AUDIT REPORT

TOWN OF OKAY, OKLAHOMA

JUNE 30, 2011

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TOWN OF OKAY, OKLAHOMA
JUNE 30, 2011

TABLE OF CONTENTS

		PAGE
FINANCIAL SECTION:		
INDEPENDENT AUDITOR'S REPORT		4-5
BASIC FINANCIAL STATEMENTS:		
Government-Wide Financial Statements:		
EXHIBIT A	STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	6
EXHIBIT B	STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	7
Fund Financial Statements:		
EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUNDS MODIFIED CASH BASIS	8
EXHIBIT D	STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9-10
EXHIBIT E	STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	11
EXHIBIT F	STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT G	STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	13
NOTES TO THE FINANCIAL STATEMENTS		14-27

TOWN OF OKAY, OKLAHOMA
JUNE 30, 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*	28-29
SCHEDULE OF FINDINGS	30

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Okay, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Okay, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town of Okay, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Okay, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on my 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, and in accordance with Oklahoma Statutes. 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 described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. Documentation supporting historical cost was not readily available for our review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Okay, Oklahoma, as of June 30, 2011, and the changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2013, on our consideration of the Town of Okay, 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

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scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Town of Okay has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 9, 2013

EXHIBIT A

TOWN OF OKAY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	2011 Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 193,287	$ 137,739	$ 331,026
Due from other funds	3,799	-	3,799
Accounts Receivable	-	-	-
Total Current Assets	197,086	137,739	334,825
Restricted Assets:			
Cash - Customer Deposits	-	32,588	32,588
Cash - Debt Reserves	-	23,869	23,869
Total Restricted Assets	-	56,457	56,457
Capital Assets:			
Land	13,000	-	13,000
Other Capital Assets	754,019	602,313	1,356,332
Less: Accumulated Depreciation	(290,110)	(376,103)	(666,213)
Total Capital Assets	476,909	226,210	703,119
TOTAL ASSETS	673,995	420,406	1,094,400
LIABILITIES			
Current Liabilities:			
Due to other funds	3,799	-	3,799
Current Portion of Long-Term Debt	-	12,150	12,150
Total Current Liabilities	3,799	12,150	15,949
Long-Term Liabilities:			
Due to Depositors	-	22,359	22,359
Note Payable - RD	-	135,500	135,500
Notes Payable - First United Bank	-	-	-
Less: Current Portion of Long-Term Debt	-	(12,150)	(12,150)
Total Long-Term Liabilities	-	145,709	145,709
TOTAL LIABILITIES	3,799	157,859	161,658
NET ASSETS			
Invested in capital assets, net of related debt	476,909	90,710	567,619
Restricted for:			
Debt Service	-	56,457	56,457
Other Purposes	-	-	-
Unrestricted	193,287	115,380	308,667
TOTAL NET ASSETS	$ 670,196	$ 262,547	$ 932,743

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

EXHIBIT B

TOWN OF OKAY, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses)/ Revenue
Governmental activities:					
General Government	$ 216,485	$ -	$ 53,219	$ 75,935	$ (87,332)
Public Safety	130,367	48,505	8,494	-	(73,367)
Streets & Highways	20,236	-	-	-	(20,236)
Total Governmental Activities	367,088	48,505	61,713	75,935	(180,935)
Business-type activities:					
Water, Sewer & Sanitation	202,828	180,533	-	-	(22,295)
Total Business-type Activities	202,828	180,533	-	-	(22,295)
Total	$ 569,916	$ 229,039	$ 61,713	$ 75,935	$ (203,229)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	$ (180,935)	$ (22,295)	$ (203,229)
General revenues:			
Taxes:			
Sales & Use Tax	97,302	-	97,302
Tobacco Tax	1,384	-	1,384
Franchise Tax	17,869	-	17,869
Intergovernmental:			
Alcoholic Beverage Tax	4,950	-	4,950
Motor Vehicle Taxes	4,271	-	4,271
Gasoline Taxes	1,100	-	1,100
Licenses & Permits	310	-	310
Investment Income	1,543	40	1,583
Miscellaneous	3,174	-	3,174
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	131,903	40	131,943
Changes in net assets	(49,032)	(22,254)	(71,286)
Net assets - beginning	719,229	284,801	1,004,030
Net assets - prior year adjustment	-	-	-
Net assets - ending	$ 670,196	$ 262,547	$ 932,743

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

EXHIBIT C

TOWN OF OKAY, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	OHFA Home Fund	Capital Projects Fund	Total Governmental Funds
ASSETS						
Cash	$ (810)	$ 132,031	$ 56,898	$ 2,362	$ 2,806	$ 193,287
Due from other funds	-	-	3,799	-	-	3,799
Accounts Receivable	-	-	-	-	-	-
TOTAL ASSETS	$ (810)	$ 132,031	$ 60,697	$ 2,362	$ 2,806	$ 197,086
LIABILITIES & FUND EQUITY						
LIABILITIES:						
Due to other funds	$ 3,799	$ -	$ -	$ -	$ -	$ 3,799
TOTAL LIABILITIES	3,799	-	-	-	-	3,799
FUND BALANCES:						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	2,362	2,806	5,168
Committed	-	-	-	-	-	-
Assigned	-	132,031	60,697	-	-	192,728
Unassigned	(4,609)	-	-	-	-	(4,609)
TOTAL FUND BALANCES	(4,609)	132,031	60,697	2,362	2,806	193,287
TOTAL LIABILITIES AND FUND BALANCES	$ (810)	$ 132,031	$ 60,697	$ 2,362	$ 2,806	

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of $767,019, net of accumulated depreciation of $290,110, are not financial resources and, therefore, are not reported in the funds.	476,909
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
Net Assets of Governmental Activities	$ 670,196

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

EXHIBIT D

TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	OHFA Home Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:						
Taxes:						
Sales Tax	$ 71,215	$ -	$ 23,738	$ -	$ -	$ 94,954
Use Tax	2,349	-	-	-	-	2,349
Franchise Tax	17,869	-	-	-	-	17,869
Tobacco Tax	1,384	-	-	-	-	1,384
Alcoholic Beverage Tax	4,950	-	-	-	-	4,950
Motor Vehicle Tax	4,271	-	-	-	-	4,271
Gasoline Taxes	1,100	-	-	-	-	1,100
Fines & Forfeitures	1,501	40,251	-	-	-	41,752
Licenses & Permits	310	-	-	-	-	310
Fire dues & runs	-	-	6,754	-	-	6,754
Grant Revenue	54,911	-	6,802	75,935	-	137,648
Interest Income	238	956	332	17	0	1,543
Miscellaneous Income	2,990	6	179	-	-	3,174
TOTAL REVENUES	163,087	41,213	37,804	75,952	0	318,056
EXPENDITURES:						
General Government	116,824	-	-	76,022	3,411	196,257
Public Safety:						
Police	73,339	-	-	-	-	73,339
Municipal Court	-	19,855	-	-	-	19,855
Fire	-	-	37,173	-	-	37,173
Street & Alley	15,344	-	-	-	-	15,344
TOTAL EXPENDITURES	205,507	19,855	37,173	76,022	3,411	341,968
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(42,420)	21,358	631	(70)	(3,411)	(23,912)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	44,212	6,180	18,867	-	-	69,260
Operating Transfers Out	(25,047)	(34,627)	(9,585)	-	-	(69,260)
Capital Debt Proceeds	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	19,165	(28,447)	9,282	-	-	-
NET CHANGES IN FUND BALANCES	(23,255)	(7,089)	9,913	(70)	(3,411)	(23,912)
FUND BALANCE - BEGINNING OF YEAI	18,646	139,121	50,783	2,433	6,217	217,199
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-	-	-
FUND BALANCE - END OF YEAR	$ (4,609)	$ 132,031	$ 60,697	$ 2,362	$ 2,806	193,287

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

EXHIBIT D (CONTINUED)

TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reconciliation to Statement of Activities:	
Net change in fund balances - total governmental funds	**$ (23,912)**
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital debt obligation principal payments	**-**
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:	
Capital Debt Proceeds	**-**
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	**-**
Depreciation expense	**(25,120)**
Change in Net Assets of Governmental Activities	**$ (49,032)**

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

EXHIBIT E

TOWN OF OKAY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

	Okay Public Works Authority Enterprise Fund June 30, 2011	Memo Only June 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 137,739	$ 157,807
Restricted Cash and cash equivalents	32,588	31,045
Accounts Receivable	-	604
Total Current Assets	170,326	189,456
Noncurrent Assets:		
Restricted Cash and cash equivalents	23,869	23,825
Capital assets, net of accumulated depreciation	226,210	239,053
Total Noncurrent Assets	250,079	262,878
TOTAL ASSETS	$ 420,406	$ 452,334
LIABILITIES & NET ASSETS		
Current Liabilities:		
Payroll Taxes Payable	$ -	$ -
Current Portion of Long-Term Debt	12,150	11,200
Total Current Liabilities	12,150	11,200
Noncurrent Liabilities:		
Due to Depositors	22,359	20,833
Notes Payable - Long-Term	135,500	146,700
Less: Current Portion of Long-Term Debt	(12,150)	(11,200)
Total Noncurrent Liabilities	145,709	156,333
TOTAL LIABILITIES	157,859	167,533
NET ASSETS:		
Invested in capital assets, net of related debt	90,710	92,353
Restricted for debt service	56,457	54,870
Unrestricted	115,380	137,578
TOTAL NET ASSETS	262,547	284,801
TOTAL LIABILITIES & NET ASSETS	$ 420,406	$ 452,334

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

EXHIBIT F

TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Okay Public Works Authority Enterprise Fund June 30, 2011	Memo Only June 30, 2010
OPERATING REVENUES:		
Charges for services:		
Water	$ 101,155	$ 98,858
Sewer	34,935	33,287
Sanitation	35,558	34,658
Grant Income	-	-
Other Revenue	8,885	8,655
TOTAL OPERATING REVENUES	180,533	175,457
OPERATING EXPENSES:		
Salaries	28,320	32,119
Repairs & Maintenance	9,257	8,066
Materials & Supplies	5,808	7,400
Travel and fuel costs	3,280	2,101
Utilities	10,357	9,351
Postage	1,679	1,347
Licenses and permits	3,415	812
Contract Labor	23,301	13,094
Insurance	3,540	2,929
Payroll taxes	133	2,534
Legal and professional fees	4,355	4,559
Trash collection fees	44,636	30,924
Water purchases	44,251	41,408
Miscellanous	5,514	2,928
Grant expenses	-	-
Depreciation	12,843	12,843
TOTAL OPERATING EXPENSES	200,688	172,415
NET OPERATING INCOME (LOSS)	(20,155)	3,043
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	40	199
Interest Expense	(2,139)	(3,597)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,099)	(3,397)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(22,254)	(355)
Capital Contributions	-	-
Transfers in	-	-
Transfers out	-	-
CHANGE IN NET ASSETS	(22,254)	(355)
TOTAL NET ASSETS - BEGINNING	284,801	285,156
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-	-
TOTAL NET ASSETS - ENDING	$ 262,547	$ 284,801

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

EXHIBIT G

TOWN OF OKAY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	June 30, 2011	Memo Only June 30, 2010
Net Cash Flows from Operating Activities:		
Cash Receipts from Customers	$ 181,137	$ 174,853
Receipts from Others	-	-
Payments to Suppliers & Laborers for Goods & Services	(187,845)	(160,133)
Customer Deposits Received, Less Refunded	1,526	1,135
Net Cash Provided (Used) by Operating Activities	(5,182)	15,855
Net Cash Flows from Non-Capital Financing Activities:		
Transfers to other funds	-	-
Transfers from other funds	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-
Net Cash Flows from Capital & Related Financing Activities:		
Additions to Capital Assets	-	-
Loan Proceeds received	-	-
Principal paid on Notes Payable	(11,200)	(10,400)
Interest paid	(2,139)	(3,597)
Net Cash Provided (Used) by Capital & Related Financing Activities	(13,339)	(13,997)
Net Cash Flows from Investing Activities:		
(Increase) Decrease in Restricted Cash	(1,587)	166
Interest Income	40	199
Net Cash Provided (Used) by Investing Activities	(1,546)	365
Net Increase (Decrease) in Cash and Cash Equivalents	(20,068)	2,224
Cash & Cash Equivalents, Beginning of Year	157,807	155,583
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	$ 137,739	$ 157,807
Reconciliation of operating income (loss) to net cash provided operating activities:		
Operating Income (Loss)	$ (20,155)	$ 3,043
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	12,843	12,843
(Increase)Decrease in Accounts Receivable	604	(604)
Increase(Decrease) in Due to Depositors	1,526	1,135
Increase(Decrease) in Payroll Taxes Payable	-	(561)
Net Cash Provided (Used) by Operating Activities	$ (5,182)	$ 15,855

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Okay, Oklahoma do not conform to accounting principles generally accepted in the United States of America as applicable to governments. The Town uses the modified cash basis of accounting as described below. The following is a summary of the more significant policies.

A. Reporting Entity

The Town of Okay, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a five member board of trustees. The trustees elect the mayor from their own body. The Town provides the following services: general government, public safety (fire and police), streets, public works (water, sewer and trash), judicial, public improvements, and planning and zoning for the geographical area organized as the Town of Okay, Oklahoma.

As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so date from these units are combined with the data of the primary government.

The financial statements of the Town include those of any separately administered organization that is controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on the foregoing criteria, the financial statements of the Okay Public Works Authority are included in the accompanying financial statements and reported as an enterprise fund within the Proprietary fund type.

B. Basis of Presentation (Fund Accounting)

Government-Wide Financial Statements

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund

are accounted for with a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for all proceeds of specific revenue sources that are restricted, either legally or by board designation, to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Proprietary Fund Type

Enterprise Fund - Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed through user charges. The Okay Public Utilities Authority is reported as an enterprise fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. This relates to the timing of revenues and expenditures regardless of the measurement focus applied. The Town uses the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Town does not use the encumbrance method of accounting. Payables are recorded in the accounting records at the time they are paid.

All governmental funds use the modified cash basis of accounting. Revenues are recognized when actually received, and expenditures are recognized when actually paid. Generally accepted accounting principles require the use of the modified accrual basis of accounting for governmental funds. Under the modified accrual basis of accounting, revenues would be recognized when they become measurable and available; expenditures would be recognized when the current liability is incurred.

All proprietary funds use the modified cash basis of accounting. Revenues are recognized when actually received, and expenditures are recognized when actually paid. Property and equipment are booked assets, and depreciated over their estimated useful lives. Notes payable are recorded as a liability. These variations of the modified cash basis of accounting are generally accepted modifications of the modified cash basis of accounting. Generally accepted accounting principles require the use of the accrual basis of accounting for proprietary funds. Under the accrual basis of accounting, revenues are recognized when earned; expenses are recognized when incurred.

D. Cash & Cash Equivalents

Cash and cash equivalents for cash flow presentation purposes include the entity's petty cash, cash in bank, restricted assets, and certificates of deposits with a maturity date of three months or less.

E. Capital Assets

Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are recorded at their historical cost; these assets are depreciated over the estimated useful life of the related asset.

Estimated useful lives are as follows:

Buildings	40 years
Improvements, other than buildings	10 years
Machinery, furniture and equipment	5-15 years
Utility property and improvements	40 years

Capitalization Policy

Purchases of capital items in excess of $1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation.

F. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time and part-time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in

varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

G. Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

H. Revenues, Expenditures & Expenses

Property Tax

For the year ended June 30, 2011, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

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

Governmental Fund Types - By Character: Current (further classified by activity) Capital Outlay
Proprietary Fund Types - By Operating and Non-Operating

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

I. Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring

between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

J. Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
Municipal Court Fund	Fine & Forfeitures
Volunteer Fire Dept Fund	Fire dues & runs Operational grants
OHFA Home Fund	Grant Income

Capital Projects Fund Grant Income

K. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town prepares its annual budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process if used to adopt the annual budget:

a. Prior to June 1, the Mayor submits to the Town Trustees a proposed operating budget for the fiscal year commencing the following July 1.
b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Trustees.
d. The adopted budget is filed with the Office of the State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as the minimum legal level of control by department within a fund:

- Personal Services
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Interfund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Trustee approval. The Mayor may transfer appropriations between object categories within a department without Town Trustees approval. Supplement appropriations must also be filed with the Office of the State Auditor and Inspector.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the Town's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 4 - CASH & EQUIVALENTS AND RESTRICTED ASSETS

Custodial Credit Risk

At June 30, 2011, the Town held deposits of approximately $387,483 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Restricted Assets

The OWRB Loan requires the Trustee Bank to establish and maintain a reserve fund to secure payment of debt service on the notes. Bank of Oklahoma (the Trustee Bank) has established this reserve fund which meets the loan agreement's minimum requirement. The summary of these funds held by the Trustee Bank at June 30, 2011 is as follows:

Debt Service Reserve Fund	$22,735.30
Debt Service Fund	$ 1,134.15
Total Trustee Fund	$23,869.45

The customer meter deposit account is also considered restricted.

NOTE 5 - CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

Governmental Funds

Capital asset activity for the Governmental Funds, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

Governmental Activities:	6/30/10 Balance	Additions	Deductions	6/30/11 Balance
Capital assets not being depreciated:				
Land	$ 13,000	$ -	$ -	$ 13,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	13,000	-	-	13,000
Other capital assets:				
Buildings	368,937	-	-	368,937
Infrastructure	195,665	-	-	195,665
Vehicles	158,728	-	-	158,728
Machinery & equipment	30,689	-	-	30,689
Total other capital assets	754,019	-	-	754,019
Less accumulated depreciation for:				
Buildings	66,681	9,223	-	75,904
Infrastructure	32,023	4,892	-	36,915
Vehicles	137,967	9,280	-	147,247
Machinery & equipment	28,319	1,725	-	30,044
Total accumulated depriciation	264,990	25,120	-	290,110
Other capital assets, net	489,029	(25,120)	-	463,909
Governmental activities capital assets, net	$ 502,029	$ (25,120)	$ -	$ 476,909

Proprietary Fund

Capital asset activity for the Public Works Authority, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

Business-Type Activities:	6/30/10 Balance	Additions	Deductions	6/30/11 Balance
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Water system	360,553	-	-	360,553
Sewer system	222,659	-	-	222,659
Machinery & equipment	19,101	-	-	19,101
Total other capital assets	602,313	-	-	602,313
Less accumulated depreciation for:				
Water system	235,037	5,948	-	240,985
Sewer system	112,627	5,886	-	118,513
Machinery & equipment	15,596	1,009	-	16,605
Total accumulated depriciation	363,260	12,843	-	376,103
Other capital assets, net	239,053	(12,843)	-	226,210
Business-type activities capital assets, net	$ 239,053	$ (12,843)	$ -	$ 226,210

NOTE 6 - OUTSTANDING LONG-TERM DEBT

Government Fund Debt

The Town currently does not have any Government Fund Debt.

Changes in Government Fund Long-Term Debt

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

Notes Payable:	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Note Payable	$ -	$ -	$ -	$ -
Total Govt Fund Long-Term Debt	$ -	$ -	$ -	$ -

Debt Service Requirements to Maturity for Government Fund Long-Term Debt

Note Payable:

FYE June 30,	Principal	Interest	Total
2012	$ -	$ -	$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
	$ -	$ -	$ -

Okay Public Works Authority Debt

On July 14, 1992, the Okay Public Works Authority entered into a loan agreement with the State of Oklahoma Water Resources Board (OWRB). The original amount of the loan was $250,000 with a 27.5 year term, maturing August 15, 2019. The note is payable in semi-annual (currently quarterly) installments of $3,600 to $11,000 with an initial interest rate of 3.592%. This note is secured by the gross income and revenue of the water, sewer and garbage facilities owned by the Town of Okay, but leased to Okay Public Works Authority.

Changes in PWA Long-Term Debt

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

Notes Payable:	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Note Payable - OWRB	$ 146,700.00	$ -	$ (11,200.00)	$ 135,500.00
Total PWA Long-Term Debt	$ 146,700.00	$ -	$ (11,200.00)	$ 135,500.00

Debt Service Requirements to Maturity for OPWA Long-Term Debt

OWRB:

FYE June 30,	Principal
2012	$ 12,150.00
2013	13,150.00
2014	14,200.00
2015	15,400.00
2016	16,600.00
2017-2020	64,000.00
	$ 135,500.00

Principal only is shown because this loan has a variable interest rate.

NOTE 7 - GOVERNMENTAL FUND BALANCES

Town of Okay
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2011

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	OHFA Home Fund	Capital Projects Funds	Total Governmental Funds
FUND BALANCES:						
Restricted for:						
Capital Improvements	$ -	$ -	$ -	$ 2,362	$ 2,806	$ 5,168
Assigned to:						
Fire Department	-	-	60,697	-	-	60,697
Municipal Court	-	132,031	-	-	-	132,031
Unassigned	(4,609)	-	-	-	-	(4,609)
Total	$ (4,609)	$ 132,031	$ 60,697	$ 2,362	$ 2,806	$ 193,287

NOTE 8 - VOLUNTEER FIREMEN PENSION

The Town participates in the Oklahoma Firefighters Pension and Retirement System (the Plan) on behalf of its volunteer firefighters. The Town contributes $60/year for each volunteer firefighter as set by Oklahoma Statutes; voluntary firefighters do not contribute to the Plan. The Plan provides retirement, death, and disability benefits to plan members and beneficiaries. The Plan is an agent multiple-employer, or municipality, contributory defined benefit pension plan. The authority to amend and establish benefit provisions of the Plan rests with the Board of Trustees of the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report as well as actuarial assumptions and funding information may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System c/o Oklahoma State Firefighters Association, 4545 N. Lincoln Blvd., Oklahoma City, OK 73105-3414.

NOTE 9 - 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; and natural disasters. The Town purchases commercial insurance to reduce their risk of loss. .

NOTE 10 - COMMITMENTS & CONTINGENCIES

Litigation

According to management, the Town was involved in a lawsuit whose caption is: Vicky Barnett V Town of Okay, No. CV-2009-1432, Wagoner County. This is an inverse condemnation action, filed on October 29, 2009 and set for jury trial in June 2012. There is not pleading in the action that sets a cap on the amount sought by the Plaintiff. She claims that the sewer system, when replaced by the “Town”, damaged her real property and was placed outside of the existing easement. The Town’s attorney believes that she will ask for $150,000 and if she is victorious, she has a

right to be awarded attorney fees and costs, which could be in the neighborhood of an additional $75,000. The action is solely against the Town of Okay and not as to any related entity, such as the Okay Public Works Authority. The Town has fully cooperated but sees no possibility of settlement.

Grant Programs

In the normal course of operations, the Town participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 11 - OPERATING TRANSFERS

Interfund operating transfers for the year ended June 30, 2011, were as follows:

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Muncipal Court Fund	$ 34,627	$ 6,180
Volunteer Firefighters Fund	$ 9,585	$ 18,867
OHFA Home Fund	$ -	$ -
Okay Public Works Authority	$ -	$ -
Total General Fund	$ 44,212	$ 25,047
SPECIAL REVENUE FUNDS:		
Municipal Court Fund:		
General Fund	$ 6,180	$ 34,627
OHFA Home Fund	$ -	$ -
Volunteer Firefighters Fund:		
General Fund	$ 18,867	$ 9,585
OHFA Home Fund:	$ -	$ -
General Fund	$ -	$ -
Municipal Court Fund	$ -	$ -
Total Special Revenue Funds	$ 25,047	$ 44,212
ENTERPRISE FUNDS		
Okay Public Works Authority		
General Fund	$ -	$ -
Total Enterprise Funds	$ -	$ -
	$ 69,260	$ 69,260

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through January 9, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Okay, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Okay, State of Oklahoma, as of June 30, 2011, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued my report thereon dated January 9, 2013, which was qualified for the effect on the basic financial statements for the improper capital asset reporting. The Town of Okay has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A or Budgetary Comparison Information. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01 and 11-02. A

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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.

Compliance and Other Matters

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

The Town of Okay's response to the findings identified in my audit is described in the accompanying Schedule of Findings. We did not audit the Town of Okay's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, OWRB and the Oklahoma State Auditor and Inspector's office and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 9, 2013

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction. The segregation of duties is important to have adequate control over financial assets.

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

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

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

Response: The Board continues to be actively involved in the operations of the organization.

Item 11-02: Meter Deposits

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

Condition: The Meter Deposit Liability has not been accurately posted with all transactions during the year. The liability recorded in the financial statements does not match the corresponding bank account.

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

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported.

Response: The Authority is aware of the situation.