

AUDIT REPORT
TOWN OF WAPANUCKA, OKLAHOMA
Year ended June 30, 2011

Guerrant and Guerrant
Certified Public Accountants
222 N. High, P.O. Box 910
Antlers, Oklahoma 74523

Town of Wapanucka, Oklahoma

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GUERRANT AND GUERRANT
CERTIFIED PUBLIC ACCOUNTANTS
222 N. HIGH, P.O. BOX 910
ANTLERS, OKLAHOMA 74523

INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS

Honorable Town Council
Town of Wapanucka
Wapanucka, Oklahoma

We have audited the accompanying financial statements - cash basis of the governmental funds and proprietary fund of the Town of Wapanucka, Oklahoma as listed in the table of contents, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Town of Wapanucka, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note B(1) the financial statements present only the financial statements of the governmental funds and proprietary fund and do not purport to, and do not, present fairly the financial position of the Town of Wapanucka, Oklahoma, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B(2), The Town of Wapanucka, Oklahoma, prepares its financial statements using the 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, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis of the governmental funds and proprietary fund of the Town of Wapanucka, Oklahoma as of June 30, 2011, and the respective changes in financial position - cash basis, or, where applicable, its cash flows - cash basis for the year then ended in conformity with the basis of accounting described in Note B(2).

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2012 on our consideration of the Town of Wapanucka, 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.

Management has omitted the budgetary comparison schedules, managements' discussion and analysis, and certain information about the condition of its infrastructure, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

January 12, 2012

A handwritten signature in cursive script, appearing to read "C. R. ...", located to the right of the date.

GUERRANT AND GUERRANT
CERTIFIED PUBLIC ACCOUNTANTS
222 N. HIGH, P.O. BOX 910
ANTLERS, OKLAHOMA 74523

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

Honorable Town Council
Town of Wapanucka
Wapanucka, Oklahoma

We have audited the financial statements - cash basis of the governmental funds and proprietary fund of the Town of Wapanucka, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 12, 2012. The report expresses an adverse report on the Town of Wapanucka, Oklahoma as the financial statements presented represent an incomplete presentation under generally accepted principles which require the presentation of government-wide financial statements. A qualified report is expressed on the fund financial statements presented using the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Wapanucka, 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 responses, 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 and 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 responses as items 2011-1 to 2011-3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-4 to 2011-5 to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Wapanucka, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-3 and 2011-5.

We noted certain other matters that we reported to management of The Town of Wapanucka, Oklahoma in a separate letter dated January 12, 2012.

The Town of Wapanucka, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town of Wapanucka, Oklahoma's response, and accordingly, we express no opinion on it.

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

January 12, 2012



Town of Wapanucka, Oklahoma
BALANCE SHEET - CASH BASIS
Governmental Funds
June 30, 2011

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,824	\$ 5,951	\$ 8,775
Noncurrent Assets			
Cash and cash equivalents	<u>10,943</u>	<u>3,890</u>	<u>14,833</u>
Total Assets	\$13,767 =====	\$ 9,841 =====	\$23,608 =====
LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
Fund Balances			
Nonspendable	-	658	658
Restricted	10,943	3,232	14,175
Unassigned	<u>2,824</u>	<u>5,951</u>	<u>8,775</u>
Total Fund Balances	<u>13,767</u>	<u>9,841</u>	<u>23,608</u>
Total Liabilities and Fund Balance	\$13,767 =====	\$ 9,841 =====	\$23,608 =====

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
 STATEMENT OF RECEIPTS, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - CASH BASIS
 Governmental Funds
 Year Ended June 30, 2011

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Receipts			
Sales and use tax	\$23,995	\$ -	\$23,995
Franchise tax	6,457	-	6,457
Alcoholic beverage tax	5,157	-	5,157
Motor vehicle tax	3,245	-	3,245
Gasoline excise tax	496	-	496
Tobacco tax	333	-	333
Grants	5,924	-	5,924
Contributions	2,540	6,396	8,936
Fire runs	2,400	-	2,400
Rental	1,700	-	1,700
Insurance recoveries	4,273	-	4,273
Miscellaneous	<u>1,314</u>	<u>14</u>	<u>1,328</u>
Total Receipts	<u>57,834</u>	<u>6,410</u>	<u>64,244</u>
Expenditures			
Current Expenditures			
General Government			
Utilities and telephone	1,287	-	1,287
Supplies	1,883	-	1,883
Insurance and bonds	3,772	-	3,772
Repairs and maintenance	1,634	-	1,634
Payroll and related costs	13,832	-	13,832
Dues, meetings and travel	1,775	-	1,775
Other	<u>1,609</u>	<u>-</u>	<u>1,609</u>
Total General Government	<u>25,792</u>	<u>-</u>	<u>25,792</u>
Public Safety - Fire			
Insurance and bonds	532	-	532
Pension expense	420	-	420
Repairs and maintenance	210	-	210
Gas and oil	1,475	-	1,475
Utilities	1,981	-	1,981
Supplies	2,793	-	2,793
Other	<u>587</u>	<u>-</u>	<u>587</u>
Total Public Safety - Fire	<u>7,998</u>	<u>-</u>	<u>7,998</u>
Streets and Alleys			
Repairs and maintenance	105	-	105
Utilities	<u>2,859</u>	<u>-</u>	<u>2,859</u>
Total Public Safety - Streets and Alleys	<u>2,964</u>	<u>-</u>	<u>2,964</u>

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
 STATEMENT OF RECEIPTS, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - CASH BASIS
 Governmental Funds
 Year Ended June 30, 2011

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Expenditures (Cont'd)			
Current Expenditures			
Health and Welfare - Cemetery			
Payroll and related costs	\$ -	\$ 2,375	\$ 2,375
Contracted services	-	11,410	11,410
Insurance and bonds	-	563	563
Supplies	-	505	505
Total Health and Welfare - Cemetery	<u>-</u>	<u>14,853</u>	<u>14,853</u>
Debt Service			
Principal	4,601	-	4,601
Interest	624	-	624
Prior year payroll taxes, interest, and penalties	<u>5,250</u>	<u>-</u>	<u>5,250</u>
Total Debt Service	<u>10,475</u>	<u>-</u>	<u>10,475</u>
Capital outlay	<u>4,331</u>	<u>-</u>	<u>4,331</u>
Total Expenditures	<u>51,560</u>	<u>14,853</u>	<u>66,413</u>
Excess (Deficit) of Receipts over Expenditures	6,274	(8,443)	(2,169)
Other Financing Sources			
Sales of assets	3,800	3,850	7,650
Fund balance, Beginning of year	<u>3,693</u>	<u>14,434</u>	<u>18,127</u>
Fund balance, End of year	\$13,767 =====	\$ 9,841 =====	\$23,608 =====

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
 STATEMENT OF NET ASSETS - CASH BASIS
 Proprietary Fund
 June 30, 2011

ASSETS

Current Assets		
Cash and cash equivalents		\$ 3,436
Noncurrent Assets		
Cash and cash equivalents		<u>7,479</u>
Total Assets		<u>\$10,915</u> =====

LIABILITIES AND NET ASSETS

Liabilities		\$ -
Net Assets		
Restricted		7,479
Unassigned		<u>3,436</u>
Total Net Assets		<u>10,915</u>
Total Liabilities and Net Assets		<u>\$10,915</u> =====

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
STATEMENT OF RECEIPTS, EXPENDITURES, AND
CHANGES IN NET ASSETS - CASH BASIS
Proprietary Fund
Year Ended June 30, 2011

Operating Receipts	
Water and sewer billings	<u>\$127,355</u>
Operating Expenditures	
Payroll and related costs	18,289
Contracted services	45,490
Utilities and telephone	5,384
Insurance and bonds	2,442
Repairs and maintenance	11,345
Chemicals	1,423
Testing and lab fees	3,756
Office supplies and expense	3,293
Trash services	15,976
Legal fees	<u>1,269</u>
Total Operating Expenditures	<u>108,667</u>
Excess of Operating Receipts over Expenditures	<u>18,688</u>
Nonoperating Receipts (Expenditures)	
Insurance recoveries	26,034
Rentals	1,050
Interest	6
Capital outlay	(16,447)
Debt Service	
Principal	(25,646)
Interest	(3,736)
Prior year payroll tax, interest, and penalties	<u>(3,500)</u>
Total Nonoperating Receipts (Expenditures)	<u>(22,239)</u>
Increase (Decrease) in Net Assets	(3,551)
Total Net Assets, Beginning of Year	(72,269)
Adjustment required to eliminate liabilities from total net assets at beginning of year and convert to the cash basis of accounting utilized by the Town	<u>86,735</u>
Total Net Assets, End of year	\$ 10,915 =====

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
STATEMENT OF CASH FLOWS - CASH BASIS
Proprietary Fund
Year Ended June 30, 2011

Cash Flows From Operating Activities	
Cash receipts from customers	\$127,355
Contracted services	(45,490)
Payroll and related costs	(18,289)
Payments to suppliers for materials and services	<u>(44,888)</u>
Net Cash Provided from Operating Activities	<u>18,688</u>
Cash Flows From Non-Capital Financing Activities	
	<u>-</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(16,447)
Principal paid on debt service	(25,646)
Interest paid on debt service	(3,736)
Payment of prior year payroll taxes, interest, and penalties	(3,500)
Insurance reimbursements received for damaged capital assets	<u>26,034</u>
Net Cash Provided (Used) from Capital and Related Financing Activities	<u>(23,295)</u>
Cash Flows From Investing Activities	
Building rentals	1,050
Interest	<u>6</u>
Net Cash Provided from Investing Activities	<u>1,056</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,551)
Cash balance, beginning of year	<u>14,446</u>
Cash balance, end of year	\$ 10,915 =====
Reconciliation of Operating Income to Net Cash Provided from Operations	
Operating income	\$ 18,688
Adjustments to reconcile operating income to net cash provided by operating activities	<u>-</u>
Net Cash Provided from Operating Activities	\$ 18,688 =====

See accompanying notes to financial statements.

Town of Wapanucka, Oklahoma
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE A - FINANCIAL REPORTING ENTITY

The Town of Wapanucka, Oklahoma is a "Statutory Town Government" under Title 11 of the Oklahoma Statutes. The Town provides the following services: public improvements (parks), public safety (fire), streets and alleys, health and welfare (cemetery), and general administrative services.

The Town of Wapanucka Public Works Authority is a "Public Trust" created pursuant to the provisions of Title 60 of the Oklahoma Statutes to finance, develop, and operate the water and sewer activities of the Town.

The Town of Wapanucka is the primary government and the Wapanucka Public Works Authority would be a blended component unit if government-wide financial statements were presented instead of fund financial statements, as a result of the Town's ability to appoint the Authority's board and impose its will on the organization, which provided services entirely to the Town.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. In addition to financial statements of the governmental and proprietary funds, generally accepted accounting principles in the United States require the presentation of government-wide financial statements which focus on the governmental activities and the business-type activities of the governmental unit using the accrual basis of accounting to report all of the assets, liabilities, revenues, and expenses. The statements generally require the capitalization and depreciation of capital assets, the recording of the government's long-term liabilities, and the reporting of its revenues and expenses on the accrual basis and certain other adjustments. Inasmuch as the Town of Wapanucka does not maintain the records needed for capitalization or depreciation of its capital assets in government-wide financial statements the government-wide statements required by generally accepted accounting principles have not been presented.
2. The Town of Wapanucka utilizes the cash basis of accounting for both its governmental funds and proprietary fund in the fund financial statements. The cash basis of accounting differs from the modified accrual basis required under generally accepted accounting principles for the governmental funds and the accrual basis required for proprietary funds. The cash basis used by the Town recognizes revenue when cash is received and expenses when cash is expended. The purchase of inventory and other assets is reflected as an expenditure and current liabilities are not recognized in the fund financial statements. General capital assets and general long-term liabilities are not required to be reported as an asset or liability

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2. in the fund financial statements; however, the purchase of capital assets and payments of amounts due on long-term liabilities are reflected in the fund financial statements as a capital outlay or debt service expenditure.
3. The Town considers all receipts received from water, sewer, and other services provided to the citizens of the Town on a regular basis by its proprietary fund as operating revenues. All other receipts are considered as non-operating receipts in the statement of receipts, expenditures, and changes in net assets - cash basis.
4. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.
5. For purposes of the proprietary fund statement of cash flows, the Town considers all current highly liquid investments with a maturity of three months or less to be cash equivalents.
6. To the extent both restricted and unrestricted funds are available for a particular expenditure, the Town will utilize the restricted funds rather than investment funds to make the expenditure.

NOTE C - NON-CURRENT ASSETS

The non-current assets reflected on the balance sheet - cash basis for the Town's governmental funds and the statement of net assets - cash basis for the Town's proprietary fund represent assets which are not available for general operations of the Town or its Public Works Authority as shown below.

Governmental Funds	
General Fund	
Monies restricted for fire department operations	\$ 8,978
Monies restricted for park improvements	<u>1,965</u>
Total	\$10,943
	=====
Cemetery Fund	
Monies permanently set aside in the cemetery's Perpetual Care Fund and non spendable, except for the interest	\$ 658
Monies in the Cemetery Care Fund restricted for expansion and capital improvements	<u>3,232</u>
Total	\$ 3,890
	=====
Proprietary fund	
Monies restricted for debt service (Note E)	\$ 3,345
Monies restricted for customer deposits (Note G)	<u>4,134</u>
Total	\$ 7,479
	=====

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

The cash and cash equivalents of the governmental and proprietary funds of the Town represent readily available cash in demand deposit checking and savings accounts as allowed by Oklahoma statute. All cash and cash equivalents were insured by Federal Depository Insurance (F.D.I.C.) during the year and at June 30, 2011.

NOTE E - LONG-TERM LIABILITIES

The amounts payable on long-term liabilities are not required to be recorded in the fund financial statements presented by the Town; however, disclosure of the details of long-term debt are considered necessary to prevent the statements from being misleading, since government-wide financial statements have not been presented.

The Town's Public Works Authority is obligated under the terms of a loan received from the Community Resource Group on May 28, 2004 in the original amount of \$140,454 for water system improvements. The loan which is due May 28, 2014 bears interest at 4.9% and requires monthly payments of \$1,584. The loan is secured by the water system revenues and assets, and requires the Authority to set aside \$158 per month to establish a reserve account for payments on the note if other funds are not available and, with written approval, to repair or replace catastrophic damage to the system. At June 30, 2011 the balance in the reserve account of \$3,345 was \$10,115 below the required balance of \$13,460.

On August 7, 2009 the Authority refinanced a loan with Landmark Bank and received additional loan proceeds of \$8,480 to pay for operating expenses. The new loan of \$34,850 requires interest at 6.75% and monthly payments of \$865 and is due June 15, 2013. The loan is secured by machinery and equipment.

Details of the changes in long-term debt and debt service requirements for both obligations are shown below:

CHANGES IN LONG-TERM DEBT

<u>Payee</u>	Balance	<u>Additions</u>	<u>Deductions</u>	Balance
	June 30, 2010			June 30, 2011
Community Resource Group	\$50,204	\$ -	\$16,919	\$33,285
Landmark Bank	28,071	-	8,726	19,345
Totals	\$78,275	\$ -	\$25,645	\$52,360
	=====	=====	=====	=====

DEBT SERVICE REQUIREMENTS

<u>Year Ending</u> <u>June 30,</u>	<u>Community Resource Group</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$17,785	\$ 1,219	\$19,004
2013	15,500	350	15,850
Totals	\$33,285	\$ 1,569	\$34,854
	=====	=====	=====

NOTE E - LONG-TERM LIABILITIES (Cont'd)

DEBT SERVICE REQUIREMENTS

Year Ending June 30,	Landmark Bank		
	Principal	Interest	Total
2012	\$ 9,347	\$ 1,020	\$10,367
2013	9,998	369	10,367
Totals	\$19,345	\$ 1,389	\$20,734

NOTE F - PRIOR YEAR PAYROLL TAX, INTEREST, AND PENALTIES

The Town and its Public Works Authority have a liability for unpaid payroll taxes, plus applicable interest and penalties, from calendar years 2006, 2007, and 2008 which they are paying in monthly installments as shown below.

Town of Wapanucka		Public Works Authority	
Monthly Payment	Balance June 30, 2011	Monthly Payment	Balance June 30, 2011
\$ 300	\$ 9,881	\$ 250	\$11,975

Monthly payments currently required by the Town of Wapanucka are scheduled to increase to \$750 per month beginning March 25, 2014. Interest and applicable penalties will continue to accrue on the unpaid balances until paid in full.

The liabilities are not recorded in the cash basis fund statements presented by the Town or its public works authority for the year ended June 30, 2011.

NOTE G - CUSTOMER DEPOSITS

The Town's public works authority collects security deposits from its users which are used to offset balances owed at the time services are discontinued and/or refunded to the customer. The amount of cash at June 30, 2011 restricted for customer deposits of \$4,134 is reflected as a noncurrent asset in the proprietary fund's statement of assets. The unaudited security deposits payable at June 30, 2011 of \$16,155 are not reflected in the cash basis proprietary fund statements presented by the Town.

NOTE H - CONTINGENCIES

The Town is exposed to normal risk involving their employees' life and health, property and liability, workers compensation, unemployment, and disability. Significant losses are covered by commercial insurance which is reviewed annually to determine adequate coverage exists. Insurance coverage for the current and prior three years has been sufficient to cover all settlement amounts.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 12, 2012, the date on which the financial statements were available to be issued.

Town of Wapanucka, Oklahoma
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Schedule 1

MATERIAL WEAKNESSES

Finding
Number
2011-1

GENERAL LEDGER

CONDITION: The general ledgers for the Town and its Proprietary Fund contain a number of accounts which should be combined with other accounts and/or removed to provide clarity and avoid having several accounts which represent the same or similar type transactions.

The transaction dates reflected in the general ledger do not always coincide with the actual date of the transaction.

Transaction details shown in the general ledger were in many cases inadequate and lacked the details needed to scrutinize individual accounts for obvious recording errors.

Together, the three conditions result in a general ledger with account balances which cannot individually be relied upon for analytical, budgeting, or financial statement purposes.

RECOMMENDATION: Individual general ledger accounts should be reviewed to ensure they accurately reflect the purpose of the recorded transactions, yet are broad enough to accurately encompass similarly related insignificant transactions. As an example "office expense" might encompass postage, legal publications, printing, and bank charges.

Transaction dates in the general ledger for deposits and checks should reflect the date of the transaction, which may or may not agree with a later date when a deposit is taken to the bank or a check is mailed or released.

The general ledger transaction details should clearly reflect the source of all deposits and the payee of all checks.

CORRECTIVE ACTION: The suggested recommendations will be implemented as soon as possible.

2011-2

MONTHLY FINANCIAL REPORTS

CONDITION: Monthly financial reports prepared for the Town Council presented only a summary of the cash receipts and expenditures prepared in a spreadsheet format which contained a number of errors in classification and

2011-2

MONTHLY FINANCIAL REPORTS (Cont'd)

completeness which prevented its reconciliation to the reconciled cash balance.

RECOMMENDATION: The spreadsheet format for cash receipts and expenditures should be discontinued and a copy of the general ledger should be presented to the Town Council after reconciliation of the cash balance to the balance shown by the bank statement. Correction of any obvious recording errors should be corrected prior to presentation to the Town Council.

CORRECTIVE ACTION: The spreadsheet format has been discontinued and the Town Council is currently receiving the general ledger, as well as a copy of the bank reconciliation and bank statement.

2011-3

VIOLATION OF LOAN INDENTURE

CONDITION: The loan indenture with Community Resource Group requires the Public Works Authority to set aside \$158 per month to fund a reserve account for payments on the note if other funds are not available. With written approval the funds can be used to repair or replace catastrophic damage to the water system. The balance in the reserve account at June 30, 2011 was \$10,115 below the required balance of \$13,460.

RECOMMENDATION: The Town Council should contact the Community Resource Group and request a waiver of the requirement, since the loan payments are being automatically drafted from the Public Works Authority bank account on a monthly basis.

CORRECTIVE ACTION: The Town Council will contact the Community Resource Group and request a waiver of the required deposits to the reserve account in the future.

SIGNIFICANT DEFICIENCIES

2011-4

EMPLOYEE TIME SHEETS

CONDITION: Employee time sheets were not signed by the employee or approved by a supervisor.

RECOMMENDATION: Time sheets should be signed indicating the hours worked during the applicable pay period. The time sheets should then be reviewed, approved, and signed by the employees' supervisor after verifying the hours worked and mathematical accuracy of the information presented to avoid erroneous payments.

CORRECTIVE ACTION: The recommendation will be followed for all time sheets in the future.

WORKER'S COMPENSATION INSURANCE

CONDITION: The contract with the water operator for the Public Works Authority requires the operator to reimburse the Town for the cost of worker's compensation insurance; however, inadequate controls have resulted in the Public Works Authority's payment of a substantial portion of the premium which has not been reimbursed.

RECOMMENDATION: The Public Works Authority should obtain reimbursement for all premiums applicable to the water operator and implement a procedure to obtain the reimbursement of monthly premiums in the future.

CORRECTIVE ACTION: The Public Works Authority will take the necessary steps needed to collect the amounts owed from prior years and implement procedures to stay current in the future.

See accompanying audit report.