

**Town of Ninnekah, Oklahoma**  
**Financial Statements and Report**  
**of Independent Accountants**  
**As of and For the Year Ending**  
**June 30, 2012**

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### Independent Auditor's Report

To the Board of Trustees  
Town of Ninnekah, 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 Ninnekah, 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 Ninnekah, 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 August 24, 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.*

August 24, 2012

**Town of Ninnekah  
Statement of Net Assets  
Modified Cash Basis  
June 30, 2012**

	Governmental Activities	Business-Type Activities	Totals
<b>CURRENT ASSETS</b>			
Cash in Bank - Unrestricted	33,822.85	17,296.15	51,119.00
<b>Total Current Assets</b>	<u>33,822.85</u>	<u>17,296.15</u>	<u>51,119.00</u>
<b>PROPERTY AND EQUIPMENT</b>			
Capital Assets, net	171,528.92	771,798.74	943,327.66
<b>TOTAL ASSETS</b>	<u>\$ 205,351.77</u>	<u>\$ 789,094.89</u>	<u>\$ 994,446.66</u>
<b>CURRENT LIABILITIES</b>			
Current Portion of Long Term Debt	8,329.11	33,311.19	41,640.30
<b>Total Current liabilities</b>	<u>8,329.11</u>	<u>33,311.19</u>	<u>41,640.30</u>
<b>LONG-TERM LIABILITIES</b>			
Notes and Leases Payable	21,583.15	126,241.68	147,824.83
<b>TOTAL LIABILITIES</b>	<u>29,912.26</u>	<u>159,552.87</u>	<u>189,465.13</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	141,616.66	612,245.87	753,862.53
Restricted for Other Purpose	13,717.49	-	13,717.49
Unrestricted	20,105.36	17,296.15	37,401.51
<b>TOTAL NET ASSETS</b>	<u>175,439.51</u>	<u>629,542.02</u>	<u>804,981.53</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 205,351.77</u>	<u>\$ 789,094.89</u>	<u>\$ 994,446.66</u>

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

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

Functions/Programs	Expenses	Program Revenues		Net (expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants	Primary Government Governmental Activities	Business-Type Activities	
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General Government	305,911.15	30,931.93	-	(274,979.22)	-	(274,979.22)
Court Fund	221.00	88,575.39	-	88,354.39	-	88,354.39
<b>Total Governmental Activities</b>	<u>\$ 306,132.15</u>	<u>\$ 119,507.32</u>	<u>\$ -</u>	<u>\$ (186,624.83)</u>	<u>\$ -</u>	<u>\$ (186,624.83)</u>
<b>Business-Type Activities:</b>						
Economic Development Authority	11,250.37	23,000.00	-	-	11,749.63	11,749.63
<b>Total Business-Type Activities</b>	<u>11,250.37</u>	<u>23,000.00</u>	<u>-</u>	<u>-</u>	<u>11,749.63</u>	<u>11,749.63</u>
<b>Total Primary Government</b>	<u>\$ 317,382.52</u>	<u>\$ 142,507.32</u>	<u>\$ -</u>	<u>\$ (186,624.83)</u>	<u>\$ 11,749.63</u>	<u>\$ (174,875.20)</u>
<b>General Revenues</b>						
<b>Taxes:</b>						
Sales Taxes				141,700.83	-	141,700.83
Franchise Taxes				22,433.82	-	22,433.82
Alcoholic Beverage Taxes				6,405.46	-	6,405.46
Cigar Tax				2,154.68	-	2,154.68
City Use Tax				12,171.80	-	12,171.80
Motor Vehicle and Gasoline Tax				9,103.98	-	9,103.98
Transfers In/Out				(30,341.35)	30,341.35	-
Interest Income				108.25	-	108.25
<b>Total General Revenues</b>				<u>163,737.47</u>	<u>30,341.35</u>	<u>194,078.82</u>
Change in Net Assets				(22,887.36)	42,090.98	19,203.62
Net Assets Beginning				198,326.87	587,451.04	785,777.91
<b>Net Assets Ending</b>				<u>\$ 175,439.51</u>	<u>\$ 629,542.02</u>	<u>\$ 804,981.53</u>

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

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

	General Fund
<b>ASSETS</b>	
Cash in Bank - Unrestricted	\$ 33,822.85
<b>Total Assets</b>	<b>\$ 33,822.85</b>
<b>LIABILITIES</b>	
Accounts Payable	-
<b>Total Liabilities</b>	-
<b>Fund Balance</b>	
Restricted - Fund Balance	13,717.49
Unrestricted - Fund Balance	20,105.36
<b>Total Fund Balance</b>	<b>33,822.85</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 33,822.85</b>

*Reconciliation of Fund Financial Statements to  
Governmental Wide Financial Statements*

Total Fund Balances	\$ 33,822.85
Fixed assets included in the government wide financial statements but excluded in the individual fund financial statements	171,528.92
Debt Services included in the government wide financial statements but excluded in the individual fund financial statements.	(29,912.26)
Net assets per the government wide financial statements	<b>\$ 175,439.51</b>

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

<b>Revenues</b>	
Taxes	\$ 193,970.57
Court Fines	88,575.39
Charges for Services	40.00
Grants	-
Interest	108.25
Licenses & Permits	5,550.00
Other Revenues	25,341.93
Total Revenues	<u>313,586.14</u>
<b>Expenditures</b>	
Current Operations:	
Personal Services	183,080.79
Maintenance and Operations	93,594.54
Capital Outlay	10,525.00
Total Expenses	<u>287,200.33</u>
Excess Revenues over (under) Expenditures	26,385.81
<b>Other Financing Sources and (Uses)</b>	
Debt Service	(15,014.11)
Transfers In/Out	(30,341.35)
Total Other Financing Sources and (Uses)	<u>(45,355.46)</u>
Net Change in Fund Balance	(18,969.65)
Fund Balance - Beginning	52,792.50
Fund Balance - Ending	<u>\$ 33,822.85</u>

***Reconciliation of Fund Financial Statements to  
Governmental Wide Financial Statements***

Net Change in fund balances-total governmental funds	(18,969.65)
Depreciation expense recorded in governmental-wide financial statements but not in individual fund financial.	(29,456.82)
Government funds report capital outlays as expenditures. Capital Outlays in government wide financial statements are recorded as assets and depreciated over their estimated useful lives.	10,525.00
Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.	15,014.11
Change in net assets of governmental activities	<u>\$ (22,887.36)</u>

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

<b>CURRENT ASSETS</b>	
Cash in Bank - Unrestricted	\$ 17,296.15
<b>Total Current Assets</b>	<u>17,296.15</u>
 <b>PROPERTY AND EQUIPMENT</b>	
Capital Assets, net	<u>771,798.74</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 789,094.89</u></u>
 <b>CURRENT LIABILITIES</b>	
Current Portion of Long Term Debt	\$ 33,311.19
<b>Total Current Liabilities</b>	<u>33,311.19</u>
 <b>LONG-TERM LIABILITIES</b>	
Notes Payable	<u>126,241.68</u>
<b>TOTAL LIABILITIES</b>	<u>159,552.87</u>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	612,245.87
Unrestricted	<u>17,296.15</u>
<b>TOTAL NET ASSETS</b>	<u>629,542.02</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 789,094.89</u></u>

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

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

<b>Revenues</b>	
Other Revenues	\$ 23,000.00
<b>Total Revenues</b>	<u>23,000.00</u>
<b>Expenditures</b>	
Maintenance and Operations	5,938.80
Interest	<u>5,311.57</u>
<b>Total Expenses</b>	11,250.37
Excess Revenues over (under) Expenditures	11,749.63
<b>Transfers In/Out</b>	<u>30,341.35</u>
Excess Revenues over (under) Expenditures after transfers	42,090.98
<b>Net Assets at beginning of year</b>	<u>587,451.04</u>
<b>Net Assets at end of year</b>	<u><u>\$ 629,542.02</u></u>

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

**Town of Ninnekah  
Proprietary Fund  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ended June 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Other Revenues	\$ 23,000.00
Cash provided by General Fund	30,341.35
Maintenance and Operations	(5,938.80)
Interest Expense	<u>(5,311.57)</u>
<b>Net Cash Provided By (Used in) Operating Activities</b>	<b>42,090.98</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Notes Payable Repayments	(36,051.59)
Proceeds from Loan	<u>292.91</u>
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b><u>(35,758.68)</u></b>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 6,332.30

**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** 10,963.85

**CASH AND CASH EQUIVALENTS AT END OF PERIOD** \$ 17,296.15

**Reconciliation of income from operations to net cash  
provided by operating activities:**

Income from operations	<u>\$ 42,090.98</u>
Net cash provided by operating activities	<u><u>\$ 42,090.98</u></u>

**Town of Ninnekah, Oklahoma**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2012**

**Note 1 - Summary of Significant Accounting Policies**

Financial Reporting Entity

The Town of Ninnekah, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: general administrative, street and alley, court, economic development and public works authority.

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 two component units, the Ninnekah Public Works Authority and Economic Development Authority.

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 and economic development. As of June 30, 2012, the Town had governmental funds of general fund, street and alley and court. The proprietary funds consisted of the Ninnekah Public Works Authority and Ninnekah Economic Development Authority.

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 cash 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 reconciliations 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 which 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 cash basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized when they are collected. Expenditures are recognized when paid.

## PROPRIETARY FUNDS

All proprietary funds are accounted for using the modified cash basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are collected and their expenses are recognized when they are paid. Allocation 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.

### Government-wide and Proprietary Fund Net Assets:

Government-wide and proprietary fund net assets are divided into three components:

- Invested in capital assets, net of related debt—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets—consist of net assets that are restricted by the Town's creditors, by the state enabling legislation, by grantors, and by other contributors.
- Unrestricted—all other net assets are reported in this category.

### Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable—Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted—Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Board ordinance or resolution. This included the Budget Reserve Account.
- Assigned—Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by Board.
- Unassigned—All amounts not included in other spendable classifications.

### **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 Ninnekah is considered a separate entity from the Ninnekah Public Works 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 Ninnekah'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 Ninnekah Public Works Authority. 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**

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Land	\$ 19,360	-	-	\$ 19,360
City Hall	124,065	-	-	124,065
Police Department	165,347	6,025	-	171,372
Street & Alley	86,365	4,500	-	90,865
Total	395,137	10,525	-	405,662
Accumulated Depreciation	(204,676)	(29,457)	-	(234,133)
Net Assets	<u>\$ 190,461</u>			<u>\$ 171,529</u>

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 \$29,457 for the governmental funds was recorded as follows: \$2,522– Town Hall, \$18,837 – Police Department, and \$8,098 – Street and Alley.

**Proprietary Funds**

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Land	\$ 124,729	-	-	\$ 124,729
WIP - Sewer	647,070	-	-	647,070
Total	771,799	-	-	771,799
Accumulated Depreciation	-	-	-	-
Net Assets	<u>\$ 771,799</u>			<u>\$ 771,799</u>

As of June 30, 2012, the proprietary funds capital assets consisted of land and construction in progress for their sewer treatment plant. At this time the construction in progress is not being depreciated.

**Note 4 – Long Term Debt**

The Town has a lease in the amount of \$6,714 through First National Bank & Trust at an interest rate of 3.85% for the purchase of a police car. Payments are due monthly in the amount of \$757.98. The remaining principal and interest payments until maturity are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	6,714	108	Balance, beginning of year	15,366
Total	<u>\$ 6,714</u>	<u>\$ 108</u>	Principal paid during year	<u>(8,652)</u>
			Balance, end of year	<u>\$ 6,714</u>

The Town has a second lease in the amount of \$23,198 through First National Bank & Trust at an interest rate of 3.7% for the purchase of an emergency response unit. Payments are due monthly in the amount of \$664.32. The remaining principal and interest payments until maturity are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	7,233	738	Balance, beginning of year	29,560
2013/2014	7,506	466	Principal paid during year	<u>(6,362)</u>
2014/2015	7,788	184	Balance, end of year	<u>\$ 23,198</u>
2015/2016	671	2		
Total	<u>\$ 23,198</u>	<u>\$ 1,391</u>		

The Town's Economic Development Authority has a remaining balance on the land payment at the end of the year was \$117,664. The interest payment on this note was \$3,739.

The Town's Public Works Authority received a loan in the amount of \$190,000 from Chickasha Bank & Trust to help finance the town's constructions in progress. The loan was retained at an interest rate of 7% with monthly payments in the amount of \$2,497.63. The balance due on this loan at the end of the year was \$52,872. The remaining principal and interest payments until maturity are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	20,560	1,125	Balance, beginning of year	52,872
Total	<u>\$ 20,560</u>	<u>\$ 1,125</u>	Principal paid during year	<u>(32,312)</u>
			Balance, end of year	<u>\$ 20,560</u>

The Town's Public Works Authority received a loan in the amount of \$20,500 from Chickasha Bank & Trust to help finance the town's easement assessment. The loan was retained at an interest rate of 7% with one annual payment. The balance due on this loan at the end of the year was \$21,328.

#### **Note 5 – Subsequent Events**

Subsequent events have been evaluated through August 24, 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 Ninnekah, 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 Ninnekah, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated August 18, 2012. The report on the Town of Ninnekah was qualified because the financial statements were prepared using the modified cash basis of accounting. Except as discussed in the preceding sentence, 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 Ninnekah, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Ninnekah'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 Ninnekah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Ninnekah'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 Town of Ninnekah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

This report is intended solely for the information and use of management, Board of Trustees, 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  
August 24, 2012

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## **Schedule of Findings and Responses**

### **2012-1 Ticket Revenue (Lack of Segregation of Duties) (Repeat Finding)**

**CONDITION:** The court clerk collects the payments from customers and also maintains the ticket ledgers. The court clerk also accepts cash payments but no reconciliation of cash payments have been made. The court clerk also maintains a daily payment ledger. The daily collections are reviewed by the Town Clerk/Treasurer but the Town Clerk/Treasurer is also the court clerk.

**CRITERIA:** There should be more separation of duties for record keeping and ticket collections.

**CAUSE OF CONDITION:** Limited Staff and inadequate internal controls.

**EFFECT OF CONDITION:** The Town is vulnerable to having ticket receipts lost or stolen.

**RECOMMENDATION:** The Town should implement a policy of not accepting cash payments at Town hall. The Clerk has established a good policy of writing receipts for all payments received regardless of form and also recording all payments into the computer system. They have developed a good audit trail to document all tickets and transactions including custody of unused tickets books. While these procedures help reduce the risk of misstatement or fraud, as long as cash is being accepted and only one person is responsible for performing all tasks a risk will always be inherent.

**MANAGEMENT RESPONSE:** Due to the size of the Town of Ninnekah it is not economically feasible to hire additional personnel to insure adequate separation of duties.