

Town of Fort Towson, 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 & OSCPA

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Fort Towson, 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 Fort Towson, 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 Town of Fort Towson, Oklahoma'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 the 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 opinions.

As discussed in Note 1, the Town of Fort Towson, Oklahoma, prepares its financial statements on the modified cash basis, 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Towson, Oklahoma as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2012, on our consideration of the Town of Fort Towson, Oklahoma'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 and a budget comparison schedule as is required by generally accepted accounting principles.

Carry G. Rouse CPA, etc.
July 16, 2012

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

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash in Bank - Unrestricted	78,005.83	120,057.63	198,063.46
Cash in Bank - Restricted	-	89,934.98	89,934.98
Accounts Receivable, net	-	-	-
Total Current Assets	<u>78,005.83</u>	<u>209,992.61</u>	<u>287,998.44</u>
PROPERTY AND EQUIPMENT			
Capital Assets, net	<u>205,663.81</u>	<u>2,965,989.78</u>	<u>3,171,653.59</u>
TOTAL ASSETS	<u>\$ 283,669.64</u>	<u>\$ 3,175,982.39</u>	<u>\$ 3,459,652.03</u>
CURRENT LIABILITIES			
Accounts Payable	-	7,454.66	7,454.66
Meter Deposits	-	23,490.97	23,490.97
Current Portion of Long Term Debt	-	27,075.95	27,075.95
Total Current Liabilities	<u>-</u>	<u>58,021.58</u>	<u>58,021.58</u>
LONG-TERM LIABILITIES			
Notes Payable	<u>-</u>	<u>1,084,815.14</u>	<u>1,084,815.14</u>
TOTAL LIABILITIES	<u>-</u>	<u>1,142,836.72</u>	<u>1,142,836.72</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	205,663.81	1,857,683.67	2,063,347.48
Restricted for Debt Service	-	30,000.00	30,000.00
Restricted for Other Purposes	-	23,490.97	23,490.97
Unrestricted	<u>78,005.83</u>	<u>121,971.03</u>	<u>199,976.86</u>
TOTAL NET ASSETS	<u>283,669.64</u>	<u>2,033,145.67</u>	<u>2,316,815.31</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 283,669.64</u>	<u>\$ 3,175,982.39</u>	<u>\$ 3,459,652.03</u>

The accompanying footnotes are an integral part of these financial statements

Town of Fort Towson
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	
Primary Government						
Governmental Activities						
General Government	69,975.78	1,208.40	-	(68,767.38)	-	(68,767.38)
Street and Alley	14,653.65	250.00	-	(14,403.65)	-	(14,403.65)
Total Governmental Activities	84,629.43	1,458.40	-	(83,171.03)	-	(83,171.03)
Business-Type Activities						
Water Department	219,747.14	204,619.01	103,050.00	-	87,921.87	87,921.87
Sewer Department	152,705.64	99,640.21	-	-	(53,065.43)	(53,065.43)
Garbage Department	53,358.45	62,788.48	-	-	9,430.03	9,430.03
Total Business-Type Activities	425,811.23	367,047.70	103,050.00	-	44,286.47	44,286.47
Total Primary Government	<u>\$ 510,440.66</u>	<u>\$ 368,506.10</u>	<u>\$ 103,050.00</u>	<u>\$ (83,171.03)</u>	<u>\$ 44,286.47</u>	<u>\$ (38,884.56)</u>
		General Revenues				
				45,972.81	-	45,972.81
				6,978.60	-	6,978.60
				6,105.70	-	6,105.70
				676.53	-	676.53
				5,465.06	-	5,465.06
				288.24	427.39	715.63
				51,238.01	(51,238.01)	-
				<u>116,724.95</u>	<u>(50,810.62)</u>	<u>65,914.33</u>
				33,553.92	(6,524.15)	27,029.77
				250,115.72	2,039,669.82	2,289,785.54
				<u>\$ 283,669.64</u>	<u>\$2,033,145.67</u>	<u>\$2,316,815.31</u>

The accompanying footnotes are an integral part of these financial statements

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

	General Fund	Special Revenue Fund	Total
ASSETS			
Cash in Bank - Unrestricted	<u>70,865.31</u>	<u>7,140.52</u>	<u>78,005.83</u>
Total Assets	<u>\$ 70,865.31</u>	<u>\$ 7,140.52</u>	<u>\$ 78,005.83</u>
NET ASSETS			
Unrestricted	<u>70,865.31</u>	<u>7,140.52</u>	<u>78,005.83</u>
TOTAL NET ASSETS	<u>70,865.31</u>	<u>7,140.52</u>	<u>78,005.83</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 70,865.31</u>	<u>\$ 7,140.52</u>	<u>\$ 78,005.83</u>

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

Net Assets Unrestricted	\$ 78,005.83
Fixed assets included in the government wide financial statements but excluded in the individual fund financial statements	<u>205,663.81</u>
Net assets per the government wide financial statements	<u>\$ 283,669.64</u>

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

	General Fund	Special Fund	Total
Revenues			
Sales Taxes	\$ 45,972.81	\$ -	\$ 45,972.81
Franchise Taxes	6,978.60	-	6,978.60
Alcoholic Beverage Taxes	6,105.70	-	6,105.70
Motor Vehicle and Gasoline Taxes	-	5,465.06	5,465.06
Cigar Tax	676.53	-	676.53
Interest Income	288.24	-	288.24
Other Revenues	<u>1,208.40</u>	<u>250.00</u>	<u>1,458.40</u>
Total Revenues	61,230.28	5,715.06	66,945.34
Expenditures			
General Government	58,174.36	-	58,174.36
Street and Alley	-	<u>14,653.65</u>	<u>14,653.65</u>
Total Expenses	<u>58,174.36</u>	<u>14,653.65</u>	<u>72,828.01</u>
Change in Net Assets Before Transfers	3,055.92	(8,938.59)	(5,882.67)
Transfers in/out	<u>42,262.09</u>	<u>8,975.92</u>	<u>51,238.01</u>
Change in Net Assets After Transfers	45,318.01	37.33	45,355.34
Beginning Net Assets	<u>25,547.30</u>	<u>7,103.19</u>	<u>32,650.49</u>
Ending Net Assets	<u>\$ 70,865.31</u>	<u>\$ 7,140.52</u>	<u>\$ 78,005.83</u>

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

Change in Net Assets, Fund Financial Statements	45,355.34
Expenditures recored as capital assets in the government wide financial statements but treated as an expense in the fund statements	6,000.00
Depreciation recorded in the governmental wide financial statements not recorded in the fund financial statements	<u>(17,801.42)</u>
Change in Net Assets per the Governmental Wide Financial Statements	<u>\$ 33,553.92</u>

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

CURRENT ASSETS	
Cash in Bank - Unrestricted	\$ 120,057.63
Cash in Bank - Restricted	89,934.98
Total Current Assets	<u>209,992.61</u>
 PROPERTY AND EQUIPMENT	
Capital Assets, net	<u>2,965,989.78</u>
 TOTAL ASSETS	 <u><u>\$ 3,175,982.39</u></u>
 CURRENT LIABILITIES	
Accounts Payable	\$ 7,454.66
Meter Deposits	\$ 23,490.97
Current Portion of Long Term Debt	27,075.95
Total Current Liabilities	<u>58,021.58</u>
 LONG-TERM LIABILITIES	
Notes Payable	<u>1,084,815.14</u>
 TOTAL LIABILITIES	 <u>1,142,836.72</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,857,118.05
Restricted for Debt Service	30,000.00
Restricted for Other Purposes	23,490.97
Unrestricted	122,536.65
TOTAL NET ASSETS	<u>2,033,145.67</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 3,175,982.39</u></u>

The accompanying footnotes are an integral part of these financial statements

Town of Fort Towson
Proprietary Funds
Statement of Activities and Changes in Net Assets - Modified Cash Basis
For the Year Ending June 30, 2012

Revenues	
Water Charges	\$ 204,619.01
Sewer Fees	99,640.21
Garbage Fees	62,788.48
Grants	103,050.00
Other Fees and Charges	427.39
Total Revenues	<u>470,525.09</u>
 Operating Expenses	
Water Department	219,747.14
Sewer Department	152,705.64
Garbage Expenses	53,358.45
Total Operating Expenses	<u>425,811.23</u>
 Change in Net Assets	 44,713.86
 Transfers in/out	 <u>(51,238.01)</u>
 Change in Net Assets	 (6,524.15)
 Beginning Net Assets	 <u>2,039,669.82</u>
 Ending Net Assets	 <u>\$ 2,033,145.67</u>

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

Cash flows from operating activities	
Receipts from customers	\$ 371,325.09
Receipts from grants	103,050.00
Payments to suppliers	(250,638.09)
Payments to employees	<u>(79,574.56)</u>
Net cash provided by operating activities	144,162.44
Cash flows from capital and related financing activities	
Principal paid on long term debt	<u>(31,303.11)</u>
Net cash flows from capital and related financing activities	(31,303.11)
Cash flows from investing activities	
Purchase of fixed assets	<u>(54,505.00)</u>
Net cash flows from investing activities	<u>(54,505.00)</u>
Net increase (decrease) in cash	58,354.33
Cash, Beginning of the Year	<u>151,638.28</u>
Cash, End of the Year	<u><u>\$ 209,992.61</u></u>
<i>Reconcilement of change in net assets to net cash provided by operations</i>	
Change in Net Assets	(6,524.15)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	149,911.33
Change in assets and liabilities	
Accounts Payable	(3,074.74)
Meter Deposits	<u>3,850.00</u>
Net cash provided by operating activities	<u><u>\$ 144,162.44</u></u>

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

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town has two component units, the Fort Towson Public Works Authority and the Fort Towson Industrial 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 and fixed assets. The proprietary funds consisted of the Fort Towson Public Works Authority and the Fort Towson Industrial Authority. As of June 30, 2012 there has been no activity in the Fort Towson Industrial 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 accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include 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 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 accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

Revenues from all sources are recognized when collected in accordance with the modified cash basis of accounting. Monies that are borrowed are recorded as liabilities.

Expenditure Recognition

Expenditures are recognized when paid. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

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

Cash and Cash Equivalents

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

Encumbrances

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

Budget

In accordance with Oklahoma Statutes, Title 68, Section 2483, 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.

GASB 34 Implementation

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

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 Fort Towson is considered a separate entity from the Fort Towson 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 Fort Towson'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 Fort Towson 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

	Beginning Balance	Increases	Decreases	Ending Balance
Town Hall and Fire Station	\$ 128,500.00	-	-	\$ 128,500.00
Nutrition Center	44,980.00	-	-	44,980.00
Library Addition	14,000.00	-	-	14,000.00
Railroad Depot	132,933.86	-	-	132,933.86
Vehicles and Equipment	132,877.30	6,500.00	-	139,377.30
Total	453,291.16			459,791.16
Accumulated Depreciation	(236,325.93)	(17,801.42)	-	(254,127.35)
Net Assets	<u>\$ 216,965.23</u>			<u>\$ 205,663.81</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 \$17,801.42 for the governmental funds was recorded.

Proprietary Funds

	Beginning Balance	Increases	Decreases	Ending Balance
Construction in Progress	\$ 3,384,504.06	-	-	\$ 3,384,504.06
Water & Sewer System	1,010,734.82	54,505.00	-	1,065,239.82
Vehicles and Equipment	158,978.14	-	-	158,978.14
Total	4,554,217.02			4,608,722.02
Accumulated Depreciation	(1,492,820.90)	(149,911.33)	-	(1,642,732.23)
Net Assets	<u>\$ 3,061,396.12</u>			<u>\$ 2,965,989.79</u>

As of June 30, 2012, the proprietary 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 \$149,911 for the proprietary funds was recorded. The water department was charged with \$100,440 and the sewer department was charged with \$49,471.

Note 4-Notes Payable

Fort Towson Public Works Authority

As of June 30, 2012, the Fort Towson Public Works Authority had six notes outstanding.

The first obligation from Rural Development has an outstanding balance of \$363,653. The original loan was for \$417,900 with an interest rate of 4.50%. Payments are due in monthly installments in the amount of \$1,898. The final payment is due August, 2040. Principal and interest paid on this obligation for the year ending June 30, 2012 was \$6,251 and \$16,524 respectively. Principal required to amortize this note till maturity is as follows:

	Principal	Interest		
2012/2013	6,546	16,229	Balance at Beginning of Year	\$ 369,904
2013/2014	6,847	15,928	Principal Paid During Year	<u>6,251</u>
2014/2015	7,161	15,614	Balance at End of Year	<u>\$ 363,653</u>
2015/2016	7,490	15,285		
2016/2017	7,834	14,941		
2017/2022	44,912	68,963		
2022/2027	56,220	57,655		
2027/2032	70,376	43,499		
2032/2037	88,097	25,778		
2037/2040	68,170	22,930		
	<u>\$ 363,653</u>	<u>\$ 296,822</u>		

The second obligation is with GMAC Commercial Mortgage and has an outstanding balance of \$51,693 as of June 30, 2012. The loan is due to mature in November, 2023 with a 5.00% interest rate. Payments are paid monthly in the amount of \$1,179 per month. Principal and interest paid on this obligation for the

year ending June 30, 2012 was \$11,209 and \$2,939, respectively. Principal required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	12,221	1,927	Balance at Beginning of Year	\$ 62,902
2013/2014	12,846	1,302	Principal Paid During Year	<u>11,209</u>
2014/2015	13,504	644	Balance at End of Year	<u>\$ 51,693</u>
2015/2016	13,122	1,026		
	<u>\$ 51,693</u>	<u>\$ 4,899</u>		

The third obligation is with Security First National Bank and has an outstanding balance of \$3,019 as of June 30, 2012. The loan is due to mature in November, 2013 with a 4.00% interest rate. Payments are paid monthly in the amount of \$226 per month. Principal and interest paid on this obligation for the year ending June 30, 2012 was \$2,907 and \$-0-, respectively. Principal required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	2,618	95	Balance at Beginning of Year	\$ 5,927
2013/2014	402	8	Principal Paid During Year	<u>2,907</u>
	<u>\$ 3,020</u>	<u>\$ 103</u>	Balance at End of Year	<u>\$ 3,020</u>

The fourth obligation is with the USDA and has an outstanding balance of \$531,989 as of June 30, 2012. The loan is due to mature in September, 2044 with a 4.50% interest rate. Payments are paid monthly in the amount of \$2,611 per month. Principal and interest paid on this obligation for the year ending June 30, 2012 was \$7,276 and \$24,056, respectively. Principal required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	7,544	23,788	Balance at Beginning of Year	\$ 539,265
2013/2014	7,891	23,441	Principal Paid During Year	<u>7,276</u>
2014/2015	8,253	23,079	Balance at End of Year	<u>\$ 531,989</u>
2015/2016	8,632	22,700		
2016/2017	9,029	22,700		
2017/2022	51,760	104,900		
2022/2027	64,793	91,867		
2027/2032	81,107	75,553		
2032/2037	101,530	55,130		
2037/2042	127,095	29,565		
2042/2045	64,356	29,640		
	<u>\$ 531,989</u>	<u>\$ 502,363</u>		

The fifth obligation is with the USDA and has an outstanding balance of \$161,537 as of June 30, 2012. The loan is due to mature in September, 2044 with a 4.50% interest rate. Payments are paid monthly in the amount of \$781 per month. Principal and interest paid on this obligation for the year ending June 30, 2012 was \$3,660 and \$5,712 respectively. Principal required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	2,070	7,302	Balance at Beginning of Year	\$ 165,197
2013/2014	2,165	7,207	Principal Paid During Year	<u>3,660</u>
2014/2015	2,264	7,108	Balance at End of Year	<u>\$ 161,537</u>
2015/2016	2,368	7,004		
2016/2017	2,477	7,004		
2017/2022	14,199	32,661		
2022/2027	17,774	29,086		
2027/2032	22,250	24,610		
2032/2037	27,852	19,008		
2037/2042	34,866	11,994		
2042/2045	33,253	22,979		
	<u>\$ 161,537</u>	<u>\$ 175,963</u>		

The water department was charged with \$19,247 of interest for the year and the sewer department was charged \$9,480.

Note 5 – Subsequent Events

Subsequent events have been evaluated through July 16, 2012, which is the date the financial statement 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 Fort Towson, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Fort Towson (the Town) as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 16, 2012. The report was qualified due to the use of 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 qualified 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 Fort Towson, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Fort Towson'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 Fort Towson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Fort Towson'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 responses. We did not audit the Town's response and, accordingly, we express no opinion on it

This report is intended for the information and use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these parties.

Casuy J. Russell CPA, cma.

July 16, 2012

Schedule of Findings and Responses

2012-1 Utility Billing Collections (Lack of Segregation of Duties) (Repeat Finding)

CONDITION: The utility billings clerk collects the payments from customers and also maintains the customer ledgers. The billings clerk also accepts cash payments but no reconciliation of cash payments have been made. The billings clerk also maintains a daily payment ledger however not all cash payments have been reflected on these ledgers. The daily collections and reports are reviewed by the Town Clerk/Treasurer but the Town Clerk/Treasurer is also reconciling the bank statements.

CRITERIA: There should be more separation of duties for record keeping and utility billings collections.

CAUSE OF CONDITION: Limited Staff and inadequate internal controls.

EFFECT OF CONDITION: The Town is vulnerable to having utility billing receipts lost or stolen.

RECOMMENDATION: The Town should implement a policy of not accepting cash payments at Town hall. The Town could also implement more internal controls by having more separation of duties. This could be done by having the personnel write receipts for all payments made regardless of type and then recording these payments on the daily payment ledger. All payments, receipts, and a copy of the daily payment ledger should be given directly to the Treasurer at the end of the day. The Utility Billings clerk should then take the original daily payment ledger to record the payments in the system. Once all payments have been recorded in the system, the billings clerk should print off a payment listing from the system as well as a daily adjustment history to insure that no unnecessary adjustments have been paid. These reports along with the original daily payment ledger should be given to the Treasurer who should then compare the total payments and receipts written to the daily payment ledger, daily payment listing from system, and daily adjustment history. Once the Treasurer has performed a comparison she should then prepare a deposit slip to be taken to the bank. The Treasurer should then staple all documents as well as a carbon copy of the deposit slip together and give these documents back to the Utilities Billing Clerk. When the Treasurer returns from the bank she should give the bank deposit receipt to the Billings Clerk who should then compare the receipt to the previous documents given to her by the Treasurer.

MANAGEMENT RESPONSE: The above referenced procedures are acceptable to the Town of McLoud and will be implemented. When the Town changes software programs for all departments to post to the fund accounting, the time spent on entries and receipting will be reduced.