

City of Maud, Oklahoma

Financial Statements and Independent Auditor's Report Thereon

As of and for the year ending June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Maud, 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 City of Maud, Oklahoma (the City) as of the and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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 that our audit provides a reasonable basis of our opinion.

The City 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.

The City of Maud has not maintained adequate accounting records for capital assets and related accumulated depreciation. Therefore, we were unable to form an opinion regarding the amounts at which governmental and business-type activities capital assets are recorded in the accompanying statement of net assets at June 30, 2012, (\$219,173 and \$1,280,000, respectively), or the amount of depreciation charged on those capital assets (\$-0- and \$-0-, respectively).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the accounting records concerning capital assets for the governmental and business-type activities, and the related depreciation thereon been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, and major priority fund of the City as of June 30, 2012, and the respective changes in financial position - modified cash basis and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note II.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering 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.



Cary J. Farrell, CPA, Inc.

July 13, 2012

City of Maud, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash and Cash Equivalents	152,665.49	8,931.35	161,596.84
Restricted - Cash and Cash Equivalents	-	25,740.86	25,740.86
Total Current Assets	<u>152,665.49</u>	<u>34,672.21</u>	<u>187,337.70</u>
NONCURRENT ASSETS			
Net Capital Assets	219,172.87	1,280,000.51	1,499,173.38
Total Noncurrent Assets	<u>219,172.87</u>	<u>1,280,000.51</u>	<u>1,499,173.38</u>
TOTAL ASSETS	<u>\$ 371,838.36</u>	<u>\$ 1,314,672.72</u>	<u>\$ 1,686,511.08</u>
CURRENT LIABILITIES			
Meter Deposits	-	6,983.76	6,983.76
Total Current Liabilities	<u>-</u>	<u>6,983.76</u>	<u>6,983.76</u>
NONCURRENT LIABILITIES			
Notes Payable	111,208.20	431,700.00	542,908.20
Total Noncurrent Liabilities	<u>111,208.20</u>	<u>431,700.00</u>	<u>542,908.20</u>
TOTAL LIABILITIES	<u>111,208.20</u>	<u>438,683.76</u>	<u>549,891.96</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	107,964.67	848,300.51	956,265.18
Restricted for Debt Service	-	25,740.86	25,740.86
Unrestricted	152,665.49	1,947.59	154,613.08
TOTAL NET ASSETS	<u>260,630.16</u>	<u>875,988.96</u>	<u>1,136,619.12</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 371,838.36</u>	<u>\$ 1,314,672.72</u>	<u>\$ 1,686,511.08</u>

City of Maud, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Fund
Revenues			
Taxes	\$ 158,643.12	\$ 95,547.94	\$ 254,191.06
Charges for Services	-	1,595.83	1,595.83
Fines and Forfeitures	66,441.62	176.24	66,617.86
Other Revenues	128,844.02	3,750.66	132,594.68
Grant Revenues	-	450.00	450.00
Total Revenues	353,928.76	101,520.67	455,449.43
Expenditures			
Personnel Services	93,593.43	-	93,593.43
Maintenance and Operations	140,067.98	27,904.34	167,972.32
Other Services	28,857.44	11,963.50	40,820.94
Debt Service	29,633.30	-	29,633.30
Capital Outlay	-	12,000.00	12,000.00
Total Expenses	292,152.15	51,867.84	344,019.99
Excess Revenues over Expenses	61,776.61	49,652.83	111,429.44
Other Financing Sources and Uses			
Transfers In/Out	(70,760.48)	(26,183.41)	(96,943.89)
Total Other Financing Sources and Use	(70,760.48)	(26,183.41)	(96,943.89)
Net Change in Fund Balances	(8,983.87)	23,469.42	14,485.55
Fund Balances, Beginning	76,832.00	61,347.94	138,179.94
Fund Balances, Ending	\$ 67,848.13	\$ 84,817.36	\$ 152,665.49

***Reconciliation of the 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 Governmental Funds</i>	14,485.55
<i>Monies expended for capital assets recorded as an expense in the fund statements</i>	12,000.00
<i>Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.</i>	29,633.30
<i>Change in Net Assets per the Governmental Wide Financial Statements</i>	\$ 56,118.85

City of Maud, Oklahoma
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Fund
ASSETS			
Cash and Cash Equivalents	\$ 67,848.13	\$ 84,817.36	\$ 152,665.49
Total Assets	\$ 67,848.13	\$ 84,817.36	\$ 152,665.49
 LIABILITIES			
 NET ASSETS			
Unassigned	67,848.13	-	67,848.13
Restricted	-	83,356.63	83,356.63
Committed	-	1,460.73	1,460.73
Total Net Assets	67,848.13	84,817.36	152,665.49
 TOTAL LIABILITIES AND NET ASSETS	\$ 67,848.13	\$ 84,817.36	\$ 152,665.49

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

Total Governmental Net Assets	152,665.49
 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.	219,172.87
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(111,208.20)
Net assets per the government wide financial statements	\$ 260,630.16

City of Maud, Oklahoma
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	8,931.35
Restricted - Cash and cash equivalents	<u>25,740.86</u>
Total Current Assets	34,672.21

NONCURRENT ASSETS

Net Capital Assets	<u>1,280,000.51</u>
Total Noncurrent Assets	1,280,000.51

TOTAL ASSETS	<u>\$ 1,314,672.72</u>
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LIABILITIES

CURRENT LIABILITIES

Meter Deposits	<u>6,983.76</u>
Total Current Liabilities	<u>6,983.76</u>

NONCURRENT LIABILITIES

Notes Payable	<u>431,700.00</u>
Total Noncurrent Liabilities	431,700.00

TOTAL LIABILITIES	<u>438,683.76</u>
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NET ASSETS

Restricted for Debt Service	25,740.86
Unrestricted	<u>850,248.10</u>
TOTAL NET ASSETS	<u>875,988.96</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,314,672.72</u>
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City of Maud, Oklahoma
Proprietary Funds
Statement of Activities and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012

Revenues	
Water	\$ 153,893.66
Sewer	78,028.55
Garbage	84,224.00
Miscellaneous Revenue	<u>25,388.64</u>
Total Revenues	<u><u>341,534.85</u></u>
Operating Expenses	
Personnel Services	133,391.98
Maintenance and Operations	223,426.86
Other Services	10,938.25
Interest Expense	<u>20,901.43</u>
Total Operating Expenses	<u><u>388,658.52</u></u>
Change in Net Assets before Transfers	(47,123.67)
Transfers In/Out	<u>96,943.89</u>
Change in Net Assets	<u><u>49,820.22</u></u>
Beginning Net Assets	<u>826,168.74</u>
Ending Net Assets	<u><u>\$ 875,988.96</u></u>

City of Maud, Oklahoma
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2012

Cash flows from operating activities	
Receipts from customers	\$ 341,534.85
Payments to employees	(133,391.98)
Payments to suppliers	<u>(158,322.65)</u>
Net cash provided by operating activities	49,820.22
Cash flows from capital and related financing activities	
Change in meter deposits	4,059.22
Purchase of Fixed Assets	(17,826.58)
Increase (decrease) in interfund receivables/payables	(1,425.98)
Principal paid on debt owed	<u>(44,000.00)</u>
Net cash flows from capital and related financing activities	(59,193.34)
Net increase (decrease) in cash	(9,373.12)
Cash, Beginning of the Year	<u>44,045.33</u>
Cash, End of the Year	<u><u>\$ 34,672.21</u></u>

*Reconciliation of operating income (loss) to net cash provided (used)
by operating activities:*

Change in Net Assets	49,820.22
Adjustments to reconcile change in net assets to net cash provided	
Increase (decrease) in accrued liabilities	-
Increase (decrease) in accounts payable	-
Net cash provided by operating activities	<u><u>\$ 49,820.22</u></u>

City of Maud, Oklahoma
Notes to Financial Statements
June 30, 2012

I. Organization

The City of Maud, Oklahoma (the City) operates under the aldermanic form of government. The City provides the following services to its citizens; public safety (police and fire), streets and highways, sanitation, culture and recreation, utilities and general administrative services.

II. Summary of Significant Accounting Policies

As discussed further, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board, (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied to the extent they are applied, to the extent they are applicable to the modified cash basis of accounting, unless these pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended component units. The Maud Municipal Authority (the MMA) serves all the citizens of the City and is governed by a board appointed by the City's elected board of trustees. The rates for user charges and debt authorizations are approved by the City's board of trustees. The MMA has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate utility facilities whether water, sewer, gas, electric, or other forms or types of public and municipal services within and without the corporate boundaries of the City. The MMA is reported as an enterprise fund.

Separate financial statements have not been prepared for the component unit.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from

these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. Revenues are recorded when received and expenses when paid, with exception of proceeds from long term debt which is recorded as a liability, and capital assets acquired, which are capitalized, with a provision for depreciation.

In the fund financial statements, the current financial resources measurement focus, as applied to the modified cash basis of accounting, is used for governmental funds, while the economic resources measurement focus is used for proprietary funds. The current financial resources measurement focus includes only current financial assets and liabilities on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed and provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the proprietary funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue fund is comprised of the Cemetery and Street & Alley Fund.

The City reports the following major proprietary funds:

The Maud Municipal Authority accounts for the City's water, wastewater and sanitation utility operations.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Maud Municipal Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Deposits and Investments Risk

At June 30, 2012, the City and MMA held the following deposits and investments:

General Fund and Special Revenue Funds	\$ 152,665
MMA	\$ 34,672

Custodial Credit Risk

Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists

when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

The City's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, Surety bonds, and letters of credit. AS required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2012, the City's deposits were sufficiently insured or secured.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be "cash equivalents."

E. Risk Management

The City and its public trusts are exposed to various risks of loss related to torts; theft or, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

E. Transfers In/Out

The City periodically transfers monies and or resources between funds. The purpose of these transfers is operational efficiency and on an as needed basis for certain funds.

F. Net Assets

The Net Assets presented on the Governmental Funds Balance Sheet – Modified Cash Basis is presented in three categories, Unassigned, Restricted and Committed.

Unassigned net assets is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the general fund.

Restricted net assets are restricted to specific purposes. These restrictions are imposed on the City by external creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed net assets are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making

authority. The City Council of the Town of Maud is the highest level of decision-making for the City of Maud, Oklahoma.

III. Notes Payable

Maud Municipal Authority

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to MMA, and their outstanding balances at June 30, 2010, include the following:

Revenue Bonds Payable

Maud Municipal Authority Utility System and Sales Tax Revenue Note due in monthly principal installments of \$2,400 to \$5,300 and interest paid monthly through June 2020. The interest on this obligation is 4.587%. The outstanding balance as of June 30, 2012 was \$431,700. Collateral for this obligation is sales taxes, system revenues and assets. Principal maturities are as follows:

	<u>Principal</u>	<u>Interest</u>		
2013	46,100	18,840	Beginning Balance	\$ 475,700
2014	48,100	16,685	Principal Paid	<u>(44,000)</u>
2014	50,300	14,433	Ending Balance	<u>\$ 431,700</u>
2016	52,500	12,078		
2017	54,800	9,622		
2018-2020	179,900	12,991		
	<u>\$ 431,700</u>	<u>\$ 84,649</u>		

Principal and interest paid on this obligation respectively during the year ending June 30, 2012 was \$44,000 and \$20,901.

City of Maud

Note Payable

The Maud Municipal Authority has an obligation outstanding as part of the Community Development Block Grant Program. The balance as of June 30, 2012 was \$56,719 and calls for monthly payments of \$468.75 with -0- interest. The obligation will mature June 2022. The obligation is collateralized by water and wastewater revenues. Principal paid on this obligation for the year ending June 30, 2012 was \$5,625.

	<u>Principal</u>	<u>Interest</u>		
2013	5,625	-	Beginning Balance	\$ 62,344
2014	5,625	-	Principal Paid	<u>(5,625)</u>
2015	5,625	-	Ending Balance	<u><u>\$ 56,719</u></u>
2016	5,625	-		
2017	5,625	-		
2018-2022	28,594	-		
	<u>\$ 56,719</u>	<u>-</u>		

The City also has a note payable outstanding for the purchase of equipment. The note balance at June 30, 2012 was \$14,589 and carries an interest rate of 8% with annual payments of \$4,232. Collateral for this obligation is the equipment that was purchased. Principal required to amortize this loan is as follows:

	<u>Principal</u>	<u>Interest</u>		
2013	2,781	1,452	Beginning Balance	\$ 17,118
2014	3,057	1,175	Principal Paid	<u>(2,529)</u>
2014	8,751	871	Ending Balance	<u><u>\$ 14,589</u></u>
	<u>\$ 14,589</u>	<u>\$ 3,498</u>		

Principal and interest paid on this obligation for the year ending June 30, 2012 was \$2,527 and \$1,703.

The City has a capital lease payable outstanding for the purchase of equipment. The lease balance at June 30, 2012 was \$39,901 and carries an interest rate of 3.99% with annual payments of \$21,152. Collateral for this obligation is the equipment that was purchased. Principal required to amortize this loan is as follows:

	<u>Principal</u>	<u>Interest</u>		
2013	19,560	1,595	Beginning Balance	58,710
2014	20,341	812	Principal Paid	<u>(18,809)</u>
	<u>\$ 39,901</u>	<u>\$ 2,407</u>	Ending Balance	<u><u>\$ 39,901</u></u>

IV. Inter-fund Receivables and Payables

The City has accumulated inter-fund receivables and payables due to certain funds paying expenses for other funds, revenues or expenses being recorded in the wrong fund. Management

anticipates that the assets and or obligations will be relieved either by cash payment from one fund to another or by transferring the balance.

V. Capital Assets

The City historically has not capitalized its fixed asset purchases in its governmental funds and not all capital asset purchases in the MMA have been capitalized. During the year ending June 30, 2012 the MMA made improvements to its utility systems of \$17,826. The MMA does not record depreciation. Assets purchased for use in City operations totaled \$12,000.

VI. Subsequent Events

Subsequent events have been evaluated through July 7, 2012, which is the date the financial statements were available to be issued.

Casey J. Russell CPA, Inc.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
City of Maud, 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 City of Maud, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated July 13, 2012. The report on the City of Maud was qualified because the financial statements were prepared using the modified cash basis of accounting. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Maud, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Maud, Oklahoma'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 the City of Maud, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Maud, Oklahoma'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, describe in the accompanying schedule of current findings and responses that we consider to be significant deficiencies in internal control over financial reporting. Findings 2012-1, 2012-2 and 2013-3. 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 City'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*.

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


July 13, 2012

Schedule of Findings and Responses - Unresolved

2012-1 Fixed Asset Records (Repeat Finding)

CONDITION: During our review of the fixed asset subsidiary records, we noted that the City does not have formalized procedures tracking equipment items or providing supporting documentation for the costs of the assets on the financial statements.

CRITERIA: Generally accepted accounting principles requires the maintaining of detailed fixed asset record that can be easily reconciled to the financial statements.

CAUSE OF CONDITION: The City has limited resources to research the required documentation. The City also has failed to adopt an established set of procedures related to the tracking of all equipment items.

EFFECT OF CONDITION: The fixed asset balance is not verifiable.

RECOMMENDATION: The City should research the historic costs to be able to produce a verifiable listing of fixed assets.

MANAGEMENT RESPONSE: Due to staff turnover, we have been unable to find the time to properly track assets. However, work loads are currently being divided to allow additional time to be able to work on this situation.

2012-2 Ticket Revenue (Lack of Segregation of Duties) (Repeat Finding)

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

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

CAUSE OF CONDITION: Limited Staff and inadequate internal controls.

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

RECOMMENDATION: The City should implement a policy of not accepting cash payments at City hall. The City 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 ticket payment ledger. All payments, receipts, and a copy of the daily ticket payment ledger should be given directly to the City Clerk/Treasurer at the end of the day. The deputy court 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 deputy court 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, the deputy court clerk should also prepare the deposit slip at this time and retain the carbon copy. These reports along with the original daily ticket payment ledger and original of the deposit slip 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. The Treasurer should then staple all documents together and give these back to the court clerk. When the Treasurer returns from the bank she should give the bank deposit receipt to the court clerk who should compare the receipt to the previous documents given to her by

the Treasurer and also compare the carbon copy of the deposit slip to the bank deposit receipt. The Court clerk should then staple everything together and maintain for the audit files.

MANAGEMENT RESPONSE: The above referenced procedures are acceptable to the City of Maud and will be implemented. When the City changes software programs for all departments to post to the fund accounting, the time spent on entries and receipting will be reduced and more significant internal controls will be in place to reduce the lack of segregation of duties.

2012-3 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. The daily collections and reports are reviewed by the City Clerk /Treasurer but the City 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 City is vulnerable to having utility billing receipts lost or stolen.

RECOMMENDATION: The City should implement a policy of not accepting cash payments at City hall. The City 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 City Clerk /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 City Clerk /Treasurer has performed a comparison she should then prepare a deposit slip to be taken to the bank. The City Clerk/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 City Clerk /Treasurer.

MANAGEMENT RESPONSE: The above referenced procedures are acceptable to the City of Maud and will be implemented. When the City changes software programs for all departments to post to the fund accounting, the time spent on entries and receipting will be reduced and more significant internal controls will be in place to reduce the lack of segregation of duties.