

AUDIT REPORT

TOWN OF TALIHINA, OKLAHOMA

JUNE 30, 2011



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF TALIHINA, OKLAHOMA
JUNE 30, 2011

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TOWN OF TALIHINA, OKLAHOMA
JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Talihina, Oklahoma

Report on the Financial Statements

We were engaged to audit the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Talihina, Oklahoma, as of and for the fiscal year ended June 30, 2011, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, and in accordance with Oklahoma Statutes. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Basis for Disclaimer of Opinion

Previous management imposed restrictions on access to financial records, or did not maintain adequate accounting records. Previous management did not properly record transactions in the books of account; did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements. Current management took over the accounting function in February 2010 and from that point on has been maintaining a proper accounting system.

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As a result, we were unable to determine whether any adjustments to the amounts reported were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016, on our consideration of the Town of Talihina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Talihina's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 27, 2016

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2011 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 143,540	\$ 150,413	\$ 293,954
Due from Other Funds	52,829	-	52,829
Out of Balance	643,420	-	643,420
Total Current Assets	839,790	150,413	990,203
<u>Other Assets:</u>			
Restricted Cash and cash equivalents	-	156,646	156,646
Total Other Assets	-	156,646	156,646
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	1,328,128	3,400,677	4,728,805
Total Capital Assets	1,328,128	3,400,677	4,728,805
TOTAL ASSETS	2,167,918	3,707,736	5,875,654
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Due to Other Funds	121,893	2,355	124,248
Accounts Payable	10,874	11,807	22,681
Notes Payable - Current Portion	-	-	-
Refundable Customer Deposits	-	42,424	42,424
Total Current Liabilities	132,766	56,585	189,352
<u>Long-Term Liabilities:</u>			
Notes Payable - Long-Term	59,000	266,784	325,784
Total Long-Term Liabilities	59,000	266,784	325,784
TOTAL LIABILITIES	191,766	323,369	515,136
<u>NET POSITION</u>			
Net Investment in Capital Assets	1,269,128	3,133,893	4,403,021
Restricted for:			-
Debt Service	-	156,646	156,646
Other Purposes	-	-	-
Unrestricted	707,024	93,828	800,853
TOTAL NET POSITION	\$ 1,976,152	\$ 3,384,367	\$ 5,360,519

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Current:					
General Government	\$ 173,409	\$ -	\$ -	\$ 11,975	\$ (161,434)
Public Safety	509,843	-	-	6,918	(502,925)
Highways & Streets	17,259	-	-	-	(17,259)
Culture & Recreation	5,617	-	-	-	(5,617)
Debt Service - Interest	-	-	-	-	-
Depreciation Expense	-	-	-	-	-
Total Governmental Activities	706,127	-	-	18,893	(687,235)
Business-type activities:					
General & Administration	257,523	-	-	-	(257,523)
Water	409,996	553,591	-	-	143,595
Sewer	87,655	136,132	-	-	48,476
Sanitation	126,482	134,516	-	-	8,034
Depreciation Expense	-	-	-	-	-
Total Business-type Activities	881,657	824,238	-	-	(57,418)
Total	\$ 1,587,784	\$ 824,238	\$ -	\$ 18,893	\$ (744,653)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (687,235)	\$ (57,418)	\$ (744,653)
General revenues:			
Taxes:			
Sales Tax	402,089	-	402,089
Use Tax	23,007	-	23,007
Cigar Tax	5,722	-	5,722
Franchise Tax	32,096	-	32,096
Intergovernmental:			
Alcoholic Beverage Tax	7,123	-	7,123
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	7,169	-	7,169
Fines & Forfeitures	19,462	-	19,462
Donations	-	-	-
Licenses and Permits	-	-	-
Miscellaneous Income	35,239	49,710	84,949
Interest Income	201	366	567
Transfers - Internal Activity	44,204	30,660	74,864
Total general revenues & transfers	<u>576,312</u>	<u>80,736</u>	<u>657,048</u>
Changes in Net Position	<u>(110,923)</u>	<u>23,318</u>	<u>(87,605)</u>
Net Position - beginning	2,085,855	3,353,755	5,439,610
Net Position - prior year adjustment	1,220	7,294	8,514
Net Position - ending	<u>\$ 1,976,152</u>	<u>\$ 3,384,367</u>	<u>\$ 5,360,519</u>

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 76,818	\$ 66,722	\$ 143,540
Due from other funds	26,874	25,955	52,829
Out of Balance	623,308	20,112	643,420
TOTAL ASSETS	<u>\$ 727,001</u>	<u>\$ 112,789</u>	<u>\$ 839,790</u>
<u>LIABILITIES & FUND EQUITY</u>			
<u>LIABILITIES:</u>			
Due to Other Funds	\$ 31,720	\$ 90,172	\$ 121,893
Accounts Payable	10,874	-	10,874
TOTAL LIABILITIES	<u>42,594</u>	<u>90,172</u>	<u>132,766</u>
<u>FUND BALANCES:</u>			
Restricted	-	29,895	29,895
Assigned	-	(7,278)	(7,278)
Unassigned	684,407	-	684,407
TOTAL FUND BALANCES	<u>684,407</u>	<u>22,617</u>	<u>707,024</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 727,001</u>	<u>\$ 112,789</u>	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of Net Position are different because:

Capital assets used in governmental activities of \$1,378,257, net of accumulated depreciation of \$50,129, are not financial resources and, therefore, are not reported in the funds.	1,328,128
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(59,000)</u>
Net Position of Governmental Activities	<u>\$ 1,976,152</u>

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Sales Tax	\$ 402,089	\$ -	\$ 402,089
Use Tax	23,007	-	23,007
Cigar Tax	5,722	-	5,722
Franchise Tax	32,096	-	32,096
Intergovernmental:			
Alcoholic Beverage Tax	7,123	-	7,123
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	-	7,169	7,169
Grants	6,918	11,975	18,893
Fines & Forfeitures	19,462	-	19,462
Donations	-	-	-
Licenses and permits	-	-	-
Miscellaneous Income	25,410	9,829	35,239
Interest Income	63	138	201
TOTAL REVENUES	521,890	29,111	551,001
EXPENDITURES:			
Current:			
General Government	129,195	44,214	173,409
Public Safety	509,843	-	509,843
Highways & Streets	440	16,819	17,259
Culture and recreation	5,617	-	5,617
Debt Service	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	645,095	61,033	706,127
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	(123,205)	(31,922)	(155,127)
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	44,204	-	44,204
Operating Transfers Out	-	-	-
Capital Debt Proceeds	59,000	-	59,000
TOTAL OTHER FINANCING SOURCES (USES)	103,204	-	103,204
NET CHANGES IN FUND BALANCES	(20,001)	(31,922)	(51,923)
FUND BALANCE - BEGINNING OF YEAR	704,535	53,192	757,727
FUND BALANCE - PRIOR YEAR ADJUSTMENT	(127)	1,347	1,220
FUND BALANCE - END OF YEAR	\$ 684,407	\$ 22,617	707,024

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

EXHIBIT D (CONTINUED)

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

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$ (51,923)
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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 Position:

Capital debt obligation principal payments	-
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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 Position:

Capital Debt Proceeds	(59,000)
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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	-

	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ (110,923)</div>
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

	<u>Talihina Public Works Authority Enterprise Fund June 30, 2011</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 150,413
Due from Other Funds	-
Total Current Assets	<u>150,413</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	156,646
Capital assets, net of accumulated depreciation	3,400,677
Total Noncurrent Assets	<u>3,557,322</u>
TOTAL ASSETS	<u>3,707,736</u>
<u>LIABILITIES & NET POSITION</u>	
Current Liabilities:	
Due to Other Funds	2,355
Refundable Customer Deposits	42,424
Accounts Payable	11,807
Total Current Liabilities	<u>56,585</u>
Noncurrent Liabilities:	
Notes Payable	266,784
Less: Current portion of Long-Term Debt	-
Total Noncurrent Liabilities	<u>266,784</u>
TOTAL LIABILITIES	<u>323,369</u>
NET POSITION:	
Net Investment in Capital Assets	3,133,893
Restricted for debt service	156,646
Unrestricted	93,828
TOTAL NET POSITION	<u><u>\$ 3,384,367</u></u>

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

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

	<u>Talihina Public Works Authority Enterprise Fund</u>
	<u>June 30, 2011</u>
<u>OPERATING REVENUES:</u>	
Water	\$ 553,591
Wastewater	136,132
Sanitation	134,516
Miscellaneous	49,710
TOTAL OPERATING REVENUES	<u>873,949</u>
<u>OPERATING EXPENSES:</u>	
Current:	
General and administration	250,438
Water treatment	258,102
Water distribution	151,895
Sewer	87,655
Sanitation	126,482
Depreciation	-
TOTAL OPERATING EXPENSES	<u>874,572</u>
NET OPERATING INCOME (LOSS)	<u>(624)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	366
Interest Expense	(7,085)
Grant Income	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(6,719)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	<u>(7,342)</u>
Transfers in	30,660
Transfers out	-
CHANGE IN NET POSITION	<u>23,318</u>
TOTAL NET POSITION - BEGINNING	3,353,755
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	<u>7,294</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 3,384,367</u></u>

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

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

	<u>June 30, 2011</u>
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 873,949
Payments to Suppliers, Employees & Laborers	(883,783)
Receipts of Customer Utility Deposits, Net of Refunds	2,417
Net Cash Provided (Used) by Operating Activities	<u>(7,418)</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
(Increase)Decrease in due from/to other funds	(285)
Operating Transfers in	30,660
Operating Transfers Out	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>30,375</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Loan Proceeds received	-
Grant Income	-
(Increase) Decrease in Restricted Assets	(8,712)
Principal paid	(14,984)
Interest paid	(7,085)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(30,780)</u>
<u>Net Cash Flows from Investing Activities:</u>	
(Increase) Decrease in Investments	-
Interest Earned	366
Net Cash Provided (Used) by Investing Activities	<u>366</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,457)
Cash & Cash Equivalents, Beginning of Year	150,577
Cash & Cash Equivalents, Prior Year Adjustment	7,294
Cash & Cash Equivalents, End of Year	<u>\$ 150,413</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Net Operating Income (Loss)	\$ (624)
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation Expense	-
Increase(Decrease) in Accounts Payable	(9,211)
Customer Deposits	2,417
Net Cash Provided (Used) by Operating Activities	<u>\$ (7,418)</u>

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

TOWN OF TALIHINA, OKLAHOMA
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 FIDUCIARY FUND TYPES
 JUNE 30, 2011

	<u>Agency Funds</u>
	<u>Police Bonds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 6,121
Investments	-
TOTAL ASSETS	<u>6,121</u>
<u>LIABILITIES & FUND EQUITY</u>	
Due to other funds	<u>6,121</u>
TOTAL LIABILITIES	<u>6,121</u>
NET POSITION:	
Net Investment in Capital Assets	-
Restricted for debt service	-
Unrestricted	-
TOTAL NET POSITION	<u><u>\$ -</u></u>

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

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

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

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

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 summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Governmental Fund Types

The General Fund is the general operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund. The Street and Alley Fund administers revenues from state vehicle taxes, gasoline excise taxes and grant income. The Airport Fund, BIA Grant Fund, DARE Account Fund, Swimming Pool Fund, CDBG Fund, EDA Project Fund and Cemetery Perpetual Care Fund are all non-major special revenue funds.

Proprietary Fund Types

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. 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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

D. FINANCIAL POSITION

Cash and cash equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Capital Assets

The Town does not maintain adequate records for property and equipment of the governmental or proprietary fund types; therefore Capital Assets are not reported as required by the modified cash basis of accounting. The capital assets that are included in the financial statements are account for as follows:

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The range of estimated useful lives by type of assets is as follows:

Buildings	10-15 years
Utility Systems	10-50 years
Equipment	5-10 years

Capitalization Policy

Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Long-Term Debt

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position/Fund Balance Classifications

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds,

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

There are no major special revenue funds.

E. REVENUES, EXPENDITURES AND EXPENSES

Program Revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

General Government	Operating and capital grants
Public Safety	Operating and capital grants

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 - 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 consideration of the Town's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts, grants and other matters. That report is an integral part of an audit performed in compliance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Finance-related Legal & Contractual Provisions

As required, the annual budget was prepared and filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2011, the Town held deposits of approximately \$456,721 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.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED CASH

The Talihina Public Works Authority notes payable to OWRB required the TPWA to set aside funds in a sinking fund for payments on the debt, as well as a reserve fund to be used for payment of the debt principal and interest in the event that funds are not otherwise available to pay the debt service payments when due. The TPWA has also set aside funds in a sales tax reserve to be used for debt payments. Funds are also reserved for meter deposits due back to the utility customers. CRG, Inc. loan #10149 requires the PWA to establish a debt reserve fund that will be used only to repay CRG, Inc. and only in the event that adequate revenue is not available from operations to make a monthly installment. The debt reserve fund shall be funded at the rate of not less than \$183.90 per month starting no later than the last day of the first full month following the loan closing. After a minimum of \$22,068.48 has been accumulated in the debt reserve fund, no more deposits are required unless money is taken out the fund. If money is taken out of the fund, monthly deposits of not less than \$183.90 will be resumed until the fund again reaches at least \$22,068.48.

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

TPWA Sinking fund	\$ 19,135
Sales tax reserve	38,985
Reserve fund	60,500
REAP Grant Sewer Project	74
CRG Debt Service Reserve	941
RD Debt Service Reserve	<u>37,011</u>
Total restricted assets	\$156,646

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - CAPITAL ASSETS

Town of Talihina:

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

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Capital Assets, not being depreciated				
Construction in Progress	\$ 5,625	\$ -	\$ -	\$ 5,625
Total Capital Assets, not being depreciated	5,625	-	-	5,625
<u>Capital Assets, being depreciated</u>				
Buildings and improvements	342,294	-	-	342,294
Equipment and Vehicles	241,794	-	-	241,794
Infrastructure	788,544	-	-	788,544
Subtotal	1,372,632	-	-	1,372,632
Less: Accum. Depr.	(50,129)	-	-	(50,129)
Total Capital Assets, being depreciated (Net of Depreciation)	1,322,503	-	-	1,322,503
Governmental activities capital assets, net	\$ 1,328,128	\$ -	\$ -	\$ 1,328,128

Talihina Public Works Authority:

Activity of capital assets consists of the following:

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Capital Assets, not being depreciated				
Land	\$ 69,994	\$ -	\$ -	\$ 69,994
Total Capital Assets, not being depreciated	69,994	-	-	69,994
<u>Capital Assets, being depreciated</u>				
Buildings and improvements	3,768	-	-	3,768
Equipment	80,469	-	-	80,469
Vehicles	26,231	-	-	26,231
Sewer treatment facility	2,729,330	-	-	2,729,330
Water treatment facility	705,166	-	-	705,166
Water distribution facility	2,037,061	-	-	2,037,061
Subtotal	5,582,025	-	-	5,582,025
Less: Accum. Depr.	(2,251,342)	-	-	(2,251,342)
Total Capital Assets, being depreciated (Net of Depreciation)	3,330,683	-	-	3,330,683
Business-type activities capital assets, net	\$ 3,400,677	\$ -	\$ -	\$ 3,400,677

The Town has not maintained records for the PWA Fund capital assets.

NOTE 6 - LONG-TERM DEBT

TALIHINA PUBLIC WORKS AUTHORITY

NOTES PAYABLE:

Terms and Collateral

Outstanding
Debt
06/30/2011

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

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

111,871.15

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

120,507.57

Total Notes Payable Outstanding

\$232,378.72

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2011:

	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011
Note Payable - OWRB	\$ 53,200	\$ -	\$ (53,200)	\$ -
Note Payable - CRG (10149)	\$ 126,855	\$ -	\$ (14,984)	\$ 111,871
Note Payable - CRG (10162)	\$ 120,508	\$ -	\$ -	\$ 120,508
	<u>\$ 300,563</u>	<u>\$ -</u>	<u>\$ (68,184)</u>	<u>\$ 232,379</u>

Debt Service Requirements to Maturity:

Year Ending June 30,	Notes Payable - CRG 10149		Total
	Principal	Interest	
2012	\$ 15,883	\$ 6,186	\$ 22,068
2013	16,864	5,205	22,068
2014	17,877	4,191	22,068
2015	18,961	3,107	22,068
2016	20,112	2,900	23,012
2017-2021	22,174	741	22,916
Total	<u>\$ 111,871</u>	<u>\$ 22,330</u>	<u>\$ 134,202</u>

Year Ending June 30,	Notes Payable - CRG 10162		Total
	Principal	Interest	
2012	\$ 6,596	\$ 5,847	\$ 12,443
2013	113,912	1,915	115,827
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ 120,508</u>	<u>\$ 7,762</u>	<u>\$ 128,270</u>

NOTE 7 - FUND BALANCES

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The restricted amounts are described in Note 4 above.

NOTE 8 - COMMITMENTS & CONTINGENCIES

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

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

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Description of the Plan

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Funding Policy

The Town is required to make annual contributions of \$60.00 per fire fighter to OFPRS. The contribution requirements of the Town are established and may be amended by the state legislature. The Town's contributions to OFPRS was \$540.00 for 2011.

Oklahoma Municipal Retirement Fund Employee Retirement System

Description of the Plan

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

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

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

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Funding Policy

For the fiscal year ended June 30, 2011, employees were required to contribute 2.25% of their annual compensation, while the Town contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The contribution rate for the fiscal year ended June 30, 2011 was 7.91%. Contributions to the Plan for the year ended June 30, 2011, for employees and employer were \$7,181 and \$25,277, respectively.

For the year ended June 30, 2011, the covered payroll was \$319,552. Covered payroll refers to all compensation paid by the Town of Talihina to active employees covered by the Plan on which contributions are based.

NOTE 10 - SUBSEQUENT EVENTS

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

NOTE 11 - NOTE DISCLOSURE DISCREPANCIES

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

To the Board of Trustees
Town of Talihina, Oklahoma

We were engaged to audit, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Talihina, Oklahoma, as of and for the year ended June 30, 2011, and the related notes to the financial statements and the related note to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Talihina, Oklahoma's basic financial statements, and have issued our report thereon dated July 27, 2016, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Talihina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Talihina's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Talihina's internal control.

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. 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.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 11-01, 11-02, 11-03, 11-04, 11-05, 11-06 & 11-07.

Compliance and Other Matters

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

Town of Talihina's Response to Findings

Town of Talihina's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Talihina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 27, 2016

TOWN OF TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

INTERNAL CONTROL FINDINGS:

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.

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

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

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

Response: The Board is aware of the problem.

Item 11-02: Capital Asset Recordkeeping

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

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

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

TOWN OF TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

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

Response: Past management was responsible for the accounting during the audit period.

Item 11-03: Bank Reconciliation

Criteria: See Criteria for Item 11-02 above.

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

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

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

Response: Past management was responsible for the accounting during the audit period.

Item 11-04: Purchasing

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

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

TOWN OF TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

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

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

Response: Past management was responsible for the accounting during the audit period.

Item 11-05: Meter Deposits

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

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

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

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

Response: Past management was responsible for the accounting during the audit period.

Item 11-06: General Ledger

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

TOWN OF TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

records the financial transactions. In general terms, internal controls are simply good business practices.

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

Cause/Effect: The staff did not maintain records in an accurate manner. The trial balance and financial statements, provided by personnel, do not include all 12 months of information and contain misstatements and omit financial information. The individual funds are not in balance. In addition, accounts exist in the trial balance, that are called "To Balance" or "Out of Balance." For example, the General Fund Trial Balance includes the account "To Balance" with a balance of \$623,308.41; the Cemetery Fund includes the account "Out of Balance" with a balance of \$12,312.40. Moreover, the individual fund trial balances remain out of balances despite these balancing accounts.

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

Response: Past management was responsible for the accounting during the audit period.

Item 11-07: Revenue Documentation

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

TOWN OF TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

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

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

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

Response: Past management was responsible for the accounting during the audit period.

TOWN OF TALIHINA, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	SPECIAL REVENUE FUNDS				
	Street & Alley Fund	Cemetery Fund	Airport Fund	BIA Grant Fund	DARE Account
<u>ASSETS</u>					
Cash and cash equivalents	\$ 22,801	\$ 1,880	\$ 1,248	\$ 21,742	\$ -
Due from other funds	-	-	-	-	896
Out of Balance	7,800	12,312	-	-	-
TOTAL ASSETS	\$ 30,601	\$ 14,193	\$ 1,248	\$ 21,742	\$ 896
<u>LIABILITIES & FUND EQUITY</u>					
<u>LIABILITIES:</u>					
Due to other funds	\$ 705	\$ 8,331	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
TOTAL LIABILITIES	705	8,331	-	-	-
<u>FUND BALANCES:</u>					
Restricted	29,895	-	-	-	-
Assigned	-	5,862	1,248	21,742	896
Unassigned	-	-	-	-	-
TOTAL FUND BALANCES	29,895	5,862	1,248	21,742	896
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,601	\$ 14,193	\$ 1,248	\$ 21,742	\$ 896

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

TOWN OF TALIHINA, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
Swimming Pool Fund	CDBG Fund	EDA Project Fund	Cemetery Perpetual Care Fund	
\$ 1,109	\$ 11,988	\$ 3,100	\$ 2,853	\$ 66,722
-	2,135	-	22,924	25,955
-	-	-	-	20,112
<u>\$ 1,109</u>	<u>\$ 14,123</u>	<u>\$ 3,100</u>	<u>\$ 25,778</u>	<u>\$ 112,789</u>
\$ 81,136	\$ -	\$ -	\$ -	\$ 90,172
-	-	-	-	-
<u>81,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,172</u>
-	-	-	-	29,895
(80,027)	14,123	3,100	25,778	(7,278)
-	-	-	-	-
<u>(80,027)</u>	<u>14,123</u>	<u>3,100</u>	<u>25,778</u>	<u>22,617</u>
<u>\$ 1,109</u>	<u>\$ 14,123</u>	<u>\$ 3,100</u>	<u>\$ 25,778</u>	<u>\$ 112,789</u>

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

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

	SPECIAL REVENUE FUNDS				
	Street & Alley Fund	Cemetery Fund	Airport Fund	BIA Grant Fund	DARE Account
<u>REVENUES:</u>					
Taxes:					
Franchise Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
Alcoholic Beverage Tax	-	-	-	-	-
Gasoline Excise Tax	-	-	-	-	-
Motor Vehicle Tax	7,169	-	-	-	-
Grants	-	-	-	-	-
Miscellaneous Income	-	2,280	-	-	-
Interest Income	75	4	-	-	-
TOTAL REVENUES	7,244	2,284	-	-	-
<u>EXPENDITURES:</u>					
Current:					
General Government	-	4,010	-	-	-
Public Safety	-	-	-	-	-
Highways & Streets	16,819	-	-	-	-
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	16,819	4,010	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,575)	(1,726)	-	-	-
<u>OTHER FINANCING SOURCES (USES):</u>					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
Capital Debt Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGES IN FUND BALANCES	(9,575)	(1,726)	-	-	-
FUND BALANCE - BEGINNING OF YEAR	39,471	7,588	1,248	21,742	896
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 29,895	\$ 5,862	\$ 1,248	\$ 21,742	\$ 896

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

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

SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
Swimming Pool Fund	CDBG Fund	EDA Project Fund	Cemetery Perpetual Care Fund	
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	7,169
-	11,975	-	-	11,975
7,349	-	-	200	9,829
-	15	-	45	138
<u>7,349</u>	<u>11,990</u>	<u>-</u>	<u>245</u>	<u>29,111</u>
40,204	-	-	-	44,214
-	-	-	-	-
-	-	-	-	16,819
-	-	-	-	-
<u>40,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,033</u>
(32,855)	11,990	-	245	(31,922)
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
(32,855)	11,990	-	245	(31,922)
(48,519)	2,133	3,100	25,533	53,192
1,347	-	-	-	1,347
<u>\$ (80,027)</u>	<u>\$ 14,123</u>	<u>\$ 3,100</u>	<u>\$ 25,778</u>	<u>\$ 22,617</u>

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