Town of Eakly, Oklahoma

Financial Statements and Report of Independent Accountants

As of and For the Year Ending June 30, 2012

Table of Contents

Report of Independent Accountant 1

Government Wide Financial Statements

Statement of Net Assets 2

Statement of Activities 3

Fund Financial Statements

Balance Sheet-Governmental Funds 4

Statement of Revenues, Expenditures and Changes in
in Fund Balances-Governmental Funds 5

Statement of Net Assets-Proprietary Fund 6

Statement of Revenue over Expenditures and Changes in
Retained Earnings-Proprietary Fund 7

Statement of Cash Flows-Proprietary Fund 8

Notes to the Basic Financial Statements 9-12

Required Supplementary Information

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* 13-14

Schedule of Findings and Responses 15

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Report of Independent Accountants

To the Board of Trustees
Town of Eakly, 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 Eakly, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Eakly, Oklahoma, as of June 30, 2012, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Casey J. Russell CPA, Inc.

September 6, 2012

[illegible]

Town of Eakly
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash in Bank - Unrestricted	179,966.24	59,304.99	239,271.23
Cash in Bank - Restricted	-	19,989.23	19,989.23
Total Current Assets	179,966.24	79,294.22	259,260.46
Noncurrent Assets:			
Capital Assets, net	156,363.16	-	156,363.16
Total Noncurrent Assets	156,363.16	-	156,363.16
TOTAL ASSETS	$ 336,329.40	$ 79,294.22	$ 415,623.62
LIABILITIES			
Current Liabilities:			
Other Payables	15,665.23	-	15,665.23
Meter Deposits	-	12,093.34	12,093.34
Total Current Liabilities	15,665.23	12,093.34	27,758.57
Noncurrent Liabilities:			
TOTAL LIABILITIES	15,665.23	12,093.34	27,758.57
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	156,363.16	-	156,363.16
Net Assets - Unrestricted	164,301.01	67,200.88	231,501.89
TOTAL NET ASSETS	320,664.17	67,200.88	387,865.05
TOTAL LIABILITIES AND NET ASSETS	$ 336,329.40	$ 79,294.22	$ 415,623.62

The accompanying footnotes are an integral part of these financial statements.

Town of Eakly
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants	Net (expense) revenue and Changes in net assets — Primary Government: Governmental Activities	Net (expense) revenue and Changes in net assets — Primary Government: Business-Type Activities	Total
Primary Government						
Governmental Activities						
General Government	86,256.95	28,260.68	3,639.00	(54,357.27)	-	(54,357.27)
Fire Department	28,580.50	16,554.92	8,810.49	(3,215.09)	-	(3,215.09)
EMS	6,752.55	6,930.42	-	177.87	-	177.87
Garbage	24,660.76	35,341.51	-	10,680.75	-	10,680.75
Town and Street Maintenance	37,009.70	-	-	(37,009.70)	-	(37,009.70)
Cemetary	3,000.00	6,755.00	-	3,755.00	-	3,755.00
Total Governmental Activities	186,260.46	93,842.53	12,449.49	(79,968.44)	-	(79,968.44)
Business-Type Activities						
Water Department	56,013.17	48,465.78	-	-	(7,547.39)	(7,547.39)
Sewer Department	18,671.06	32,088.23	-	-	13,417.17	13,417.17
Total Business-Type Activities	74,684.23	80,554.01	-	-	5,869.78	5,869.78
Total Primary Government	$ 260,944.69	$ 174,396.54	$ 12,449.49	$ (79,968.44)	$ 5,869.78	$ (74,098.66)
General Revenues						
Sales Taxes				30,646.96	-	30,646.96
Other Taxes				17,701.32	-	17,701.32
Interest Income				1,430.95	561.41	1,992.36
Total General Government Revenue				49,779.23	561.41	50,340.64
Transfer In/Out				2,465.72	(2,465.72)	-
Change in Net Assets				(27,723.49)	3,965.47	(23,758.02)
Net Assets Beginning				348,387.66	63,235.40	411,623.06
Net Assets Ending				$ 320,664.17	$ 67,200.87	$ 387,865.04

The accompanying footnotes are an integral part of these financial statements.

Town of Eakly
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Fund
ASSETS			
Cash in Bank - Unrestricted	70,938.85	109,027.39	179,966.24
Total Assets	$ 70,938.85	$ 109,027.39	$ 179,966.24
LIABILITIES			
Other Payables	15,665.23	-	15,665.23
Total Liabilities	15,665.23	-	15,665.23
NET ASSETS			
Unassigned	55,273.62	-	55,273.62
Restricted	-	109,027.39	109,027.39
TOTAL NET ASSETS	55,273.62	109,027.39	164,301.01
TOTAL LIABILITIES AND NET ASSETS	$ 70,938.85	$ 109,027.39	$ 179,966.24

Reconciliation of Total Governmental Fund to Net Assets of Governmental Activities

Total Governmental Fund Balances	$ 164,301.01
Amounts reported for governmental activities in the statement net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	156,363.16
Net Assets of Governmental Activities	$ 320,664.17

The accompanying footnotes are an integral part of these financial statements

Town of Eakly
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets - Modified Cash Basis
For the Year Ending June 30, 2012

	General Fund	Special Revenue Funds	Total Governmental Funds
Revenues			
Taxes	48,348.28	-	48,348.28
Charges for Services	35,341.51	8,555.00	43,896.51
EMS Revenue	6,930.42	-	6,930.42
Interest	566.87	864.08	1,430.95
Grants	3,639.00	8,810.49	12,449.49
Other Revenues	27,440.68	15,574.92	43,015.60
Total Revenues	122,266.76	33,804.49	156,071.25
Expenditures			
General Government	69,296.89	1,264.20	70,561.09
Fire Department	117.78	26,038.24	26,156.02
EMS Services	6,752.55	-	6,752.55
Garbage	24,660.76	-	24,660.76
Town and Street Maintenance	37,009.70	-	37,009.70
Cemetary	-	3,000.00	3,000.00
Total Expenditures	137,837.68	30,302.44	168,140.12
Excess revenues over (under) expenditures	(15,570.92)	3,502.05	(12,068.87)
Transfers In/Out	2,465.72	-	2,465.72
Excess revenue over (under) expenditures after transfers	(13,105.20)	3,502.05	(9,603.15)
Net Assets at beginning of year	68,378.82	105,525.34	173,904.16
Net Assets at end of year	$ 55,273.62	$ 109,027.39	$ 164,301.01

Reconcilation of Fund Financial Statements to Governmental Wide Financial Statements

Change in Net Assets, Fund Financial Statements	(9,603.15)
Government funds report capital outlays as expenditures. Capital outlay in government wide financial statements are recorded as assets and depreciated over their estimated lives.	12,331.04
Depreciation recorded in the governmental wide financial statements not recorded in the fund financial statements.	(30,451.38)
Change in Net Assets per the Governmental Wide Financial Statements	$ (27,723.49)

The accompanying notes are an integral part of these financial statements

Town of Eakly
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2012

ASSETS	
Current Assets:	
Cash in Bank - Unrestricted	$ 59,304.99
Cash in Bank - Restricted	19,989.23
TOTAL ASSETS	$ 79,294.22
LIABILITIES	
Current Liabilities:	
Meter Deposits	$ 12,093.34
Total Current Liabilities	12,093.34
NET ASSETS	
Net Assets - Unrestricted	67,200.88
TOTAL NET ASSETS	67,200.88
TOTAL LIABILITIES AND NET ASSETS	$ 79,294.22

The accompanying footnotes are an integral part of these financial statements.

Town of Eakly
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Net Assets - Modified Cash Basis
For the Year Ending June 30, 2012

Operating Reveues:	
Water Sales	45,878.42
Sewer Fees	31,534.73
Miscellaneous Revenues	3,140.86
Total Operating Revenues	80,554.01
Operating Expenditures:	
Personnel Services	36,164.93
Maintenance and Operations	38,519.29
Total Operating Expenditures	74,684.22
Excess Revenues over Expenditures	5,869.79
Non-operating Revenues (Expenditures)	
Transfer in (out)	(2,465.72)
Interest Income	561.41
Net Non-operating Revenues (Expenditures)	(1,904.31)
Excess Revenues over (under) Expenditures after transfers	3,965.48
Net Assets at beginning of year	63,235.40
Net Assets at end of year	$ 67,200.88

The accompanying footnotes are an integral part of these financial statements.

Town of Eakly
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2012

Cash flows from operating activities	
Receipts from customers	80,114.01
Interest Income	561.41
Transfers to other funds	(2,465.72)
Payments to employees	(36,164.93)
Payments to supplies	(38,519.29)
Net cash provided by operating activities	3,525.48
Cash flows from capital and related financing activities	
Principal Paid on Long Term Debt	-
Net cash flows from capital and related financing activities	-
Net increase (decrease) in cash	3,525.48
Cash, Beginning of the Year	75,768.74
Cash, End of the Year	$ 79,294.22

Reconciliation of operating income (loss) to net cash provided (used) by operating activitie

Change in Net Assets	3,965.48
Adjustments to reconcile change in net assets to net cash provided	
Increase (decrease) in customer deposits	(440.00)
Net cash provided by operating activities	$ 3,525.48

The accompanying notes are an integral part of these financial statements

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

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

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town had only one component unit, the Eakly Development Corporation.

Basis of Presentation-Fund Accounting

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

The Town's funds are grouped into two governmental fund types: general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012, the Town had governmental funds of general fund, street and alley fund, cemetery care, fire fund and Christmas fund. The proprietary funds consisted of the Eakly Development Corporation.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability in incurred, if measurable.

Revenue and Expenditure Recognition

The statement of net assets and statements of activities are reported on a modified cash basis of accounting. This modified cash basis of accounting is based on the recording of cash and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles.

The Town records depreciation expense, which is an exception to the modified cash basis of accounting.

Allocations of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2012.

Budget

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

Risk Management

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

Estimates

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

Note 2-Deposits with Financial Institutions
The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Eakly is considered a separate entity from the Eakly Municipal Authority for FDIC deposit insurance.

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

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)

2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)

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

All of the Town of Eakly's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of $250,000 for the governmental funds and $250,000 for the Eakly Development Corporation. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation
Capital Asset activity for the year ended June 30, 2012 was as follows:

Governmental Funds	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	$ 217,201	-	-	$ 217,201
Buildings	50,000	-	-	50,000
Equipment	220,786	12,331	-	233,117
Total	487,987			500,318
Accumulated Depreciation	(313,503)	(30,451)		(343,954)
Net Assets	$ 174,484			$ 156,364

As of June 30, 2012, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available.

Depreciation of $30,451 for the governmental funds was recorded as follows: general government $15,696 and fire fund $14,756.

Note 4-Volunteer Firefighter Pension Plan

The Town participates in the Oklahoma State Firefighters Pension and Retirement system which is a defined contribution plan applying only to the Town's volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the Town at the rate of $60 per volunteer firefighter per year. The total contribution for 2011/2012 was $480 and covered 8 volunteers.

Note 5 – Defined Contribution Plan

The Town participates in a qualified defined contribution pension plan established by the Oklahoma Municipal Retirement Fund to provide benefits at retirement to general employees of the town. At June 30, 2012, there were 3 plan members. Plan members are required to contribute 6.2 percent of covered salary. The town is required to contribute 6.2 percent of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Town.

Note 6 – Subsequent Events

Subsequent events have been evaluated through September 6, 2012, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

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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 Board of Trustees
Town of Eakly, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Eakly, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated September 6, 2012. Our report was a qualified report because of the use of the modified cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of Eakly, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Eakly's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Eakly's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Eakly'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1. 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.

Compliance and Other Matters

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

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

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

Casey J. Russell CPA, Inc.

Casey J. Russell CPA, Inc.
Oklahoma City, OK 73112
September 6, 2012

Schedule of Findings and Responses

2012-1 Lack of Segregation of Duties (Repeat Finding)

Statement of Condition: During our review of the internal control structure, we noted that several procedures lack the control of having segregated duties. We understand that due to the size of the Town and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that the utility billings clerk collects the payments from customers and also maintains the customer ledgers. The daily collections and reports are reviewed by the Treasurer but the Treasurer is also the utility billings clerk.

Criteria: There should be more separation of duties between record keeping and utility billings collections.

Cause: Limited personnel

Effect: The town is vulnerable to having utility billing receipts lost or stolen.

Recommendation: The town should either add more staff to create separation of duties or implement a policy of not accepting cash in town hall. Implementation of a non-cash policy would also help reduce the effects of limited staff.

Management's Response: Due to limited resources, controls will be limited.