

Town of Mill Creek, Oklahoma

**Financial Statements and Independent Auditor's Report thereon
as of and for the year ending
June 30, 2010**

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Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

2812 NW 57th Street, Suite 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

Report of Independent Accountants

To the Board of Trustees
Town of Mill Creek, Oklahoma

We have audited 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 Mill Creek, Oklahoma as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town'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 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.

As discussed in Note 3 to the financial statements, management has not recorded certain general fixed assets in governmental activities and, accordingly, had not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general fixed assets be capitalized and depreciated, which would increase the net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

The Town prepares its annual financial statements and schedules on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, because of the effects of the matter discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles general accepted in the United States of America, the financial position of the governmental activities of the Town of Mill Creek, Oklahoma, as of June 30, 2010, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Mill Creek, Oklahoma, as of June 30, 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2012 on our consideration of the Town'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.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.

 Casey J. Russell CPA Inc.
May 21, 2012

Town of Mill Creek, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash in bank - unrestricted	90,286.28	6,935.28	97,221.56
Cash in bank - restricted	-	21,815.02	21,815.02
Total current assets	<u>90,286.28</u>	<u>28,750.30</u>	<u>119,036.58</u>
Noncurrent assets:			
Net capital assets	-	1,116,654.99	1,116,654.99
Total noncurrent assets	<u>-</u>	<u>1,116,654.99</u>	<u>1,116,654.99</u>
Total assets	<u>\$ 90,286.28</u>	<u>\$ 1,145,405.29</u>	<u>\$ 1,235,691.57</u>
LIABILITIES			
Current liabilities:			
Meter deposits	-	6,756.26	6,756.26
Current portion long term debt	-	11,770.00	11,770.00
Total current liabilities	<u>-</u>	<u>18,526.26</u>	<u>18,526.26</u>
Noncurrent liabilities:			
Loans payable	-	131,402.39	131,402.39
Total noncurrent liabilities	<u>-</u>	<u>131,402.39</u>	<u>131,402.39</u>
Total liabilities	<u>-</u>	<u>149,928.65</u>	<u>149,928.65</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	973,482.60	973,482.60
Restricted	-	15,058.76	15,058.76
Unrestricted	<u>90,286.28</u>	<u>6,935.28</u>	<u>97,221.56</u>
Total net assets	<u>90,286.28</u>	<u>995,476.64</u>	<u>1,085,762.92</u>
Total liabilities and net assets	<u>\$ 90,286.28</u>	<u>\$ 1,145,405.29</u>	<u>\$ 1,235,691.57</u>

The accompanying notes are an integral part of these financial statements

**Town of Mill Creek, Oklahoma
Balance Sheet
Governmental Funds - Modified Cash Basis
June 30, 2010**

	General Fund	Total Governmental Funds
ASSETS		
Cash in bank	90,286.28	90,286.28
Total assets	\$ 90,286.28	\$ 90,286.28
LIABILITIES AND FUND BALANCES		
Liabilities:		
Current Portion of Capital Lease	-	-
Fund Balances:		
Unassigned	90,286.28	90,286.28
Total net assets	90,286.28	90,286.28
Total liabilities and net assets	\$ 90,286.28	\$ 90,286.28

***Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
June 30, 2010***

Total Governmental Fund Balances \$ 90,286.28

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

*Capital assets used in governmental activities are
not financial resources and therefore are not*

*Long-term liabilities are not due and payable in the
current period and therefore are not reported in funds:*

Capital lease obligations -

Net Assets of Governmental Activities \$ 90,286.28

Town of Mill Creek, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2010

	General Fund	Total Governmental Funds
Revenues:		
Taxes	75,704.04	75,704.04
Charges for Services	20,097.12	20,097.12
Grants	499,778.00	499,778.00
Interest	26.18	26.18
Total revenues	595,605.34	595,605.34
Expenditures:		
General government	72,988.47	72,988.47
Total expenditures	72,988.47	72,988.47
Excess revenues over (under) expenditures	522,616.87	522,616.87
Transfers In (Out)	(453,228.00)	(453,228.00)
Excess revenues over (under) expenditures after Transfers	69,388.87	69,388.87
Fund balances at beginning of year	20,897.41	20,897.41
Fund balances at end of year	\$ 90,286.28	\$ 90,286.28

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ended June 30, 2010

<i>Net change in fund balances-total government funds</i>	\$ 69,388.87
<i>Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide</i>	
<i>Capital financing payments recorded as an expense in the fund financial statements but not recorded in the</i>	
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements</i>	-
 <i>Change in net assets of governmental activities</i>	 \$ 69,388.87

Town of Mill Creek, Oklahoma
Statement of Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2010

ASSETS

Current assets:

Cash in bank - unrestricted	6,935.28
Cash in bank - restricted	21,815.02
Total current assets	28,750.30

Noncurrent assets:

Net capital assets	1,116,654.99
Total noncurrent assets	1,116,654.99
Total assets	\$ 1,145,405.29

LIABILITIES

Current liabilities:

Meter deposits	6,756.26
Current portion long term debt	11,770.00
Total current liabilities	18,526.26

Noncurrent liabilities:

Notes Payable	131,402.39
Total noncurrent liabilities	131,402.39
Total liabilities	149,928.65

NET ASSETS

Invested in capital assets, net of related debt	973,482.60
Restricted	15,058.76
Unrestricted	6,935.28
Total net assets	995,476.64
Total liabilities and net assets	\$ 1,145,405.29

Town of Mill Creek, Oklahoma
Statement of Revenues Over Expenditures and Changes in Net Assets
Modified Cash Basis - Proprietary Fund Types
For the Year Ended June 30, 2010

Operating Revenues:	
Water sales	\$ 43,784.55
Sewer fees	33,932.07
Garbage fees	<u>24,237.18</u>
Total operating revenues	101,953.80
Operating Expenses:	
Water department	62,162.05
Sewer department	38,099.32
Garbage department	<u>26,252.88</u>
Total operating expenses	<u>126,514.25</u>
Operating income (loss)	(24,560.45)
Non-operating revenues (expenses):	
Transfers In (Out)	453,228.00
Interest income	<u>83.32</u>
Net non-operating revenues (expenses)	<u>453,311.32</u>
Change in net assets	428,750.87
Net assets at beginning of year	<u>566,725.77</u>
Net assets at end of year	<u><u>\$ 995,476.64</u></u>

Mill Creek General Fund and PWA
Statement of Cash Flows - Proprietary Fund
Modified Cash Basis
For the Year Ending June 30, 2010

Cash flows from operating activities	
Cash received from customers	\$ 101,953.80
Cash paid to employees	(39,417.18)
Cash paid to suppliers	(56,573.12)
Net cash provided by operating activities	<u>5,963.50</u>
Cash flows from investing activities	
Interest income	(453,078.64)
Net cash provided by investing activities	<u>83.32</u>
Cash flows from noncapital financing activities	
Operating Transfers in (out)	453,228.00
Net cash provided by noncapital financing activities	<u>453,228.00</u>
Cash flows from capital and related financing activities	
Increase (decrease) in meter deposit liability	(4,005.42)
Principal paid on capital debt	(11,480.79)
Net cash provided (used) for capital and related financing activities	<u>(15,486.21)</u>
Net increase (decrease) in cash and cash equivalents	(9,290.03)
Cash and cash equivalents at beginning of year	<u>38,040.33</u>
Cash and cash equivalents at end of year	<u>\$ 28,750.30</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	(24,560.45)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	30,523.95
Net cash provided (used) by operating activities	<u>\$ 5,963.50</u>
Reconciliation of Cash and Cash Equivalents	
Cash - Unrestricted	\$ 6,935.28
Cash - Restricted	<u>21,815.02</u>
Total	<u>\$ 28,750.30</u>

Town of Mill Creek, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Mill Creek, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2010, the Town had only one component unit, the Mill Creek Public Works Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2010, the Town had only one fund, a general fund. The proprietary fund consisted of the Mill Creek Public Works Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the modified basis of accounting.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Revenue Recognition

The government-wide statements are prepared using the modified cash basis of accounting. Revenues are recognized when collected and expenses are recognized when paid. This is the same approach used in the preparation of the proprietary fund financial statements. The fund financial statements also use the modified cash basis of accounting. The government-wide statements record fixed assets and long-term debt as assets and liabilities. The fund financial statements record fixed assets as expenditures. The fund financial statements records the proceeds of long term debt as revenue and the repayment of long term debt as an expenditure. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Expenditure Recognition

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs. Functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods and services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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 for the date of acquisition. Restricted cash consists of meter deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2011.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 3002, the Board of Trustees formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2-Deposits with Financial Institutions

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Mill Creek is considered a separate entity from the Mill Creek Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Mill Creek's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Mill Creek Public Works Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

Capital Asset activity for the propriety fund for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Building and Land	\$ 9,120	-	-	\$ 9,120
Improvements	17,542	-	-	17,542
Equipment	39,625	-	-	39,625
Water & Sewer Systems	805,823	-	-	805,823
Construction in Process	653,228	-	-	653,228
Total	1,525,338			1,525,338
Less: Accumulated Depreciation	(378,159)	(30,524)		(408,683)
Net Assets	<u>\$ 1,147,179</u>			<u>\$ 1,116,655</u>

As of June 30, 2010, the proprietary funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$30,524 for the proprietary funds was recorded as follows: \$26,641 water and sewer system, \$2,714 for equipment and \$1,169 for improvements.

Note 4-Notes Payable

Mill Creek Public Works Authority

As of June 30, 2010, the Mill Creek Public Works Authority had four notes outstanding.

The first obligation has an outstanding balance of \$41,787 as of June 30, 2010. The loan is due to mature in 2026 and carries an interest rate of 6.375%. The note requires monthly payments of \$351 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for the year ending June 30, 2010 was \$1,496 and \$2,716 respectively. Principal required to amortize this note till maturity is as follows:

	<u>Prin</u>	<u>Int</u>		
2010/2011	1,594	2,618	Balance, Beginning of Year	\$ 43,282
2011/2012	1,699	2,513	Principial paid	<u>(1,495)</u>
2012/2013	1,810	2,402	Balance, End of Year	<u>\$ 41,787</u>
2013/2014	1,929	2,283		
2014/2015	2,056	2,156		
2015/2020	12,489	8,591		
2020/2026	20,210	3,897		
Total	<u>\$ 41,787</u>	<u>\$ 24,460</u>		

The second obligation has an outstanding balance of \$26,087 as of June 30, 2010. The loan is due to mature in January 2019 and carries an interest rate of 5.00%. The note requires monthly payments of \$319 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for the year ending June 30, 2010 was \$2,456 and \$1,371 respectively. Principal required to amortize this note till maturity is as follows:

	<u>Prin</u>	<u>Int</u>		
2010/2012	2,582	1,246	Balance, Beginning of Year	\$ 28,544
2012/2013	2,714	1,114	Principal Paid during year	<u>(2,457)</u>
2013/2014	2,853	975	Balance, End of Year	<u>\$ 26,087</u>
2014/2015	2,999	829		
2015/2016	3,153	675		
2016/2021	11,786	1,039		
Total	<u>\$ 26,087</u>	<u>\$ 5,878</u>		

The third obligation has an outstanding balance of \$12,856 as of June 30, 2010. The loan is due to mature in January 2018 and carries an interest rate of 5.00%. The note requires monthly payments of \$163 and is collateralized by water and sewer revenues. Principal and interest paid on this obligation for the year ending June 30, 2010 was \$1,278 and \$678 respectively. Principal required to amortize this note till maturity is as follows:

	<u>Prin</u>	<u>Int</u>		
2011/2012	1,344	612	Balance, Beginning of Year	\$ 14,134
2012/2013	1,412	544	Principal Paid during year	<u>(1,278)</u>
2013/2014	1,485	471	Balance, End of Year	<u>\$ 12,856</u>
2014/2015	1,560	395		
2015/2016	1,640	315		
2016/2021	5,415	425		
Total	<u>\$ 12,856</u>	<u>\$ 2,762</u>		

The fourth obligation has an outstanding balance of \$62,442 as of June 30, 2010. The loan is due to mature in 2021 and carries an interest rate of 4%. Principal and interest paid on this obligation for the year ending June 30, 2010 was \$6,250 and \$-0- respectively. Principal required to amortize this note till maturity is as follows:

	<u>Prin</u>	<u>Int</u>		
2011/2012	6,250	-	Balance, Beginning of Year	\$ 68,692
2012/2013	6,250	-	Principal Paid during year	<u>(6,250)</u>
2013/2014	6,250	-	Balance, End of Year	<u>\$ 62,442</u>
2014/2015	6,250	-		
2015/2016	6,250	-		
2016/2020	31,192	-		
Total	<u>\$ 62,442</u>	<u>\$ -</u>		

Note 5 – Subsequent Events

Subsequent events have been evaluated through May 21, 2012, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

2812 NW 57th Street, Suite 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

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 Mill Creek, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Mill Creek, Oklahoma as of and for the year ended June 30 2010, which collectively comprise the Town of Mill Creek, Oklahoma's basic financial statements and have issued our report thereon dated May 21, 2012. The report on the Town was qualified because of the use of the modified cash basis of accounting and there was an adverse opinion on the government activities due to general fixed assets. Except as discussed in the preceding sentence 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 of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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 and recommendations to be material weaknesses. Findings 08-2, 08-3 and 08-6.

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 schedule of findings and recommendations to be significant deficiencies. Findings 08-1, 08-4 and 08-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Mill Creek, Oklahoma's 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 statements 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*.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.


Cary J. Swell, CPA Inc.
May 21, 2012

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Current Year Findings

08-1 Meter Deposits (Repeat Finding)

CONDITION: Customer deposits are collected and deposited in a separate bank account, but a complete listing of deposits held is not maintained and activity of the account was not recorded.

CRITERIA: Customer deposits represent an obligation to utility customers and in order to know the correct amount to refund to customers an adequate accounting must be available.

CAUSE OF THE CONDITION: The proper procedures and records have not been set up.

EFFECT OF THE CONDITION: The meter deposit liability could be misstated and customers may be refunded the incorrect amount.

RECOMMENDATION: The Authority create and maintain the proper meter deposit liability records.

MANAGEMENT RESPONSE: Management agrees.

08-2 Disbursements (Repeat Finding)

CONDITION: Management and staff have not been consistent in obtaining adequate documentation for all expenditures.

CRITERIA: Proper accounting records include adequate documentation for all transactions.

CAUSE OF THE CONDITION: Management and staff have not done an adequate job of keeping track of invoices.

EFFECT OF THE CONDITION: The accounting records are not properly and adequately supported.

RECOMMENDATION: No expenditures be approved without the proper documentation on file.

MANAGEMENT RESPONSE: Management agrees.

08-3 Segregation of Duties (Repeat Finding)

CONDITION: All accounting functions are performed by the same person.

CRITERIA: Proper internal control mandates segregation of duties for significant accounting functions.

CAUSE OF THE CONDITION: The Authority is small and has limited resources to use for the additional personnel necessary to the proper segregation of duties.

EFFECT OF THE CONDITION: The Authority's accounting records are vulnerable to misstatement and possible theft.

RECOMMENDATION: The Board of Trustees provide as much supervision of the expenditure process as possible. The Authority should also consider a policy of not accepting cash payments for utility billing payments. But to only accept checks, money orders and or cashiers checks.

MANAGEMENT RESPONSE: Management will consider the suggestion.

08-4 Personnel Files (Repeat Finding)

CONDITION: Personnel files are incomplete.

CRITERIA: Complete and accurate personnel files are integral to the internal control function.

CAUSE OF CONDITION: Management not maintaining proper records.

EFFECT OF CONDITION: The Authority may not be in compliance with federal law and errors can occur in the payroll function.

RECOMMENDATION: The Authority update and maintain adequate personnel files.

MANAGEMENT RESPONSE: Management agrees.

08-5 Payroll (Repeat Finding)

CONDITION: Payroll reports were filed excessively late, employees do not complete time sheets and gift cards were given to employees as bonus pay and not recorded as wages or reported on w-2s.

CRITERIA: Payroll reports should be filed timely, time sheets should be signed by employees and supervisors and all compensation should be recorded as wages.

CAUSE OF THE CONDITION: Lack of internal control and supervision over internal control.

EFFECT OF CONDITION: Non compliance with federal payroll laws, and possible over or under payment of employees.

RECOMMENDATION: Management should implement procedures to ensure that payroll reports are filed timely; employee time sheets are signed by the employee and supervisor before paychecks are calculated, and paychecks are not issued prior to the end of the pay period.

MANAGEMENT RESPONSE: Management agrees

08-6 Utility Adjustments (Prior Response)

CONDITION: Adjustments are not being properly approved by management.

CRITERIA: Utility billing adjustments should only be made with proper documentation and oversight of management.

CAUSE OF CONDITION: There are limited personnel in the office and management has not set up proper oversight of the adjustment process.

RECOMMENDATION: The Board of Trustees appoint a board member or members to review and approve all utility adjustments.

MANAGEMENT RESPONSE: Management will consider the recommendation.

Prior Year Findings Resolved

07-6 Cash Receipts (Repeat Finding)

CONDITION: Deposits are not consistently being made in accordance with state law.

CRITERIA: Oklahoma State law requires that all funds collected be deposited on a daily basis.

CAUSE OF CONDITION: Management and staff are not making deposits daily.

EFFECT OF CONDITION: The Authority is not in conformance with state law.

RECOMMENDATION: The Authority make deposits on a daily basis.

MANAGEMENT RESPONSE: Management agrees.