

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Bernice, Oklahoma
June 30, 2011**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
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**Town of Bernice, Oklahoma
Town Officials
June 30, 2011**

Board of Trustees

Mayor	Bill Raven
Member	David Dennis
Member	Clinton Brewster
Member	Dewayne Langley
Member	Byron Anderson

Treasurer

Connie King

Clerk

Shannon Furnish

**Town of Bernice, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Bernice, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bernice, Oklahoma, as of and for the year ended June 30, 2011, 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 of Bernice, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each fund of the Town of Bernice, Oklahoma as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of the Town of Bernice, 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 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.

The Town of Bernice, Oklahoma has not presented the Management's Discussion and Analysis 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Bernice, Oklahoma's financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

TURNER & Associates, PLLC

Vinita, OK
September 19, 2011



**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 Town Council
Town of Bernice, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the Town of Bernice, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the Town of Bernice, Oklahoma's basic financial statements and have issued our report thereon dated September 19, 2011. The Town of Bernice, Oklahoma did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Bernice, 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 purpose of expressing an opinion on the effectiveness of the Town of Bernice, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Bernice, 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 questioned costs, 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 questioned costs to be material weaknesses. These deficiencies are listed as items 2011-1 and 2011-2.

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 accompany schedule of findings and

questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bernice, 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 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 instance of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Bernice, Oklahoma, in a separate letter dated September 19, 2011.

This report is intended solely for the information and use of management, Town Council, Oklahoma State Auditor, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & ASSOCIATES, PLLC

Vinita, OK
September 19, 2011

Town of Bernice, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 134,942.35	\$ 185,439.38	\$ 320,381.73
Investments	357,129.43	81,098.57	438,228.00
Deposit with Third Party Administrator	49,559.19	-	49,559.19
Accounts Receivable	-	21,792.12	21,792.12
Grant Receivable	25,050.00	-	25,050.00
Accrued Interest Receivable	-	12.44	12.44
Due from Other Governments	45,711.76	-	45,711.76
Prepaid Insurance	3,742.45	1,525.96	5,268.41
Inventory	-	5,000.00	5,000.00
Total Current Assets	<u>616,135.18</u>	<u>294,868.47</u>	<u>911,003.65</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	-	29,817.00	29,817.00
Capital Assets:			
Property, Plant and Equipment, net	<u>1,050,393.27</u>	<u>301,582.21</u>	<u>1,351,975.48</u>
Total Noncurrent Assets	<u>1,050,393.27</u>	<u>331,399.21</u>	<u>1,381,792.48</u>
TOTAL ASSETS	<u>1,666,528.45</u>	<u>626,267.68</u>	<u>2,292,796.13</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	12,131.19	1,434.83	13,566.02
Accounts Payable Third Party Administrator	1,485.00	-	1,485.00
Accrued Interest Payable	-	218.58	218.58
Current Portion of Notes Payable	-	17,618.10	17,618.10
Current Portion of Capitalized Lease Obligation	<u>29,234.36</u>	<u>-</u>	<u>29,234.36</u>
Total Current Liabilities	<u>42,850.55</u>	<u>19,271.51</u>	<u>62,122.06</u>
Noncurrent Liabilities:			
Payable from Restricted Assets:			
Meter Deposits Payable	-	14,625.00	14,625.00
Notes Payable	-	105,163.79	105,163.79
Capital Lease Obligation	<u>62,705.05</u>	<u>-</u>	<u>62,705.05</u>
Total Noncurrent Liabilities	<u>62,705.05</u>	<u>119,788.79</u>	<u>182,493.84</u>
TOTAL LIABILITIES	<u>105,555.60</u>	<u>139,060.30</u>	<u>244,615.90</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,021,158.91	283,964.11	1,305,123.02
Restricted	49,559.19	15,192.00	64,751.19
Unrestricted	<u>490,254.75</u>	<u>188,051.27</u>	<u>678,306.02</u>
TOTAL NET ASSETS	<u>\$ 1,560,972.85</u>	<u>\$ 487,207.38</u>	<u>\$ 2,048,180.23</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Town Clerk/Treasurer	\$ 14,171.66	\$ -	\$ -	\$ -	\$ (14,171.66)
Maintenance and Operation	54,244.81	-	9,500.00	25,050.00	(19,694.81)
Total General Government	68,416.47	-	9,500.00	25,050.00	(33,866.47)
Public Safety and Judiciary:					
Animal Control	4,386.64	102.00	-	-	(4,284.64)
Emergency Medical Service	5,570.64	-	-	-	(5,570.64)
Fire	107,792.99	12,880.47	4,397.72	-	(90,514.80)
Municipal Court	18,346.89	-	-	-	(18,346.89)
Police	65,636.80	72,612.50	-	-	6,975.70
Town Attorney	23,238.08	-	-	-	(23,238.08)
Total Public Safety and Judiciary	224,972.04	85,594.97	4,397.72	-	(134,979.35)
Transportation:					
Street and Alley	10,416.90	-	-	-	(10,416.90)
Parks and Recreation:					
Community Center	11,420.05	-	-	-	(11,420.05)
Total Parks and Recreation	11,420.05	-	-	-	(11,420.05)
Total Governmental Activities	315,225.46	85,594.97	13,897.72	25,050.00	(190,682.77)
Business-Type Activities:					
Water	127,482.10	135,517.48	-	-	8,035.38
Total Business-Type Activities	127,482.10	135,517.48	-	-	8,035.38
Total	\$ 442,707.56	\$ 221,112.45	\$ 13,897.72	\$ 25,050.00	\$ (182,647.39)

(continued)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Changes in Net Asset:			
Net (Expense)/Revenue	\$ (190,682.77)	\$ 8,035.38	\$ (182,647.39)
General Revenues:			
Taxes:			
Sales and Use Taxes	218,321.10	-	218,321.10
Franchise and Public Service Taxes	12,539.42	-	12,539.42
Motor Vehicle Collections	3,199.68	-	3,199.68
Alcoholic Beverage Tax	4,610.79	-	4,610.79
Gasoline Tax	916.91	-	916.91
Occupation Tax	850.00	-	850.00
Tobacco Tax	2,532.45	-	2,532.45
Investment Income	6,683.83	1,852.89	8,536.72
Rental or Lease of Property	4,672.56	-	4,672.56
Donations	2,563.53	-	2,563.53
Miscellaneous	1,942.81	-	1,942.81
Total General Revenues and Transfers	<u>258,833.08</u>	<u>1,852.89</u>	<u>260,685.97</u>
Change in Net Assets	68,150.31	9,888.27	78,038.58
Net Assets, Beginning of Year	<u>1,492,822.54</u>	<u>477,319.11</u>	<u>1,970,141.65</u>
Net Assets, End of Year	<u><u>\$ 1,560,972.85</u></u>	<u><u>\$ 487,207.38</u></u>	<u><u>\$ 2,048,180.23</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 134,942.35
Investments	357,129.43
Deposit with Third Party Administrator	49,559.19
Due from Other Governments	45,711.76
Grant Receivable	25,050.00
Prepaid Insurance	<u>3,742.45</u>
Total Assets	<u>\$ 616,135.18</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 12,131.19
Accounts Payable Third Party Administrator	<u>1,485.00</u>
Total Liabilities	<u>\$ 13,616.19</u>
Fund Balance:	
Unassigned	<u>602,518.99</u>
Total Liabilities and Fund Balance	<u>\$ 616,135.18</u>
 <u>Reconciliation to the Statement of Net Assets</u>	
Total Governmental Funds Balance	602,518.99
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 reported as assets in governmental funds. The cost of the assets is \$1,359,525.01 and the accumulated depreciation is \$309,131.74 for a net book value of \$1,050,393.27.	1,050,393.27
Long-term liabilities, including capitalized lease obligations, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Capitalized Lease Obligations Payable	<u>(91,939.41)</u>
Net Assets of Governmental Activities	<u>\$ 1,560,972.85</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2011

	Fund
Revenues:	
Taxes	\$ 242,970.35
Grants	38,947.72
Charges for Services	85,594.97
Rental or Lease of Property	4,672.56
Investment Income	6,683.83
Donations	2,563.53
Miscellaneous	1,942.81
Sale of Asset	8,500.00
Total Revenues	391,875.77
Expenditures:	
General Government	
Town Clerk/Treasurer	14,171.66
Maintenance and Operation	43,389.90
Public Safety and Judiciary	
Animal Control	4,386.64
Emergency Medical Service	2,379.49
Fire	48,611.49
Municipal Court	18,346.89
Police	64,830.00
Town Attorney	23,238.08
Transportation	
Street and Alley	8,767.85
Parks and Recreation	
Community Center	9,544.52
Capital Outlay	150,290.82
Total Expenditures	387,957.34
Excess (Deficit) of Revenues over Expenditures	3,918.43
Fund Balance, Beginning of Year	598,600.56
Fund Balance, End of Year	\$ 602,518.99

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds	\$	3,918.43
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.</p>		
Capital asset purchases capitalized		119,344.86
Depreciation expense		(56,819.45)
Disposal of Assets		(26,181.24)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statements.</p>		
Capital lease obligation principal payments		27,887.71
Change in Net Assets of Governmental Activities	\$	68,150.31

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Net Assets – Proprietary Fund
June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 185,439.38
Investments	81,098.57
Accounts Receivable	21,792.12
Accrued Interest Receivable	12.44
Prepaid Insurance	1,525.96
Inventory	<u>5,000.00</u>
Total Current Assets	<u>294,868.47</u>
Noncurrent Assets:	
Restricted Assets:	
Cash and Cash Equivalents	29,817.00
Capital Assets:	
Property, Plant and Equipment, net	<u>301,582.21</u>
Total Noncurrent Assets	<u>331,399.21</u>
TOTAL ASSETS	<u><u>626,267.68</u></u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	1,434.83
Accrued Interest Payable	218.58
Current Portion of Notes Payable	<u>17,618.10</u>
Total Current Liabilities	<u>19,271.51</u>
Noncurrent Liabilities:	
Payable from Restricted Assets:	
Meter Deposits Payable	14,625.00
Notes Payable	<u>105,163.79</u>
Total Noncurrent Liabilities	<u>119,788.79</u>
TOTAL LIABILITIES	<u><u>139,060.30</u></u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	178,800.32
Restricted	15,192.00
Unrestricted	<u>293,215.06</u>
TOTAL NET ASSETS	<u><u>\$ 487,207.38</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
Operating Revenues	
Charges for Services - Water	<u>\$ 135,517.48</u>
Operating Expenses	
Chemicals	28,155.23
Contract Labor	18,478.00
Dues	954.96
Depreciation	23,123.51
Insurance	5,068.34
Lab Tests	2,619.79
Maintenance and Repairs	7,340.51
Miscellaneous	3,018.58
Office Supplies	940.25
Payroll Taxes	2,497.16
Professional Fees	2,200.00
Rent	2,750.00
Salaries	11,886.32
Utilities	12,515.81
Total Operating Expenses	<u>121,548.46</u>
Operating Income (Loss)	<u>13,969.02</u>
Non-Operating Revenues (Expenses)	
Interest Income	1,852.89
Interest Expense	(5,933.64)
Total Non-Operating Revenues (Expenses)	<u>(4,080.75)</u>
Net Income (Loss)	9,888.27
Net Assets, Beginning of Year	<u>477,319.11</u>
Net Assets, End of Year	<u><u>\$ 487,207.38</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
Cash Flows from Operating Activities	
Cash Inflows:	
Payments Received from Customers	\$ 137,572.21
Meter Deposits Received	<u>2,050.00</u>
Total Cash Provided	<u>139,622.21</u>
Cash Outflows:	
Payments for Salaries and Benefits	14,659.37
Payments for Goods and Services	88,168.97
Meter Deposits Refunded	<u>1,325.00</u>
Total Cash Used	<u>104,153.34</u>
Net Cash Provided (Used) by Operating Activities	<u>35,468.87</u>
 Cash Flows from Capital and Related Financing Activities	
Principal Paid on Capital Debt	(10,349.84)
Interest Paid on Capital Debt	<u>(5,949.51)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(16,299.35)</u>
 Cash Flows from Investing Activities	
Purchase of Capital Assets	(5,152.00)
Interest Received	<u>653.60</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,498.40)</u>
 Net Cash Inflow (Outflow) from All Activities	 14,671.12
 Cash and Cash Equivalents, Beginning of Year	 <u>200,585.26</u>
Cash and Cash Equivalents, End of Year	<u>\$ 215,256.38</u>
 Cash and Cash Equivalents	
Unrestricted	\$ 185,439.38
Restricted	<u>29,817.00</u>
	<u>\$ 215,256.38</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2011

		Public Works Authority <u>Enterprise Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating Income (Loss)	\$	13,969.02
Depreciation		23,123.51
(Increase) Decrease in:		
Accounts Receivable		2,054.73
Prepaid Insurance		(526.66)
Increase (Decrease) in:		
Accounts Payable		(3,600.84)
Payroll Taxes Payable		(275.89)
Meter Deposits Payable		<u>725.00</u>
Net Cash Provided (Used) by Operating Activities	\$	<u><u>35,468.87</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government: Town of Bernice

Blended Component Unit: Bernice Public Works Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Blended Component Units

Component units that are blended into the reporting activity types of the Town's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Bernice Public Works Authority	Created to finance, develop and operate the water services activities. The current Town Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the Town Council.	Enterprise Fund

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the 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 nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Bernice Public Works Authority	Accounts for activities of the public trust in providing water services to the public.
--------------------------------	--

Major and Non-Major Funds

Major: General Fund
 Proprietary Fund: Bernice Public Works Authority

Non-Major: None

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Measurement Focus (continued)

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Deposits with Third-Party Administrator

Certain sales tax revenues designated for the Fire Department are received and disbursed by the Delaware County Clerk. The cash balance as of June 30, 2011 was \$49,559.19.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use taxes, and franchise taxes. Business-type activities report water charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Inventory

Inventory items are recorded at average cost, which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Capital Assets (continued)

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fixed assets are defined by the Town as assets with an initial, individual cost of more than \$1,000.00 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 reported at estimated fair market value at the date of donation.

The range of estimated useful lives by type of asset is as follows:

Buildings	50-80 years
Improvements	20 years
Machinery and Equipment	5-50 years
Utility System	40 years
Infrastructure	20 years
Parks	50-100 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the promissory notes with RECD require that funds be held in a reserve account. Under the terms and provisions of the promissory notes, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits which are refundable to the customer.

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications (continued)

Net Assets/Fund Balance (continued)

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The Town's Board of Trustees is the highest level of decision making authority of the Town.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the Town considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

E. Revenues, Expenditures, and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the Town in July and August have been accrued and are included under the caption "Due from other governments."

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

E. Revenues, Expenditures, and Expenses (continued)

Use Tax

The Town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments."

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

A. Fund Accounting Requirements

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Utility Authority Fund	Trust Indenture

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., all deposits were fully insured or collateralized.

C. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Special Sales Tax	Fire Department Purposes
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water Revenue	Debt Service and Utility Operations

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability (continued)

C. Revenue Restrictions (continued)

For the year ended June 30, 2011, the Town complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the Town had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2011, the Town incurred no such indebtedness.

Notes Payable

The various loan agreements relating to the notes payable issuances of Bernice Public Works Authority contain some financial restrictions or covenants. These include covenants such as the required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2011.

<u>Requirement</u>	<u>Level of Compliance</u>
Reserve Account Requirement (RECD Loan Agreements) Account balance should be equal to \$15,192.00 or 12 months of debt service payments.	Account balance at June 30, 2011 is \$20,490.45.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2011.

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments

Town policy for eligible investments is governed by State statutes which, in general, allow the Town to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits are maintained in financial institutions. As of June 30, 2011, none of the Town's deposits was exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Public Works Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2011 are as follows:

Meter Deposits	\$ 14,625.00
Reserve Accounts	15,192.00
Total	<u>\$ 29,817.00</u>

C. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, alcoholic beverage tax, and grants receivable. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2011 is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable	\$ 45,711.76	\$ 21,792.12	\$ 67,503.88
Grant Receivable	25,050.00	-	25,050.00
Total	<u>\$ 70,761.76</u>	<u>\$ 21,792.12</u>	<u>\$ 92,553.88</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

III. Detailed Notes on Transaction Classes/Accounts (continued)

D. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 73,915.45	\$ 5,000.00	\$ -	\$ 78,915.45
	<u>73,915.45</u>	<u>5,000.00</u>	<u>-</u>	<u>78,915.45</u>
Depreciable assets:				
Parks	20,689.50	-	-	20,689.50
Buildings/Improvements	394,951.14	23,814.50	-	418,765.64
Machinery and Equipment	794,874.06	90,530.36	44,250.00	841,154.42
	<u>1,210,514.70</u>	<u>114,344.86</u>	<u>44,250.00</u>	<u>1,280,609.56</u>
Total	<u>1,284,430.15</u>	<u>119,344.86</u>	<u>44,250.00</u>	<u>1,359,525.01</u>
Accumulated Depreciation:				
Parks	(138.89)	(206.90)	-	(345.79)
Buildings/Improvements	(52,550.04)	(9,573.07)	-	(62,123.11)
Machinery and Equipment	(217,692.12)	(47,039.48)	(18,068.76)	(246,662.84)
	<u>(270,381.05)</u>	<u>(56,819.45)</u>	<u>(18,068.76)</u>	<u>(309,131.74)</u>
Depreciable assets, net	<u>940,133.65</u>	<u>57,525.41</u>	<u>26,181.24</u>	<u>971,477.82</u>
Net Capital Assets	<u>\$ 1,014,049.10</u>	<u>\$ 62,525.41</u>	<u>\$ 26,181.24</u>	<u>\$ 1,050,393.27</u>
Business-Type Activities:				
Depreciable assets:				
Water System	\$ 807,738.85	\$ -	\$ -	\$ 807,738.85
Buildings	3,580.50	-	-	3,580.50
Equipment	6,850.00	5,152.00	-	12,002.00
Furniture and Fixtures	7,270.52	-	-	7,270.52
Total	<u>825,439.87</u>	<u>5,152.00</u>	<u>-</u>	<u>830,591.87</u>
Accumulated Depreciation:				
Water System	(492,040.61)	(22,249.87)	-	(514,290.48)
Buildings	(3,580.50)	-	-	(3,580.50)
Equipment	(2,994.52)	(873.64)	-	(3,868.16)
Furniture and Fixtures	(7,270.52)	-	-	(7,270.52)
	<u>(505,886.15)</u>	<u>(23,123.51)</u>	<u>-</u>	<u>(529,009.66)</u>
Net Capital Assets	<u>\$ 319,553.72</u>	<u>\$ (17,971.51)</u>	<u>\$ -</u>	<u>\$ 301,582.21</u>

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

D. Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

General Government	\$	5,955.76
Public Safety and Judiciary		
EMS		1,063.54
Fire		44,268.77
Police		806.80
Parks and Recreation		
Community Center		3,075.53
Street and Alley		1,649.05
Total Depreciation Expense	<u>\$</u>	<u>56,819.45</u>

E. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

The Town executed a lease to purchase an S&S 1800 Gallon Tanker Truck on May 20, 2008. The truck was purchased for \$87,000 with an initial payment of \$30,000.00. The amount of the lease is \$57,000.00 with interest at 4.49%, payable in monthly installments of \$1,064.08 and maturing June 23, 2013. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 11,922.59	\$ 846.37	\$ 12,768.96
2013	12,347.78	296.37	12,644.15
Totals	<u>\$ 24,270.37</u>	<u>\$ 1,142.74</u>	<u>\$ 25,413.11</u>

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Governmental Activities (continued)

The Town executed a lease to purchase a 2007 4X4 Chassis Rescue Truck on February 19, 2010. The truck was purchased for \$139,510.50 with an initial payment of \$50,000. The amount of the lease is \$89,510.50 with interest at 5.00%, payable in monthly installments of \$1,691.84 and maturing February 19, 2015. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 17,311.77	\$ 2,990.31	\$ 20,302.08
2013	18,197.49	2,104.59	20,302.08
2014	19,128.50	1,173.58	20,302.08
2015	13,031.28	235.78	13,267.06
Totals	<u>\$ 67,669.04</u>	<u>\$ 6,504.26</u>	<u>\$ 74,173.30</u>

Debt service requirements for all governmental activities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 29,234.36	\$ 3,836.68	\$ 33,071.04
2013	30,545.27	2,400.96	32,946.23
2014	19,128.50	1,173.58	20,302.08
2015	13,031.28	235.78	13,267.06
Totals	<u>\$ 91,939.41</u>	<u>\$ 7,647.00</u>	<u>\$ 99,586.41</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities

As of June 30, 2011, the long-term debt payable from proprietary fund resources consisted of the following:

A note payable (#91-01) due to the Rural Economic Community Development Authority in the principal amount of \$193,600.00 was issued on March 12, 1979. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$951.00 starting April 12, 1981.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 8,053.02	\$ 3,358.98	\$ 11,412.00
2013	8,465.03	2,946.97	11,412.00
2014	8,898.12	2,513.88	11,412.00
2015	9,353.38	2,058.62	11,412.00
2016	9,831.90	1,580.10	11,412.00
2017-2019	26,235.70	1,691.41	27,927.11
Totals	<u>\$ 70,837.15</u>	<u>\$ 14,149.96</u>	<u>\$ 84,987.11</u>

A note payable (#91-03) due to the Rural Economic Community Development Authority in the principal amount of \$64,000.00 was issued on March 12, 1979. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$315.00 starting April 12, 1981.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,689.97	\$ 1,090.03	\$ 3,780.00
2013	2,827.58	952.42	3,780.00
2014	2,972.24	807.76	3,780.00
2015	3,124.32	655.68	3,780.00
2016	3,284.15	495.85	3,780.00
2017-2019	8,124.16	488.09	8,612.25
Totals	<u>\$ 23,022.42</u>	<u>\$ 4,489.83</u>	<u>\$ 27,512.25</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

A note payable (#26-2127) due to the Bank of The Lakes in the principal amount of \$35,081.23 was issued on August 25, 2009. The note bears interest at 3.98% with equal installments of \$646.68, amortized over 60 months, commencing on September 26, 2009 and continuing monthly thereafter, and one (1) final installment consisting of the full amount of the principal and all accrued interest remaining due and payable on August 26, 2010. This note was renewed on September 15, 2010.

A note payable renewal (#26-2127) due to the Bank of The Lakes in the principal amount of \$27,969.22 was issued on September 15, 2010. The note bears interest at 3.4% with equal installments of \$646.00, commencing on October 26, 2010 and continuing monthly thereafter. On May 18, 2011 an additional \$6,000.00 was added which increased the principal balance to \$35,081.23. Payment terms on the new balance are (2) equal installments of \$646.00, commencing on June 26, 2011 and continuing monthly thereafter, and one (1) final installment consisting of the full amount of the principal and all accrued interest remaining due and payable on August 26, 2011.

The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 6,875.11	\$ 876.89	\$ 7,752.00
2013	7,112.55	639.45	7,752.00
2014	7,358.20	393.80	7,752.00
2015	7,576.46	137.98	7,714.44
Totals	<u>\$ 28,922.32</u>	<u>\$ 2,048.12</u>	<u>\$ 30,970.44</u>

Debt service requirements for all business-type activities are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 17,618.10	\$ 5,325.90	\$ 22,944.00
2013	18,405.16	4,538.84	22,944.00
2014	19,228.56	3,715.44	22,944.00
2015	20,054.16	2,852.28	22,906.44
2016	13,116.05	2,075.95	15,192.00
2017-2019	34,359.86	2,179.50	36,539.36
Totals	<u>\$ 122,781.89</u>	<u>\$ 20,687.91</u>	<u>\$ 143,469.80</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

F. Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Proceeds	Payments	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Lease Obligations	\$ 119,827.12	\$ -	\$ 27,887.71	\$ 91,939.41	\$ 29,234.36
Business-Type Activities:					
Notes Payable	\$ 133,131.73	\$ 6,000.00	\$ 16,349.84	\$ 122,781.89	\$ 17,618.10

IV. Other Information

A. 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; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Proprietary Fund Rates and Charges

<u>Water Rates and Charges</u>	
Minimum monthly charge on first 1,000 gallons	\$ 17.75
Price per thousand gallons on gallons over 1,000	3.75
<u>Initial Meter Installation Fees</u>	
Residential and Commercial	\$ 700.00
<u>Meter Deposits</u>	
Residential	\$ 50.00
Commercial	100.00

**Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information (continued)

C. Contingent Liabilities

The governing board of the Town is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

D. Subsequent Events

Management has evaluated subsequent events through September 19, 2011, which is the date the financial statements were available to be issued.

E. Correction of an Error

The beginning Government Wide fund balance was understated the prior year by \$282.60 due to old outstanding checks. To correct these errors, the beginning fund balance of \$1,492,539.94, as originally reported, has been increased to \$1,492,822.54.

The beginning Public Works net assets were understated the prior year by \$108.64 due to old outstanding checks. To correct these errors, the beginning net assets of \$477,210.47, as originally reported, has been increased to \$477,319.11.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Bernice, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balances - Budget and Actual -
Regulatory Basis - General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues:					
Charges for Services	\$ 11,520.00	\$ 11,520.00	\$ 13,255.47	\$ -	\$ 1,735.47
Local Sources	78,943.81	78,943.81	85,959.05	-	7,015.24
State Sources	222,039.04	222,039.04	281,981.71	-	59,942.67
Miscellaneous	11,575.45	11,575.45	15,487.73	-	3,912.28
Total Revenues Collected	<u>324,078.30</u>	<u>324,078.30</u>	<u>396,683.96</u>	<u>-</u>	<u>72,605.66</u>
Expenditures:					
Clerk/Treasurer	21,000.00	21,000.00	13,330.11	-	7,669.89
Attorney	20,000.00	45,000.00	23,238.08	25,000.00	21,761.92
Court	30,000.00	30,000.00	18,636.84	-	11,363.16
EMS	50,000.00	75,000.00	40,565.10	25,000.00	34,434.90
Community Center	8,000.00	8,000.00	5,442.20	-	2,557.80
General Government	293,621.27	293,621.27	77,146.93	-	216,474.34
Street and Alley	90,000.00	40,000.00	8,765.83	(50,000.00)	31,234.17
Audit	7,500.00	7,500.00	5,000.00	-	2,500.00
Animal Control	4,600.00	7,100.00	4,386.64	2,500.00	2,713.36
Animal Control - M&O	2,500.00	-	-	(2,500.00)	-
Park	25,000.00	25,000.00	394.29	-	24,605.71
Police	80,000.00	80,000.00	64,580.00	-	15,420.00
Fire Department	65,000.00	65,000.00	37,469.94	-	27,530.06
Fire Dept Capital Outlay	80,000.00	80,000.00	17,890.00	-	62,110.00
Fire Dept Sales Tax	89,898.36	89,898.36	63,536.83	-	26,361.53
Total Expenditures Paid	<u>867,119.63</u>	<u>867,119.63</u>	<u>380,382.79</u>	<u>-</u>	<u>486,736.84</u>
Excess (Deficit) of Revenues					
Collected Over (Under)					
Expenditures Paid	(543,041.33)	(543,041.33)	16,301.17	-	559,342.50
Cash Fund Balance					
Beginning of Year	<u>543,041.33</u>	<u>543,041.33</u>	<u>543,041.33</u>	<u>-</u>	<u>-</u>
Cash Fund Balance					
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 559,342.50</u>	<u>\$ -</u>	<u>\$ 559,342.50</u>

Amounts reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Amounts Due from Other Governments	45,711.76
Prepaid Insurance	3,742.45
Cash difference between budget and audit	<u>(6,277.72)</u>

Cash Fund Balance - General Fund \$ 602,518.99

Unaudited

OTHER SUPPLEMENTAL INFORMATION

Town of Bernice, Oklahoma
Schedule of Expenditures of State & Federal Awards
For the Year Ended June 30, 2011

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>
State of Oklahoma Programs:				
Passed through the Oklahoma Department of Agriculture Rural Fire Defense Grant		\$ 4,397.72	\$ 4,397.72	\$ 4,397.72
Passed through Grand Gateway Economic Development Association Rural Economic Action Plan - CIP		-	9,500.00	9,500.00
Total Expenditures of State Awards		<u>\$ 4,397.72</u>	<u>\$ 13,897.72</u>	<u>\$ 13,897.72</u>
Federal Programs:				
Department of Homeland Security Passed through the Oklahoma Department of Emergency Management Hazard Mitigation Grant	97.039	<u>\$ 25,050.00</u>	<u>\$ -</u>	<u>\$ 25,050.00</u>

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:

The Government's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Government's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:

As is the case with many smaller and medium-sized entities, the Government has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls. This finding was also noted in 2010.

Cause:

Government personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:

As a result of this condition, without assistance from its external auditors or another outside source, the Government may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation:

We recommend that the Government consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified

accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

**2011-1 Material Weakness in Internal Control over Financial Reporting – Preparation of
Financial Statements in Accordance with GAAP (continued)**

Client Response:

This would not be cost effective given the size of the Town.

Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-2 Material Adjusting Journal Entries

Criteria:

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The government's trial balances for the year ended June 30, 2011, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; adjusting note activity for unrecorded debt; recording accounting activity for funds held at county; recording adjustments from the prior period; writing off outstanding checks; adjusting payroll taxes, prepaid insurance, accrued interest, interest earned, meter deposits payable, depreciation, and due from other governments. This finding was also noted in 2010.

Cause:

The Government's accounting and financial reporting staff does not possess the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect:

As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding to the trial balances.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-2 Material Adjusting Journal Entries (continued)

Recommendation:

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

This would not be cost effective given the size of the Town.