthly installments of \$1,839.04 for 120 months (10 years) at a rate of 5.9% interest beginning February 7, 2008. This loan will be used to relocate 1080 feet of wastewater collection lines, install 6 new manholes, replace aerial pipe and the access road creek crossing at the treatment lagoons. This loan also requires that the Authority maintain an operating ratio of not less than 1.05 as measured on an annual basis. 140,982.49

Community Resource Group, Inc. dated September 12, 2009, interest only payments for one year with the principal balance due in full in one year at a rate of 4.9% interest. This loan is part of the wastewater project. 166,653.57

Total Notes Payable Outstanding \$ 410,836.06

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2009:

	Balance 7/1/2008	Additions	Deductions	Balance 6/30/2009
Note Payable - OWRB	\$ 160,500	\$ -	\$ (57,300)	\$ 103,200
Note Payable - CRG (10149)	\$ 44,535	\$ 110,880	\$ (14,433)	\$ 140,982
Note Payable - CRG (10162)	\$ -	\$ 166,654	\$ -	\$ 166,654
	\$ 205,035	\$ 277,534	\$ (71,733)	\$ 410,836

A summary of future maturities of principal and interest are as follows:

TOWN OF TALIHINA, OKLAHOMA  
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Year Ending June 30,	Business-Type Activities		Total
	Notes Payable - OWRB		
	Principal	Interest	
2010	\$ 37,000	\$ 1,889	\$ 38,889
2011	53,000	1,211	54,211
2012	13,200	242	13,442
2013	-	-	-
2014	-	-	-
Total	<u>\$ 103,200</u>	<u>\$ 3,342</u>	<u>\$ 106,542</u>

An amortization schedule for the CRG, Inc. loans will be provided once all loan proceeds have been received.

NOTE 10 - COMPENSATED ABSENCES

Full-time employees are granted vacation and sick leave in varying amounts based upon years of service. Employees accrue from 80 to 160 hours of vacation annually. Unused vacation up to 150% of the normal annual accrual may be carried forward to the next year.

Upon termination, employees are paid for any unused vacation, holiday and comp time, but not sick leave. Total compensated absences that had accumulated as of June 30, 2009, for the Town and Public Works Authority were \$20,085 and \$14,291, respectively. An accrual for compensated absences has not been provided on the accompanying financial statements, as they are presented on the modified cash basis.

NOTE 11 - INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2009, is as follows:

Receivable Fund	Payable Fund	Total
General fund	Municipal Court	\$ 6,123
	Cemetery Fund	7,127
	Swimming Pool	24,650
	Street & Alley	705
Cemetery perpetual care fund	Cemetery Fund	1,204
Talihina PWA	Swimming Pool	2,749
Total		<u>\$ 42,558</u>

NOTE 12 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has insurance for the major risks such as property and general liability, worker's compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to Town buildings and mobile equipment.

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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Judgments against the Town may be paid by a property tax assessment over a three-year period.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The Town participates in the certain federal and state grant programs as available, currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

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

The Town is under a current order from the State of Oklahoma Department of Environmental Quality for violations at the water treatment plant.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The Town of Talihina participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other Town employees not covered by the

TOWN OF TALIHINA, OKLAHOMA  
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other plans, the Town of Talihina maintains a defined benefit plan, the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Description of the Plan

This noncontributory plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The Oklahoma Firefighters Pension and Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-800-525-7461.

Funding Policy

The Town is required to make annual contributions of \$60.00 per fire fighter to OFPRS. The contribution requirements of the Town are established and may be amended by the state legislature. The Town's contributions to OFPRS was \$660.00 for 2009.

Oklahoma Municipal Retirement Fund Employee Retirement System

Description of the Plan

The Oklahoma Municipal Retirement Fund Employee Retirement System, (the Plan) is a defined benefit retirement plan covering Town employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF), trustees of which retain BankOne as a custodian to hold the Plan assets, which are invested by various professional managers. All regular, full-time Town employees not covered by other plans are required to participate in the Plan. Benefits vest after five years of service. Employees, who retire at age 65 or after completion of five years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.625% of final average compensation multiplied by the number of years credited service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed five years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If the benefits are to begin before the age of 65, the amount of benefit will be actuarially reduced. A later retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

TOWN OF TALIHINA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

A participant who becomes totally and permanently disabled after completion of five years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and years of service as of the date of disability but without actuarial reduction for payments beginning prior to the normal retirement age if the employee is also eligible for a disability from Social Security.

Employee contributions are returned with accrued interest if their employment is terminated prior to completion of five years of service. A death benefit is payable after five years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until a remarriage of the surviving spouse. For a vested single participant, 50% of the accrued benefit is payable for 60 months.

Funding Policy

For the fiscal year ended June 30, 2009, employees were required to contribute 2.25% of their annual compensation, while the Town contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The contribution rate for the fiscal year ended June 30, 2009 was 7.91%. Contributions to the Plan for the year ended June 30, 2009, for employees and employer were \$7,181 and \$25,277, respectively.

For the year ended June 30, 2009, the covered payroll was \$319,552. Covered payroll refers to all compensation paid by the Town of Talihina to active employees covered by the Plan on which contributions are based.

NOTE 15 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2009.

NOTE 16 - NOTE DISCLOSURE DISCREPANCIES

Specific amounts reflected in the Notes to the Financial Statements generally do not agree with those presented in the financial statements. Some of the figures shown in the Notes were derived from source documents, confirmations and other information. However, the amounts shown in the financial statements are the result of the errors, omissions and other misstatements within Town of Talihina and the Talihina PWA's financial statements.



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## 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 Board of Trustees  
Town of Talihina, Oklahoma

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Talihina, State of Oklahoma, as of June 30, 2009, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 25, 2013, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. The Town of Talihina has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A or Budgetary Comparison Information.

### Internal Control Over Financial Reporting

Management of the Town of Talihina is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Talihina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Talihina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Talihina's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as Items 09-01, 09-03, 09-04, 09-05, 09-06 & 09-07 to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as Item 09-02 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Talihina's financial statements are free of material misstatement, we performed tests of 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 Town's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees and management of the Town of Talihina, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

April 25, 2013

TOWN OF TALIHINA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2009

INTERNAL CONTROL FINDINGS:

Item 09-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board is aware of the problem.

Item 09-02: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: Periodic physical inventories required for good internal control should be conducted.

Response: The Town is aware of the problem.

TOWN OF TALIHINA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2009

Item 09-03: Bank Reconciliation

Criteria: See Criteria for Item 09-02 above.

Condition: Proper reconciliations were not made of the cash balances per the general ledger with bank statements. Reconciliations were attempted on the computer, however, the reconciled balances did not agree with the general ledger.

Cause/Effect: A system for reconciling the bank statements on a monthly basis was in place; however, due to the limited number of personnel, the staff was not able to follow the system that was in place. The financial statements may contain misstatements and omit financial information.

Recommendation: Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements and the general ledger.

Response: The Town is aware of the problem.

Item 09-04: Purchasing

Criteria: Purchase order law requires that purchases or contracts be encumbered against a designated appropriation account prior to/or at the time the commitment is made. Currently, purchase orders are being encumbered after commitment and prior to the expenditure of funds.

Condition: The Town of Talihina does not have formal purchasing policies and procedures in place. The Town of Talihina has not complied with the purchasing policies and procedures of the State of Oklahoma which state that a purchase order must be issued and approved prior to placing an order or obtaining goods and services.

Cause/Effect: Purchases are made by department heads with no prior approval. Purchase orders are generated when the vendor invoice is received and approval is made by the board after the goods and services have been received. The Town is using the purchase order form as an authorization for payment rather than an authorization for purchase.

Recommendation: We recommend that an encumbrance log be established and the purchase order law procedures be followed in the encumbering and expending of funds.

Response: The Town is aware of the problem. However, the condition still exists.

TOWN OF TALIHINA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2009

Item 09-05: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Town does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits. The Town is aware of the problem and has already taken steps to correct the situation.

Response: The Town is aware of the problem. However, the condition still exists.

Item 09-06: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

Cause/Effect: The staff did not maintain records in an accurate manner. The trial balance and financial statements, provided by personnel, do not include all 12 months of information and contain misstatements and omit financial information. The individual funds are not in balance. In addition, accounts exist, in the trial balance, that are called "To Balance" or "Out of Balance." For example, the General Fund Trial Balance includes the account "To Balance" with a balance of \$616,037.48; the Cemetery Fund includes the account "Out of

TOWN OF TALIHINA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2009

Balance” with a balance of \$10,452.35. Moreover, the individual fund trial balances remain out of balances despite these balancing accounts.

Recommendation: The Town needs to prepare financial statements which will provide a better audit trail of financial transactions. Management needs to designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

Response: The Town is aware of the problem. However, the condition still exists.

Item 09-07: Revenue Documentation

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal revenue records are being maintained. The check stubs that show the amounts of Commercial Vehicle Tax and Alcoholic Beverage Tax received are being thrown away after the deposit is recorded. These deposits showed immaterial differences with the amounts confirmed with the County Clerk.

Recommendation: All revenue documentation should be retained with the accounting records.

Response: The Town is aware of the problem.

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TOWN OF TALIHINA, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2009

	<u>SPECIAL REVENUE FUNDS</u>				
	<u>Street &amp; Alley Fund</u>	<u>Cemetery Fund</u>	<u>Airport Fund</u>	<u>BIA Grant Fund</u>	<u>DARE Account</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 34,638	\$ 8,963	\$ 1,248	\$ 21,742	\$ -
Due from other funds	-	13,501	-	-	-
Out of Balance	-	10,452	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 34,638</u>	<u>\$ 32,917</u>	<u>\$ 1,248</u>	<u>\$ 21,742</u>	<u>\$ -</u>
<b>LIABILITIES &amp; FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Due to other funds	\$ 705	\$ 2,394	\$ -	\$ -	\$ -
Accounts Payable	577	315	-	-	-
<b>TOTAL LIABILITIES</b>	<u>1,282</u>	<u>2,709</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>					
Unreserved, reported in nonmajor special revenue funds	<u>33,356</u>	<u>30,208</u>	<u>1,248</u>	<u>21,742</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u>33,356</u>	<u>30,208</u>	<u>1,248</u>	<u>21,742</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 34,638</u>	<u>\$ 32,917</u>	<u>\$ 1,248</u>	<u>\$ 21,742</u>	<u>\$ -</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



TOWN OF TALIHINA, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2009

SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
Swimming Pool Fund	CDBG Fund	EDA Project Fund	Cemetery Perpetual Care Fund	
\$ 37,394	\$ 2,114	\$ 3,100	\$ 2,521	\$ 111,721
7,600	12,418	-	1,204	34,723
-	-	-	-	10,452
<u>\$ 44,994</u>	<u>\$ 14,532</u>	<u>\$ 3,100</u>	<u>\$ 3,725</u>	<u>\$ 156,897</u>
\$ 48,747	\$ -	\$ -	\$ -	\$ 51,846
5,111	-	-	-	6,004
<u>53,859</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,850</u>
(8,865)	14,532	3,100	3,725	99,047
(8,865)	14,532	3,100	3,725	99,047
<u>\$ 44,994</u>	<u>\$ 14,532</u>	<u>\$ 3,100</u>	<u>\$ 3,725</u>	<u>\$ 156,897</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**SPECIAL REVENUE FUNDS**

	<u>Street &amp; Alley Fund</u>	<u>Cemetery Fund</u>	<u>Airport Fund</u>	<u>BIA Grant Fund</u>	<u>DARE Account</u>
<b><u>REVENUES:</u></b>					
Taxes:					
Franchise Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
Alcoholic Beverage Tax	-	-	-	-	-
Gasoline Excise Tax	1,179	-	-	-	-
Motor Vehicle Tax	7,902	-	-	-	-
Grants	-	-	-	-	-
Miscellaneous Income	-	2,535	-	-	-
Interest Income	95	18	-	16	-
<b>TOTAL REVENUES</b>	<b><u>9,176</u></b>	<b><u>2,553</u></b>	<b><u>-</u></b>	<b><u>16</u></b>	<b><u>-</u></b>
<b><u>EXPENDITURES:</u></b>					
Current:					
General Government	-	5,062	-	21	-
Public Safety	-	-	-	-	-
Highways & Streets	7,382	-	-	-	-
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b><u>7,382</u></b>	<b><u>5,062</u></b>	<b><u>-</u></b>	<b><u>21</u></b>	<b><u>-</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,795</b>	<b>(2,508)</b>	<b>-</b>	<b>(5)</b>	<b>-</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
Capital Debt Proceeds	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>1,795</b>	<b>(2,508)</b>	<b>-</b>	<b>(5)</b>	<b>-</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>33,195</b>	<b>7,268</b>	<b>1,248</b>	<b>5,749</b>	<b>896</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b><u>(1,634)</u></b>	<b><u>25,448</u></b>	<b><u>-</u></b>	<b><u>15,999</u></b>	<b><u>(896)</u></b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 33,356</u></b>	<b><u>\$ 30,208</u></b>	<b><u>\$ 1,248</u></b>	<b><u>\$ 21,742</u></b>	<b><u>\$ -</u></b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF TALIHINA, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>SPECIAL REVENUE FUNDS</u>				<u>Total</u>
<u>Swimming</u> <u>Pool Fund</u>	<u>CDBG</u> <u>Fund</u>	<u>EDA Project</u> <u>Fund</u>	<u>Cemetery</u> <u>Perpetual</u> <u>Care Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	1,179
-	-	-	-	7,902
-	-	-	-	-
5,371	-	-	-	7,906
-	5	-	61	195
<u>5,371</u>	<u>5</u>	<u>-</u>	<u>61</u>	<u>17,182</u>
6,535	-	-	-	11,618
-	-	-	-	-
-	-	-	-	7,382
-	-	-	-	-
<u>6,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,000</u>
(1,165)	5	-	61	(1,818)
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
(1,165)	5	-	61	(1,818)
(11,197)	2,109	3,100	25,262	67,630
<u>3,497</u>	<u>12,418</u>	<u>-</u>	<u>(21,598)</u>	<u>33,234</u>
<u>\$ (8,865)</u>	<u>\$ 14,532</u>	<u>\$ 3,100</u>	<u>\$ 3,725</u>	<u>\$ 99,047</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements