

Town of Mulhall, Oklahoma

**Financial Statements and Report
of Independent Accountants**

**As of and For the Year Ending
June 30, 2012**

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Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

Report of Independent Accountants

To the Board of Trustees
Town of Mulhall, 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 Mulhall, 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 Mulhall, 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 July 31, 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.



July 31, 2012

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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash in bank - unrestricted	157,861.73	101,811.91	259,673.64
Cash in bank - restricted	210,529.15	8,902.08	219,431.23
Total current assets	368,390.88	110,713.99	479,104.87
Noncurrent assets:			
Net capital assets	247,544.05	643,536.16	891,080.21
Total noncurrent assets	247,544.05	643,536.16	891,080.21
Total assets	\$ 615,934.93	\$ 754,250.15	\$ 1,370,185.08
LIABILITIES			
Current liabilities:			
Accounts payable	-	405.00	405.00
Meter deposits	-	7,250.00	7,250.00
Total current liabilities	-	7,655.00	7,655.00
Noncurrent liabilities:			
Bonds and notes	-	-	-
Total noncurrent liabilities	-	-	-
Total liabilities	-	7,655.00	7,655.00
NET ASSETS			
Invested in capital assets, net of related debt	247,544.05	643,536.16	891,080.21
Restricted	222,330.76	-	222,330.76
Unrestricted	146,060.12	103,058.99	249,119.11
Total net assets	615,934.93	746,595.15	1,362,530.08
Total liabilities and net assets	\$ 615,934.93	\$ 754,250.15	\$ 1,370,185.08

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

	General Fund	Volunteer Fire Fund	Street & Alley Fund	Total Governmental Funds
ASSETS				
Cash in bank	146,060.12	10,332.26	1,469.35	157,861.73
Cash in bank - Restricted	-	210,529.15	-	210,529.15
Total assets	<u>\$ 146,060.12</u>	<u>\$ 220,861.41</u>	<u>\$ 1,469.35</u>	<u>\$ 368,390.88</u>
LIABILITIES				
Accounts payable	-	-	-	-
FUND BALANCES				
Restricted	-	220,861.41	1,469.35	222,330.76
Unassigned	146,060.12	-	-	146,060.12
Total fund balances	<u>146,060.12</u>	<u>220,861.41</u>	<u>1,469.35</u>	<u>368,390.88</u>
Total liabilities and fund balances	<u>\$ 146,060.12</u>	<u>\$ 220,861.41</u>	<u>\$ 1,469.35</u>	<u>\$ 368,390.88</u>

***Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
June 30, 2012***

Total Governmental Fund Balances **\$ 368,390.88**

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

*Capital assets used in governmental activities are
not financial resources and therefore are not
reported in the funds.* **247,544.05**

Net Assets of Governmental Activities **\$ 615,934.93**

Town of Mulhall, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2012

	General Fund	Volunteer Fire Fund	Street & Alley Fund	Total Governmental Funds
Revenues:				
Taxes	82,728.00	55,929.31	1,964.67	140,621.98
Charges for services	-	2,675.00	-	2,675.00
Rent	1,575.00	-	-	1,575.00
Donations	-	1,900.00	-	1,900.00
Grants	-	4,912.77	-	4,912.77
Interest	661.06	574.26	-	1,235.32
Other	106.57	52.04	-	158.61
Total revenues	<u>85,070.63</u>	<u>66,043.38</u>	<u>1,964.67</u>	<u>153,078.68</u>
Expenditures:				
Streets maintenance	5,950.40	-	25,850.69	31,801.09
Fire department	-	13,392.12	-	13,392.12
General government	23,991.09	-	-	23,991.09
Park department	41.44	-	-	41.44
Family center	1,796.48	-	-	1,796.48
Total expenditures	<u>31,779.41</u>	<u>13,392.12</u>	<u>25,850.69</u>	<u>71,022.22</u>
Excess revenues over (under) expenditures	53,291.22	52,651.26	(23,886.02)	82,056.46
Transfers (In) Out	<u>21,500.00</u>	<u>-</u>	<u>(21,500.00)</u>	<u>-</u>
Excess revenues over (under) expenditures after Transfers	<u>31,791.22</u>	<u>52,651.26</u>	<u>(2,386.02)</u>	<u>82,056.46</u>
Fund balances at beginning of year	114,268.90	168,210.15	3,855.37	286,334.42
Fund balances at end of year	<u>\$ 146,060.12</u>	<u>\$ 220,861.41</u>	<u>\$ 1,469.35</u>	<u>\$ 368,390.88</u>

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ended June 30, 2012

<i>Net change in fund balances-total government funds</i>	\$ 82,056.46
<i>Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide</i>	
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements</i>	<u>(32,482.88)</u>
<i>Change in net assets of governmental activities</i>	<u>\$ 49,573.58</u>

Town of Mulhall, Oklahoma
Statement of Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2012

ASSETS

Current assets:

Cash in bank - unrestricted	101,811.91
Cash in bank - restricted	<u>8,902.08</u>
Total current assets	110,713.99

Noncurrent assets:

Net capital assets	<u>643,536.16</u>
Total noncurrent assets	<u>643,536.16</u>
Total assets	<u><u>\$ 754,250.15</u></u>

LIABILITIES

Current liabilities:

Accounts payable	405.00
Meter deposits	<u>7,250.00</u>
Total current liabilities	7,655.00

Noncurrent liabilities:

Bonds and notes	<u>-</u>
Total noncurrent liabilities	<u>-</u>
Total liabilities	7,655.00

NET ASSETS

Invested in capital assets, net of related debt	643,536.16
Unrestricted	<u>103,058.99</u>
Total net assets	<u>746,595.15</u>
Total liabilities and net assets	<u><u>\$ 754,250.15</u></u>

Town of Mulhall, Oklahoma
Statement of Revenues Over Expenditures and Changes in Retained Earnings
Proprietary Fund Type - Modified Cash Basis
For the Year Ended June 30, 2012

Operating Revenues:	
Water sales	\$ 44,475.64
Sewer fees	10,742.47
Garbage fees	19,991.21
Miscellaneous	<u>6,137.39</u>
Total operating revenues	81,346.71
Operating Expenses:	
Water department	62,860.01
Sewer department	11,171.99
Garbage department	<u>19,902.64</u>
Total operating expenses	<u>93,934.64</u>
Operating income (loss)	(12,587.93)
Non-operating revenues (expenses):	
Grant revenues	99,779.00
Interest income	<u>269.09</u>
Net non-operating revenues (expenses)	<u>100,048.09</u>
Change in net assets before transfers	87,460.16
Transfers in/out	<u>-</u>
Change in net assets after transfers	87,460.16
Net assets at beginning of year	<u>659,134.98</u>
Net assets at end of year	<u><u>\$ 746,595.14</u></u>

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

Cash flows from operating activities	
Cash received from customers	\$ 81,346.71
Cash received from operating grant	99,779.00
Cash received in interest on deposits	269.09
Cash paid to employees	(13,111.80)
Cash paid to suppliers	(57,496.81)
Net cash provided by operating activities	<u>110,786.19</u>
 Cash flows from capital and related financing activities	
Purchase of fixed assets	(99,779.00)
Increase (decrease) in meter deposit liability	-
Net cash provided (used) for capital and related financing activities	<u>(99,779.00)</u>
Net increase (decrease) in cash and cash equivalents	11,007.19
Cash and cash equivalents at beginning of year	<u>99,706.80</u>
Cash and cash equivalents at end of year	<u><u>\$ 110,713.99</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	87,460.17
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	23,326.02
Net cash provided (used) by operating activities	<u><u>\$ 110,786.19</u></u>

Town of Mulhall, 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 Mulhall, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, public works 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 Mulhall Public Works 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. As of June 30, 2012, the Town had governmental funds of general fund, street and alley fund, and volunteer fire department fund. The proprietary funds consisted of the Mulhall Public Works 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 modified cash basis of accounting. Revenues are recognized when collected and expenses are recognized when paid. This is the same approach used in the preparation of the proprietary fund financial statements. The fund financial statements also use the modified cash basis of accounting. The government-wide statements record fixed assets and long-term debt as assets and liabilities. The fund financial statements record fixed assets as expenditures. The fund financial statements records the proceeds of long term debt as a revenue and the repayment of long term debt as an expenditures. 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 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. Non-major funds are aggregated and presented in a single column.

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 monies held in conjunction with the Mulhall Public Works Authority's meter deposits requirements and restricted county sales tax proceeds for the Mulhall Volunteer Fire Department.

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 11, 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 Budget Act.

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 Mulhall is considered a separate entity from the Mulhall 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 Mulhall'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 Mulhall 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:

<u>Governmental Funds</u>	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 10,500	-	-	\$ 10,500
Buildings	150,765	-	-	150,765
Machinery & Equipment	271,885	-	-	271,885
Total	\$ 433,150			\$ 433,150
Accumulated Depreciation	(153,122)	(32,484)	-	(185,606)
Net Assets	<u>\$ 280,028</u>			<u>\$ 247,544</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 \$32,484- for the governmental funds was recorded as follows: family center - \$2,891, general – 1,593, and fire - \$28,000 all charged to general government.

Public Works Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer System	\$ 682,413	-	-	\$ 682,413
Machinery & Equipment	25,433	99,779	-	125,212
Total	\$ 707,846			\$ 807,625
Accumulated Depreciation	(140,762)	(23,326)	-	(164,088)
Net Assets	\$ 567,084			\$ 643,537

As of June 30, 2012, the Public Works Authority 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 \$23,326 for the Public Works Authority was recorded as follows: Water & Sewer System Upgrade - \$18,194, and equipment - \$5,132. All depreciation in the Public Works Authority was charged to the water department.

Note 4-Volunteer Firefighters Pension Fund

The town, as the employer, participates in the statewide cost-sharing multi-employer defined benefit plan on behalf of the volunteer firefighters. The system is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

During the year ending June 30, 2012, the Town was required to contribute \$60.00 per volunteer. The town contributed \$1,080 during the current year, which represents 100% of the required contribution.

Note 5-Subsequent Events

Subsequent events have been evaluated through July 31, 2012, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

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 Mulhall, 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 Mulhall, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated July 31, 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 Mulhall, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Mulhall'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 Mulhall's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Mulhall'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
July 31, 2012

Schedule of Current Findings and Responses

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

CONDITION: During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the town and number of personnel, many aspects related to segregation of duties cannot be implemented.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited.