

***Muskogee County Transit System***  
*Muskogee, Oklahoma*

***REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION***

*For the Year Ended September 30, 2012*

***SAUNDERS & ASSOCIATES, PLLC***

***Certified Public Accountants***

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MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

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**MUSKOGEE COUNTY TRANSIT SYSTEM**  
Muskogee, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

For the Year Ended September 30, 2012

Our discussion and analysis of the Muskogee County Transit System's financial performance provides an overview of the Organization's financial activities for the fiscal year ended September 30, 2012. Please review it in conjunction with the Organization's basic financial statements which begin on page 7.

**FINANCIAL HIGHLIGHTS**

- Total net assets experienced a decrease of 7.3% from 2011. (Table I)
- The Organization operates substantially all of its activities through federal, state and local funding. These grants and contracts totaled \$629,921 and accounted for approximately 40.1% of revenues.
- Revenues (\$1,542,105) increased by \$49,080 (3.3%) (Table II).

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 7 and 8) provide information about the activities of the Organization as a whole and present a longer-term view of the Organization's finances. Fund financial statements start on page 9. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Organization's operations in more detail than the government-wide statements by providing information about the Organization's most financially significant funds. Currently, the Organization only utilizes one fund.

**Reporting the Organization as a Whole**

**The Statement of Net Assets and Statement of Activities**

Our analysis of the Organization as a whole begins on page 2. One of the most important questions asked about the Organization's finances is "Is the Organization as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Organization as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization's *net assets* and changes in them. You can think of the Organization's net assets, the difference between assets, what the Organization owns, and liabilities, what the Organization owes, as one way to measure the Organization's financial health, or *financial position*. Over time, increases or decreases in the Organization's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other financial factors, however, such as changes in the Organization's funding arrangements with federal and state grantors, availability of funding for capital projects, and continuing local support.

**MUSKOGEE COUNTY TRANSIT SYSTEM**  
Muskogee, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

For the Year Ended September 30, 2012

**Reporting the Organization's Most Significant Funds**

Fund Financial Statements

**Major Fund**  
General Operating

Our analysis of the Organization's major funds is below.

The fund financial statements begin on page 9 and provide detailed information about the most significant fund as a whole. Funds are established to help control and manage money for particular purposes (ex. various grants and capital projects). The Organization has only one governmental fund.

*Governmental Funds:* The Organization's fund is reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a *short-term view* of the Organization's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Organization's programs. We describe the relationship (or differences) between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation accompanying the fund financial statements.

*Notes to the Financial Statements:* The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on page 11 of this report.

**THE ORGANIZATION AS A WHOLE**

The Organization's total net assets changed from a year ago, decreasing \$99,779 from \$1,360,511 in 2011 to \$1,260,732 during 2012. Our analysis below focuses on net assets (Table 1).

**Table 1**

*Net Assets*

	September 30,	
	2012	2011
Current and other assets	\$ 1,378,715	\$ 1,589,616
Total assets	1,378,715	1,589,616
Accounts Payable & Accrued Expenses	117,983	179,105
Notes Payable	0	50,000
Total liabilities	117,983	229,105
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,054,443	1,264,061
Restricted for Debt Service	0	93,054
Unrestricted	206,289	23,396
Total net assets	\$ 1,260,732	\$ 1,360,511

**MUSKOGEE COUNTY TRANSIT SYSTEM**  
Muskogee, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

For the Year Ended September 30, 2012

Table 2 compares the 2012 change in net assets to the 2011 change in net assets.

**Table II**  
**Change in Net Assets for 2012**  
**Compared with 2011 Activity**

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change %</u>
<b>Program Revenues:</b>				
Grant	\$ 629,921	\$ 628,875	\$ 1,046	0.2%
Contract	825,255	767,555	57,700	7.5%
Fares	73,419	77,172	( 3,753)	-4.9%
Other	13,510	19,423	( 5,913)	-30.4%
Total Revenues	<u>1,542,105</u>	<u>1,493,025</u>	<u>49,080</u>	<u>3.3%</u>
<b>Program Expenses:</b>				
Salaries, Taxes and Fringe	898,141	861,201	36,940	4.3%
Professional Services	11,796	14,425	( 2,629)	-18.2%
Travel	9,417	3,988	5,429	136.1%
Advertising	732	2,222	( 1,490)	-67.1%
Subscriptions and Memberships	5,913	125	5,788	4630.4%
Vehicle Insurance	111,350	94,909	16,441	17.3%
Supplies	6,837	4,754	2,083	43.8%
Telephone	10,726	11,116	( 390)	-3.5%
Utilities	14,622	16,864	( 2,242)	-13.3%
Printing	0	1,302	( 1,302)	-100%
Postage	382	567	( 185)	-32.6%
Fuel	231,963	219,472	12,491	5.7%
Vehicle Maintenance and Repairs	90,699	51,341	39,358	76.7%
Transportation Service Agreements	0	38,374	( 38,374)	-100%
Miscellaneous	21,700	12,810	8,890	69.4%
Toll Fees	2,964	2,704	260	9.6%
Other Insurance	0	4,129	( 4,129)	-100.0%
Interest and Penalties	15,024	65,922	( 50,898)	-77.2%
Depreciation	209,618	189,278	20,340	10.7%
Total Expenses	<u>1,641,884</u>	<u>1,595,503</u>	<u>46,381</u>	<u>2.9%</u>
Change in Net Assets	<u>( 99,779)</u>	<u>( 102,478)</u>	<u>2,699</u>	<u>2.6%</u>
Ending Net Assets	<u>\$ 1,260,732</u>	<u>\$ 1,360,511</u>	<u>\$ ( 99,799)</u>	<u>-7.3%</u>

Overall, the organization had a 3.3% increase in revenues and a 2.9% increase in expenses, resulting in a 7.3% decrease in net assets.

**MUSKOGEE COUNTY TRANSIT SYSTEM**  
Muskogee, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Unaudited)

For the Year Ended September 30, 2012

**BUDGET VS. ACTUAL RESULTS**

The Organization does not operate under an organization-wide, legally-adopted budget. However, project budgets are adopted and approved by those federal and state agencies that provide funding for the various projects.

**CAPITAL ASSETS**

Capital assets represent buildings and equipment used by the Organization to fulfill its mission to provide public transportation services. See Note 9 (page 17) of the accompanying footnotes.

**ECONOMIC FACTORS AND NEXT YEAR'S PLAN**

The Organization receives funding from the Federal Transit Administration and the Oklahoma Department of Transportation and anticipates less funding during the subsequent year due to the lapse of Federal Stimulus Funding. Efforts will be made to offset any decreases in funding at the local level. Additionally, the Organization expects demand for services to remain consistent with prior periods.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Organization's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Faith Evans, Executive Director/CEO, P O Box 2973, Muskogee, OK 74402

AUDITOR'S REPORT

# Saunders & Associates, PLLC

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Muskogee County Transit System  
Muskogee, Oklahoma

We have audited the accompanying financial statements of the governmental activities of the Muskogee County Transit System, as of and for the year ended September 30, 2012, which collectively comprise the Muskogee County Transit System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Muskogee County Transit System's management. Our responsibility is to express opinions on these financial statements based on our audit.

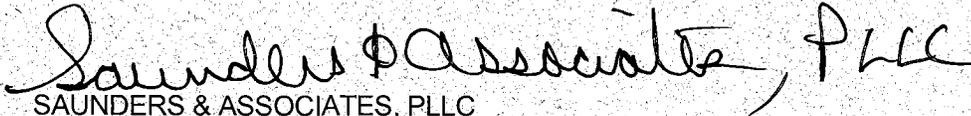
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Muskogee County Transit System as of September 30, 2012, and the respective changes in financial position 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 June 24, 2013 on our consideration of the Muskogee County Transit System'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. As discussed in Note 1E, budgeting, required supplementary information, has not been presented as Muskogee County Transit does not operate under a legally adopted budget.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Muskogee County Transit System's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis and are also not a required part of the basic financial statements of the Muskogee County Transit System. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedure, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

  
SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants

June 24, 2013

FINANCIAL STATEMENTS

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Primary Government</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash	\$ 11,430
Accounts Receivable	<u>312,842</u>
Total Current Assets	<u>324,272</u>
<u>Noncurrent Assets:</u>	
Property and Equipment	2,035,476
Less: Accumulated Depreciation	<u>(981,033)</u>
Total Noncurrent Assets	<u>1,054,443</u>
 TOTAL ASSETS	 <u>\$ 1,378,715</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable & Accrued Expenses	\$ 117,983
Total Current Liabilities	<u>117,983</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,054,443
Unrestricted	<u>206,289</u>
Total Net Assets	<u>1,260,732</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,378,715</u>

\* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue &amp; Change in Net Assets Governmental Activities</u>
<b>PRIMARY GOVERNMENT:</b>					
Governmental Activities:					
General Operating	\$ 1,641,884	\$ 898,674	\$ 629,921	\$ 0	\$ (113,289)
Total Primary Government	<u>1,641,884</u>	<u>898,674</u>	<u>629,921</u>	<u>0</u>	<u>(113,289)</u>
General Revenues:					
Other Revenues					<u>13,510</u>
Total General Revenues					<u>13,510</u>
Change in Net Assets					(99,779)
Net Assets, Beginning					<u>1,360,511</u>
<b>NET ASSETS, ENDING</b>					<u><u>\$ 1,260,732</u></u>

\* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

	General Operating
<b>ASSETS</b>	
Cash	\$ 11,430
Accounts Receivable	<u>312,842</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>324,272</u></b>
<b>LIABILITIES</b>	
<u>Liabilities</u>	
Accounts Payable & Accrued Expenses	\$ 117,983
Notes Payable	<u>0</u>
Total Liabilities	<u>117,983</u>
<b>FUND EQUITY</b>	
Non-Spendable	0
Restricted	0
Committed	0
Assigned	0
Unassigned	<u>206,289</u>
Total Fund Equity	<u>206,289</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>324,272</u></b>

**Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities**

September 30, 2012

Total Governmental Fund Balance	\$ 206,289
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	<u>1,054,443</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,260,732</u></b>

\* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	<u>General Operating</u>
<b>REVENUES</b>	
Grants	\$ 629,921
Contracts	825,255
Fares	73,419
Other	13,510
Total Revenues	<u>1,542,105</u>
<b>EXPENDITURES</b>	
Salaries, Taxes & Fringe	898,141
Professional Services	11,796
Travel	9,417
Advertising	732
Subscriptions and Memberships	5,913
Vehicle Insurance	111,350
Supplies	6,837
Telephone	10,726
Utilities	14,622
Postage	382
Fuel	231,963
Vehicle Maintenance & Repairs	90,699
Miscellaneous	21,700
Toll Fees	2,964
Interest, Penalties & Late Charges	58,079
Total Expenditures	<u>1,475,321</u>
Revenues Over (Under) Expenditures	66,784
Fund Balance - Unreserved, September 30, 2011	<u>139,505</u>
<b>FUND BALANCE - UNRESERVED, SEPTEMBER 30, 2012</b>	<b><u>\$ 206,289</u></b>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2012**

Net Change in Governmental Fund Balances	\$ 66,784
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$209,618) exceeded capital outlays (\$0) in the current period.	(209,618)
Principal payments on long-term debt obligations are reported in total on the statement of activities but expensed each period in the governmental fund financial statements.	<u>43,055</u>
Change in net assets of governmental activities	<b><u>\$ (99,779)</u></b>

\* The accompanying notes are an integral part of the financial statements.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Organization's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Organization are discussed below.

The financial statements include:

- \*\* A Management's Discussion and Analysis (MD&A) section providing an analysis of the Organization's overall financial position and results of operations.
- \*\* Financial statements prepared using full accrual accounting for all of the Organization's activities, including capital assets.

B. Reporting Entity

On October 1, 2008, Board of County Commissioners dba Muskogee County Transit System was changed from a component unit of Muskogee County to Muskogee County Transit System, a public trust.

The sole activity of the Organization is the provision of public transportation services. The Organization provides transportation services in Muskogee County, Oklahoma. The Organization operates a rural demand-response public transportation system, which serves the county listed above, as well as an urban fixed route system.

The accompanying statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the Organization. Component units are legally separate entities for which the Organization (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Organization's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Organization. Using these criteria, the Organization has no component units.

C. Government-Wide and Fund Financial Statements

The Organization's basic financial statements include both government-wide (reporting the Organization as a whole) and fund financial statements (reporting the Organization's major fund).

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-Wide

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

This government-wide focus is more on the sustainability of the Organization as a whole, and the change in the Organization's net assets resulting from current year activities.

Fund

The Organization uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Organization only uses governmental funds.

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The Organization's programs and services are funded primarily with federal and state grants.

The accompanying fund financial statements report the following major governmental funds:

**General** – This fund is the general operating fund of the Organization. It is used to account for all financial resources. It is currently the only fund utilized by the Organization.

The emphasis in fund financial statements is on the major governmental funds.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grant and entitlements and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Organization received cash.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Organization is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Typically, items such as investments held for Resale, Inventories, and Prepaid Items are classified as being non-spendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the short term. The Organization did not report non-spendable fund balances for the year ended September 30, 2012.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The organization did not report restricted fund balances for the year ended September 30, 2012.
- Committed: The classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the governing body of the Organization. These amounts cannot be used for any other purpose unless the Organization removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Organization did not report committed fund balances for the year ended September 30, 2012.
- Assigned: This classification includes amounts that are constrained by the Organization's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Organization or through the governing body delegating this responsibility to the Organization manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General fund. The Organization did not report assigned fund balances for the year ended September 30, 2012.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Organization would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Organization receives value without directly giving value in return, includes grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Organization must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Organization on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

E. Budgeting – Muskogee County Transit System does not operate under an organization-wide legally-adopted budget. Therefore, budgetary comparison information has not been included. However, individual projects and grants are required to operate within budget constraints. Budget to actual results are closely monitored.

F. Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are carried at cost. The Organization's cash is managed and maintained as part of the Muskogee County's bank account.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Capital Assets – Muskogee County Transit System follows the practice of capitalizing all major expenditures for land, buildings, equipment, and leasehold improvements. Such assets are recorded at cost, or if acquired by gift, at fair value at date of receipt. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis which is in conformity with accounting principles generally accepted in the United States of America. The lives generally used are as follows:

Buildings	30 Years
Equipment	5-7 Years
Buses and Trolleys	7-10 Years

NOTE 2: COMPENSATED ABSENCES

The Organization accrues a liability for compensated absences. Full-time employees accrue 160 hours for 1 to 5 years of service and 200 hours for 6 plus years of service. Part-time employees accrue 80 hours for 1-5 years of service and 100 hours for 6 plus years of service. Only 80 hours will carry over to the following year and only 200 hours will be paid upon voluntary termination. Compensated absences payable in one year at September 30, 2012 totaled \$35,180.

NOTE 3: 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. Actual results could differ from those estimates.

NOTE 4: NET ASSETS

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use.

NOTE 5: ECONOMIC DEPENDENCY

The Organization receives a significant portion of its revenue from funds provided through federal and state grants. These amounts are all appropriated each year by the federal and state governments. If significant budget cuts are made at the federal and/or state level, the amount of the funds received could be reduced significantly and have an adverse impact on its operations. Federal and state grant revenues comprised approximately 41% of the Organization's revenues for the year.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 6: RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2012, the Organization carried insurance through various commercial carriers to cover all risks of losses. The Organization had no settled claims resulting from these risks that exceeded its commercial coverage during the year.

NOTE 7: CONTINGENT LIABILITIES

As noted above, the Organization participates in a number of federal and state assisted programs. These programs are audited in accordance with *Government Auditing Standards* and the *Single Audit Act Amendments of 1996*, if applicable. Audits of prior years have not resulted in any significant disallowed costs; however, grantor agencies may provide for further examinations. Based on prior experience, management believes that further examinations would not result in any significant allowed costs.

NOTE 8: NOTES PAYABLE

A \$50,000 line of credit was established through BancFirst to provide for short-term borrowing. The note dated September 2011 has an original maturity of December 2011 and carries a rate of 6.5%. Principal and accrued interest is due at maturity. The loan is secured by assignment of funding from the Oklahoma Department of Transportation. The loan was renewed at maturity and was subsequently paid in full during the fiscal year.

Activity of the loan described above was as follows for the year ended September 30, 2012.

	<u>Balance</u> <u>09/30/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>09/30/12</u>
General Operating:	\$ <u>50,000</u>	\$ <u>0</u>	\$ <u>( 50,000)</u>	\$ <u>0</u>
Total	\$ <u>50,000</u>	\$ <u>0</u>	\$ <u>( 50,000)</u>	\$ <u>0</u>

Interest expensed during the period totaled approximately \$297.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 9: FIXED ASSETS

Activity for the Organization for the year ended September 30, 2012 was as follows:

	General Operating			Balance 09/30/12
	Balance 09/30/11	Additions	Dispositions	
Buildings	\$ 425,000	\$ 0	\$ 0	\$ 425,000
Buses and Trolleys	<u>1,610,476</u>	<u>0</u>	<u>0</u>	<u>1,610,476</u>
Total Fixed Assets	2,035,476	0	0	2,035,476
Accumulated Depreciation	( 771,415)	( 209,618)	<u>0</u>	( 981,033)
Net Fixed Assets	<u>\$ 1,264,061</u>	<u>\$ (209,618)</u>	<u>\$ 0</u>	<u>\$ 1,054,443</u>

Depreciation expense recorded on the Statement of Activities totaled \$209,618 for the year ended September 30, 2012. The Oklahoma Department of Transportation holds liens on most of the buses and trolleys.

NOTE 10: RECEIVABLES

Receivables as of September 30, 2012 were as follows:

	General Operating
Charges for Services;	
Cherokee Nation	\$ 21,000
Nutritions (MCCAP)	400
Sooner Ride (Logisticare)	68,849
Department of Human Services (TANF)	27,384
Muskogee County	45,000
Department of Vetrans Affairs	2,679
Other/Miscellaneous	3,414
Operating Grants and Contributions:	
Oklahoma Department of Transportation	<u>144,116</u>
Total	<u>\$ 312,842</u>

All receivables are classified as current as they are expected to be received within the next operating cycle.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

NOTE 11: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table lists the current obligations of the Organization at September 30, 2012.

	<u>Vendors</u>	<u>Salaries &amp; Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental Activities	\$ <u>47,430</u>	\$ <u>33,013</u>	\$ <u>37,540</u>	\$ <u>117,983</u>

Other payables represent compensated absences as described in Note 2.

NOTE 12: FEDERAL TAX ASSESSMENT

During May 2011, the Internal Revenue Service placed a federal tax lien on the Organization for failure to timely remit payroll taxes. Penalties assessed by the IRS were approximately \$52,054. The Organization signed an agreement to pay the penalties in monthly installments of \$2,800 until paid in full. During November 2011, the remaining balance was paid in full and the lien was released during December 2011. The balance on the statement of net assets of the penalties due at September 30, 2012 was \$0 and approximately \$43,054 was paid during the year.

NOTE 13: DATE OF MANAGEMENT'S REVIEW

Management of Muskogee County Transit System has evaluated subsequent events through June 24, 2013, which is the date the financial statements were available to be issued.

# Saunders & Associates, PLLC

Certified Public Accountants

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Website: [www.saunderscpas.com](http://www.saunderscpas.com)

## INDEPENDENT AUDITOR'S 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

Board of Directors  
Muskogee County Transit System  
Muskogee, Oklahoma

We have audited the financial statements of Muskogee County Transit System as of and for the year ended September 30, 2012, and have issued our report thereon dated June 24, 2013. 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 of America.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskogee County Transit System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muskogee County Transit System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Transit System's internal control over financial reporting.

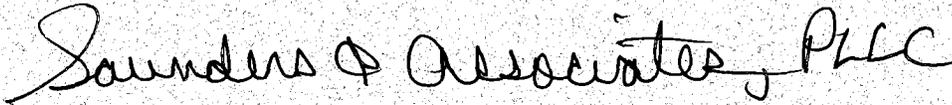
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination 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. 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 Muskogee County Transit System'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*.

This report is intended solely for the information and use of management, the board of directors, others within the organization, 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.

A handwritten signature in cursive script that reads "Saunders & Associates, PLLC". The signature is written in black ink and is positioned above the printed name of the firm.

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants

June 24, 2013

SUPPLEMENTAL INFORMATION

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskegee, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2012

<u>Grantor/Pass-Through Grantor/ Contract Title</u>	<u>Federal CFDA</u>	<u>Grant Period</u>	<u>Revenues</u>	<u>Expenditures</u>
<b><u>U. S. DEPARTMENT OF TRANSPORTATION</u></b>				
<u>Pass-Through: Oklahoma Department of Transportation</u>				
Section 5311, Rural Public Transportation	20.509	10/01/11-09/30/12	\$ <u>466,172</u>	\$ <u>466,172</u>
Total U.S. Dept. of Transportation Passed Through Oklahoma Department of Transportation			<u>466,172</u>	<u>466,172</u>
<u>Pass-Through: KiBois Community Action Foundation</u>				
Section 5317, New Freedom Program	20.521	10/01/11-09/30/12	<u>19,632</u>	<u>19,632</u>
Total U.S. Dept. of Transportation Passed Through KiBois Community Action Foundation			<u>19,632</u>	<u>19,632</u>
<b>TOTAL FEDERAL AWARDS</b>			\$ <u><u>485,804</u></u>	\$ <u><u>485,804</u></u>

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2012

Grantor/Pass-Through Grantor/ Contract Title	Grant ID	Revenues	Expenditures
<b><u>Oklahoma Dept. of Transportation</u></b>			
Public Transit Revolving Fund	10/01/11-09/30/12	\$ 144,116	\$ 144,116
Total Oklahoma Dept. of Transportation		<u>144,116</u>	<u>144,116</u>
<b><u>Oklahoma Dept. of Human Services</u></b>			
TANF Transportation	830918112	102,639	102,639
Total Oklahoma Dept. of Human Services		<u>102,639</u>	<u>102,639</u>
<b><u>Oklahoma Health Care Authority</u></b>			
<b><u>Passed through Logisticare Solutions, LLC.</u></b>			
Transportation Services	10/01/11-09/30/12	347,214	347,214
Total Oklahoma Health Care Authority Passed through Logisticare Solutions, LLC		<u>347,214</u>	<u>347,214</u>
 TOTAL STATE AWARDS		 \$ <u>593,969</u>	 \$ <u>593,969</u>

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskogee, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

September 30, 2012

09-1 UNTIMELY PAYMENT OF PAYROLL TAXES DUE

Condition: Payroll taxes were paid past their due date, and as a result of these late payments, the agency incurred penalties and interest charges.

Current Status: This finding can be cleared.

MUSKOGEE COUNTY TRANSIT SYSTEM  
Muskegee, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2012

None reported.