

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Bernice, Oklahoma
June 30, 2012**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
918.256.6788**

**Town of Bernice, Oklahoma
Town Officials
June 30, 2012**

Board of Trustees

Mayor

Bill Raven

Member

Roberta Hamm

Member

Clinton Brewster

Member

Kristi Murphy

Treasurer

Connie King

Clerk

Shannon Furnish

Town of Bernice, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Bernice, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bernice, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Bernice, 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 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.

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 and each fund of the Town of Bernice, Oklahoma as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013, on our consideration of the Town of Bernice, 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 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.

The Town of Bernice, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Bernice, Oklahoma's financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, 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.

TURNER & ASSOCIATES, PLC

Vinita, OK
March 7, 2013



**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 Town Council
Town of Bernice, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the Town of Bernice, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town of Bernice, Oklahoma's basic financial statements and have issued our report thereon dated March 7, 2013. The Town of Bernice, Oklahoma did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. 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

In planning and performing our audit, we considered the Town of Bernice, 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 Town of Bernice, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Bernice, Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. These deficiencies are listed as items 2012-1 and 2012-2.

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. We consider the deficiencies described in the accompany schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bernice, Oklahoma'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 two instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*. These noncompliance issues are listed as items 2012-3 and 2012-4.

We noted certain matters that we reported to management of the Town of Bernice, Oklahoma, in a separate letter dated March 7, 2013.

The Town of Bernice, Oklahoma'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 solely for the information and use of management, Town Council, Oklahoma State Auditor, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & Associates, PLLC

Vinita, OK
March 7, 2013

Town of Bernice, Oklahoma
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 140,244.56	\$ 178,601.69	\$ 318,846.25
Investments	361,550.18	82,018.17	443,568.35
Deposit with Third Party Administrator	61,108.47	-	61,108.47
Accounts Receivable	-	20,894.84	20,894.84
Other Receivable	-	15,555.00	15,555.00
Due from Other Governments	65,342.18	-	65,342.18
Prepaid Insurance	5,282.91	1,788.76	7,071.67
Inventory	-	5,000.00	5,000.00
Total Current Assets	633,528.30	303,858.46	937,386.76
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	-	35,144.19	35,144.19
Capital Assets:			
Non-depreciable	933,443.05	289,614.58	1,223,057.63
Depreciable	78,915.45	-	78,915.45
Total Capital Assets, net	1,012,358.50	289,614.58	1,301,973.08
Total Noncurrent Assets	1,012,358.50	324,758.77	1,337,117.27
TOTAL ASSETS	1,645,886.80	628,617.23	2,274,504.03
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,781.45	43,277.77	47,059.22
Deferred Revenue	8,550.00	-	8,550.00
Other Accrued Payables	447.98	804.12	1,252.10
Current Portion of Notes Payable	-	27,277.22	27,277.22
Current Portion of Capitalized Lease Obligation	30,557.87	-	30,557.87
Total Current Liabilities	43,337.30	71,359.11	114,696.41
Noncurrent Liabilities:			
Payable from Restricted Assets:			
Meter Deposits Payable	-	14,607.25	14,607.25
Notes Payable	-	78,102.66	78,102.66
Capital Lease Obligation	32,210.10	-	32,210.10
Total Noncurrent Liabilities	32,210.10	92,709.91	124,920.01
TOTAL LIABILITIES	75,547.40	164,069.02	239,616.42
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	949,590.53	262,337.36	1,211,927.89
Restricted	61,108.47	20,536.94	81,645.41
Unrestricted	559,640.40	181,673.91	741,314.31
TOTAL NET ASSETS	\$ 1,570,339.40	\$ 464,548.21	\$ 2,034,887.61

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Town Clerk/Treasurer	\$ 20,265.65	\$ -	\$ -	\$ -	\$ (20,265.65)
Maintenance and Operation	57,832.86	-	-	-	(57,832.86)
Total General Government	78,098.51	-	-	-	(78,098.51)
Public Safety and Judiciary:					
Animal Control	4,380.84	85.00	-	-	(4,295.84)
Emergency Medical Service	1,563.50	-	-	-	(1,563.50)
Fire	95,586.89	13,720.00	7,995.44	-	(73,871.45)
Municipal Court	22,455.55	-	-	-	(22,455.55)
Police	90,777.66	39,902.50	-	-	(50,875.16)
Town Attorney	32,882.12	-	-	-	(32,882.12)
Total Public Safety and Judiciary	247,646.56	53,707.50	7,995.44	-	(185,943.62)
Transportation:					
Street and Alley	6,296.94	-	-	-	(6,296.94)
Parks and Recreation:					
Community Center	8,735.25	-	-	-	(8,735.25)
Total Parks and Recreation	8,735.25	-	-	-	(8,735.25)
Total Governmental Activities	340,777.26	53,707.50	7,995.44	-	(279,074.32)
Business-Type Activities:					
Water	183,182.24	159,092.04	-	-	(24,090.20)
Total Business-Type Activities	183,182.24	159,092.04	-	-	(24,090.20)
Total	\$ 523,959.50	\$ 212,799.54	\$ 7,995.44	\$ -	\$ (303,164.52)

(continued)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Changes in Net Asset:			
Net (Expense)/Revenue	\$ (279,074.32)	\$ (24,090.20)	\$ (303,164.52)
General Revenues:			
Taxes:			
Sales and Use Taxes	249,718.47	-	249,718.47
Franchise and Public Service Taxes	12,065.62	-	12,065.62
Motor Vehicle Collections	3,241.59	-	3,241.59
Alcoholic Beverage Tax	5,659.61	-	5,659.61
Gasoline Tax	1,407.54	-	1,407.54
Occupation Tax	861.27	-	861.27
Tobacco Tax	2,650.65	-	2,650.65
Investment Income	4,822.95	1,431.03	6,253.98
Rental or Lease of Property	5,093.67	-	5,093.67
Miscellaneous	2,919.50	-	2,919.50
Total General Revenues and Transfers	288,440.87	1,431.03	289,871.90
Change in Net Assets	9,366.55	(22,659.17)	(13,292.62)
Net Assets, Beginning of Year	1,560,972.85	487,207.38	2,048,180.23
Net Assets, End of Year	\$ 1,570,339.40	\$ 464,548.21	\$ 2,034,887.61

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2012

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 140,244.56
Investments	361,550.18
Deposit with Third Party Administrator	61,108.47
Due from Other Governments	65,342.18
Prepaid Insurance	5,282.91
Total Assets	<u><u>\$ 633,528.30</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 3,781.45
Deferred Revenue	8,550.00
Other Accrued Payables	447.98
Total Liabilities	<u>12,779.43</u>
Fund Balance:	
Nonspendable	5,282.91
Assigned	61,108.47
Unassigned	554,357.49
Total Fund Balance	<u>620,748.87</u>
Total Liabilities and Fund Balance	<u><u>\$ 633,528.30</u></u>
 <u>Reconciliation to the Statement of Net Assets</u>	
Total Governmental Funds Balance	620,748.87
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 as assets in governmental funds. The cost of the assets is \$1,386,312.01 and the accumulated depreciation is \$373,953.51 for a net book value of \$1,012,358.50.	1,012,358.50
Long-term liabilities, including capitalized lease obligations, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Capitalized Lease Obligations Payable	(62,767.97)
Net Assets of Governmental Activities	<u><u>\$ 1,570,339.40</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2012

	<u>General Fund</u>
Revenues:	
Taxes	\$ 275,604.75
Grants	4,412.77
Charges for Services	53,707.50
Rental or Lease of Property	5,093.67
Investment Income	4,822.95
Donations	3,582.67
Miscellaneous	2,919.50
Total Revenues	<u>350,143.81</u>
Expenditures:	
General Government	
Town Clerk/Treasurer	20,265.65
Maintenance and Operation	52,314.62
Capital Outlay - General Government	1,886.99
Public Safety and Judiciary	
Animal Control	4,380.84
Emergency Medical Service	499.96
Fire	43,252.07
Capital Outlay - Fire	37,118.16
Municipal Court	22,455.55
Police	84,712.36
Capital Outlay - Police	24,000.00
Town Attorney	32,882.12
Transportation	
Street and Alley	824.86
Capital Outlay - Street and Alley	3,147.03
Parks and Recreation	
Community Center	4,173.72
Total Expenditures	<u>331,913.93</u>
Excess (Deficit) of Revenues over Expenditures	18,229.88
Fund Balance, Beginning of Year	<u>602,518.99</u>
Fund Balance, End of Year	<u>\$ 620,748.87</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2012

Net Change in Fund Balances - Governmental Funds	\$	18,229.88
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Capital asset purchases capitalized		26,787.00
Depreciation expense		(64,821.77)

Disposal of Assets		-
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statements.

Capital lease obligation principal payments		29,171.44
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Change in Net Assets of Governmental Activities	\$	9,366.55
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Net Assets – Proprietary Fund
June 30, 2012

	Public Works Authority <u>Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 178,601.69
Investments	82,018.17
Accounts Receivable	20,894.84
Other Receivable	15,555.00
Prepaid Insurance	1,788.76
Inventory	5,000.00
Total Current Assets	<u>303,858.46</u>
Noncurrent Assets:	
Restricted Assets:	
Cash and Cash Equivalents	35,144.19
Capital Assets:	
Property, Plant and Equipment, net	<u>289,614.58</u>
Total Noncurrent Assets	<u>324,758.77</u>
TOTAL ASSETS	<u><u>628,617.23</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	43,277.77
Other Accrued Payables	804.12
Current Portion of Notes Payable	<u>27,277.22</u>
Total Current Liabilities	<u>71,359.11</u>
Noncurrent Liabilities:	
Payable from Restricted Assets:	
Meter Deposits Payable	14,607.25
Notes Payable	<u>78,102.66</u>
Total Noncurrent Liabilities	<u>92,709.91</u>
TOTAL LIABILITIES	<u><u>164,069.02</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	184,234.70
Restricted	20,536.94
Unrestricted	<u>259,776.57</u>
TOTAL NET ASSETS	<u><u>\$ 464,548.21</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds
For the Year Ended June 30, 2012

	Public Works Authority <u>Enterprise Fund</u>
Operating Revenues	
Charges for Services - Water	<u>\$ 159,092.04</u>
Operating Expenses	
Chemicals	41,714.65
Contract Labor	27,602.00
Dues	3,893.39
Depreciation	23,595.78
Insurance	4,520.20
Lab Tests	2,203.00
Maintenance and Repairs	12,974.91
Miscellaneous	4,216.98
Office Supplies	353.97
Payroll Taxes	3,355.50
Professional Fees	16,546.92
Rent	1,932.45
Salaries	14,115.82
Utilities	13,070.11
Total Operating Expenses	<u>170,095.68</u>
Operating Income (Loss)	<u>(11,003.64)</u>
Non-Operating Revenues (Expenses)	
Interest Income	1,431.03
Interest Expense	(5,319.71)
Loss on Disposal of Asset	(7,766.85)
Total Non-Operating Revenues (Expenses)	<u>(11,655.53)</u>
Net Income (Loss)	(22,659.17)
Net Assets, Beginning of Year	<u>487,207.38</u>
Net Assets, End of Year	<u><u>\$ 464,548.21</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2012

	Public Works Authority <u>Enterprise Fund</u>
Cash Flows from Operating Activities	
Cash Inflows:	
Payments Received from Customers	\$ 144,434.32
Total Cash Provided	<u>144,434.32</u>
Cash Outflows:	
Payments for Salaries and Benefits	16,667.20
Payments for Goods and Services	87,448.44
Meter Deposits Refunded	<u>17.75</u>
Total Cash Used	<u>104,133.39</u>
Net Cash Provided (Used) by Operating Activities	<u>40,300.93</u>
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Capital Debt	(17,402.01)
Interest Paid on Capital Debt	<u>(5,538.29)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(22,940.30)</u>
Cash Flows from Investing Activities	
Purchase of Capital Assets	(7,744.69)
Loss on Disposal of Asset	(11,650.31)
Interest Received	<u>523.87</u>
Net Cash Provided (Used) by Investing Activities	<u>(18,871.13)</u>
Net Cash Inflow (Outflow) from All Activities	(1,510.50)
Cash and Cash Equivalents, Beginning of Year	<u>215,256.38</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 213,745.88</u></u>
Cash and Cash Equivalents	
Unrestricted	\$ 183,946.63
Restricted	<u>29,799.25</u>
	<u><u>\$ 213,745.88</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Bernice, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2012

	Public Works Authority <u>Enterprise Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ (11,003.64)
Depreciation	23,595.78
(Increase) Decrease in:	
Accounts Receivable	897.28
Other Receivable	(15,555.00)
Prepaid Insurance	(262.80)
Increase (Decrease) in:	
Accounts Payable	41,842.94
Other Accrued Payables	804.12
Meter Deposits Payable	<u>(17.75)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 40,300.93</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town's financial statements.

The municipal government of the Town of Bernice ("Town") is organized under the statutory Town Board of Trustees form of government, as outlined in 11 O.S. § 12-101. The Town is governed by the Town Board of Trustees (Town Board), which consists of five members – called town trustees – who are elected at large but who live in five respective wards. The Town Board elects one of its members to serve as mayor. The town clerk-treasurer is also elected at large.

The Bernice Public Works Authority (BPWA) is a public trust established by 60 O.S. § 176. The BPWA operates a utility service that provides water service to the residents of Bernice. As provided for by the BPWA's trust indenture, the members of the Town Board serve ex officio as the trustees of the BPWA.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government: Town of Bernice

Blended Component Unit: Bernice Public Works Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

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

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Blended Component Units

Component units that are blended into the reporting activity types of the Town's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Bernice Public Works Authority	Created to finance, develop and operate the water services activities. The current Town Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the Town Council.	Enterprise Fund

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements and financial statements of component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, other taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Deposits with Third-Party Administrator

Certain sales tax revenues designated for the Fire Department are received and disbursed by the Delaware County Clerk. The cash balance as of June 30, 2012 was \$61,108.47.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use taxes, and franchise taxes. Business-type activities report water charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Other Receivables

Other receivables consist of the insurance recovery check received by the town for the replacement of the water pump that was struck by lightning at the end of June 2012.

Inventory

Inventory items are recorded at average cost, which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Equity (continued)

Capital Assets (continued)

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fixed assets are defined by the Town as assets with an initial, individual cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The range of estimated useful lives by type of asset is as follows:

Buildings	50-80 years
Improvements	20 years
Machinery and Equipment	5-50 years
Utility System	40 years
Infrastructure	20 years
Parks	50-100 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the promissory notes with RDA require that funds be held in a reserve account. Under the terms and provisions of the promissory notes, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits which are refundable to the customer.

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Equity (continued)

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, 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 limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

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

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Equity (continued)

Equity Classifications (continued)

Net Assets/Fund Balance (continued)

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The Town's Board of Trustees is the highest level of decision making authority of the Town.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the Town considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

D. Revenues, Expenditures, and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the Town in July and August have been accrued and are included under the caption "Due from other governments."

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

I. Summary of Significant Accounting Policies (continued)

D. Revenues, Expenditures, and Expenses (continued)

Use Tax

The Town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments."

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Deferred Revenue

Deferred revenue for the town consists of monies received for fire dues for the 2012-13 fiscal year.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

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

II. Stewardship, Compliance and Accountability (continued)

A. Fund Accounting Requirements

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Utility Authority Fund	Trust Indenture

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., all deposits were fully insured or collateralized.

C. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Special Sales Tax	Fire Department Purposes
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water Revenue	Debt Service and Utility Operations

For the year ended June 30, 2012, the Town complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2012, the Town had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2012, the Town incurred no such indebtedness.

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

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants (continued)

Notes Payable

The various loan agreements relating to the notes payable issuances of Bernice Public Works Authority contain some financial restrictions or covenants. These include covenants such as the required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2012.

<u>Requirement</u>	<u>Level of Compliance</u>
Reserve Account Requirement (RDA Loan Agreements) Account balance should be equal to \$15,192.00 or 12 months of debt service payments.	Account balance at June 30, 2012 is \$20,536.94.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2012.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments

Town policy for eligible investments is governed by State statutes which, in general, allow the Town to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits are maintained in financial institutions. As of June 30, 2012, \$259,370.32 of the Town's deposits was exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Detailed Notes on Transaction Classes/Accounts (continued)

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Public Works Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2012 are as follows:

Meter Deposits	\$ 14,607.25
Reserve Accounts	<u>20,536.94</u>
Total	<u><u>\$ 35,144.19</u></u>

C. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, alcoholic beverage tax, and grants receivable. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2012 is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts Receivable	<u>\$ 65,342.18</u>	<u>\$ 20,894.84</u>	<u>\$ 86,237.02</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Detailed Notes on Transaction Classes/Accounts (continued)

D. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 78,915.45	\$ -	\$ -	\$ 78,915.45
	<u>78,915.45</u>	<u>-</u>	<u>-</u>	<u>78,915.45</u>
Depreciable assets:				
Parks	20,689.50	-	-	20,689.50
Buildings/Improvements	418,765.64	-	-	418,765.64
Machinery and Equipment	841,154.42	26,787.00	-	867,941.42
	<u>1,280,609.56</u>	<u>26,787.00</u>	<u>-</u>	<u>1,307,396.56</u>
Total	<u>1,359,525.01</u>	<u>26,787.00</u>	<u>-</u>	<u>1,386,312.01</u>
Accumulated Depreciation:				
Parks	(345.79)	(206.90)	-	(552.69)
Buildings/Improvements	(62,123.11)	(9,838.77)	-	(71,961.88)
Machinery and Equipment	(246,662.84)	(54,776.10)	-	(301,438.94)
	<u>(309,131.74)</u>	<u>(64,821.77)</u>	<u>-</u>	<u>(373,953.51)</u>
Depreciable assets, net	<u>971,477.82</u>	<u>(38,034.77)</u>	<u>-</u>	<u>933,443.05</u>
Net Capital Assets	<u>\$ 1,050,393.27</u>	<u>\$ (38,034.77)</u>	<u>\$ -</u>	<u>\$ 1,012,358.50</u>
Business-Type Activities:				
Depreciable assets:				
Water System	\$ 807,738.85	\$ 19,395.00	\$ 11,650.31	\$ 815,483.54
Buildings	3,580.50	-	-	3,580.50
Equipment	12,002.00	-	-	12,002.00
Furniture and Fixtures	7,270.52	-	-	7,270.52
Total	<u>830,591.87</u>	<u>19,395.00</u>	<u>11,650.31</u>	<u>838,336.56</u>
Accumulated Depreciation:				
Water System	(514,290.48)	(22,249.87)	(3,883.46)	(532,656.89)
Buildings	(3,580.50)	-	-	(3,580.50)
Equipment	(3,868.16)	(1,345.91)	-	(5,214.07)
Furniture and Fixtures	(7,270.52)	-	-	(7,270.52)
	<u>(529,009.66)</u>	<u>(23,595.78)</u>	<u>(3,883.46)</u>	<u>(548,721.98)</u>
Net Capital Assets	<u>\$ 301,582.21</u>	<u>\$ (4,200.78)</u>	<u>\$ 7,766.85</u>	<u>\$ 289,614.58</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Detailed Notes Concerning the Funds (continued)

D. Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

General Government	\$	6,574.25
Public Safety and Judiciary		
EMS		1,063.54
Fire		46,242.10
Police		4,055.30
Parks and Recreation		
Community Center		4,561.53
Street and Alley		2,325.05
Total Depreciation Expense	<u>\$</u>	<u>64,821.77</u>

E. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

The Town executed a lease to purchase an S&S 1800 Gallon Tanker Truck on May 20, 2008. The truck was purchased for \$87,000 with an initial payment of \$30,000.00. The amount of the lease is \$57,000.00 with interest at 4.49%, payable in monthly installments of \$1,064.08 and maturing June 23, 2013. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>\$ 12,362.84</u>	<u>\$ 297.01</u>	<u>\$ 12,659.85</u>

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

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Governmental Activities (continued)

The Town executed a lease to purchase a 2007 4X4 Chassis Rescue Truck on February 19, 2010. The truck was purchased for \$139,510.50 with an initial payment of \$50,000. The amount of the lease is \$89,510.50 with interest at 5.00%, payable in monthly installments of \$1,691.84 and maturing February 19, 2015. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 18,195.03	\$ 2,107.05	\$ 20,302.08
2014	19,125.92	1,176.16	20,302.08
2015	13,084.18	237.37	13,321.55
Totals	<u>\$ 50,405.13</u>	<u>\$ 3,520.58</u>	<u>\$ 53,925.71</u>

Debt service requirements for all governmental activities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 30,557.87	\$ 2,404.06	\$ 32,961.93
2014	19,125.92	1,176.16	20,302.08
2015	13,084.18	237.37	13,321.55
Totals	<u>\$ 62,767.97</u>	<u>\$ 3,817.59</u>	<u>\$ 66,585.56</u>

Business-Type Activities

As of June 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

A note payable (#91-01) due to the Rural Development Authority in the principal amount of \$193,600.00 was issued on March 12, 1979. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$951.00 starting April 12, 1981.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,465.02	\$ 2,946.98	\$ 11,412.00
2014	8,898.09	2,513.91	11,412.00
2015	9,353.35	2,058.65	11,412.00
2016	9,831.88	1,580.12	11,412.00
2017	10,334.89	1,077.11	11,412.00
2018-2019	15,901.34	613.77	16,515.11
Totals	<u>\$ 62,784.57</u>	<u>\$ 10,790.54</u>	<u>\$ 73,575.11</u>

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities

A note payable (#91-03) due to the Rural Development Authority in the principal amount of \$64,000.00 was issued on March 12, 1979. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$315.00 starting April 12, 1981.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,827.58	\$ 952.42	\$ 3,780.00
2014	2,972.24	807.76	3,780.00
2015	3,124.30	655.68	3,779.98
2016	3,284.14	495.85	3,779.99
2017	3,452.19	327.81	3,780.00
2018-2019	4,672.14	160.11	4,832.25
Totals	<u>\$ 20,332.59</u>	<u>\$ 3,399.63</u>	<u>\$ 23,732.22</u>

A note payable (#26-2127) due to the Bank of The Lakes in the principal amount of \$35,081.23 was issued on August 25, 2009. The note bears interest at 3.98% with equal installments of \$646.68, amortized over 60 months, commencing on September 26, 2009 and continuing monthly thereafter, and one (1) final installment consisting of the full amount of the principal and all accrued interest remaining due and payable on August 26, 2010. This note was renewed on September 15, 2010.

A note payable renewal (#26-2127) due to the Bank of The Lakes in the principal amount of \$27,969.22 was issued on September 15, 2010. The note bears interest at 3.4% with equal installments of \$646.00, commencing on October 26, 2010 and continuing monthly thereafter. On May 18, 2011 an additional \$6,000.00 was added which increased the principal balance to \$35,081.23. Payment terms on the new balance are (2) equal installments of \$646.00, commencing on June 26, 2011 and continuing monthly thereafter, and one (1) final installment consisting of the full amount of the principal and all accrued interest remaining due and payable on August 26, 2011. The note was renewed at the same rate and payment terms for 1 year. On August 30, 2012, the note was renewed with the principal amount of the note being \$21,303.37. The note bears interest at 2.820% with equal installments of 617.84, commencing on September 30, 2012 and continuing monthly thereafter, and one (1) final payment consisting of the full amount of the principal and all accrued interest remaining due and payable on August 30, 2013.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 15,984.62	\$ 6,278.10	\$ 22,262.72

Town of Bernice, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

Debt service requirements for all business-type activities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 27,277.22	\$ 10,177.50	\$ 37,454.72
2014	11,870.33	3,321.67	15,192.00
2015	12,477.65	2,714.33	15,191.98
2016	13,116.02	2,075.97	15,191.99
2017	13,787.08	1,404.92	15,192.00
2018-2019	20,573.48	773.88	21,347.36
Totals	<u>\$ 99,101.78</u>	<u>\$ 20,468.27</u>	<u>\$ 119,570.05</u>

F. Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2012:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Lease Obligations	\$ 91,939.41	\$ -	\$ 29,171.44	\$ 62,767.97	\$ 30,557.87
Business-Type Activities:					
Notes Payable	\$ 122,781.89	\$ -	\$ 17,402.01	\$ 105,379.88	\$ 27,277.22

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the prior years.

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

IV. Other Information (continued)

B. Proprietary Fund Rates and Charges

<u>Water Rates and Charges</u>	
Minimum monthly charge on first 1,000 gallons	\$ 21.75
Price per thousand gallons on gallons over 1,000	5.25
<u>Initial Meter Installation Fees</u>	
Residential and Commercial	\$ 700.00
<u>Meter Deposits</u>	
Residential	\$ 50.00
Commercial	100.00

C. Contingent Liabilities

The town of Bernice and Bernice Public Work's Authority are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the town. While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the town.

D. Subsequent Events

Management has evaluated subsequent events through March 7, 2013, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Bernice, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balances - Budget and Actual -
Regulatory Basis - General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues:					
Charges for Services	\$ 11,929.92	\$ 11,929.92	\$ 21,750.00	\$ -	\$ 9,820.08
Local Sources	77,363.15	77,363.15	53,255.30	-	(24,107.85)
State Sources	223,128.31	223,128.31	272,169.30	-	49,040.99
Miscellaneous	11,271.78	11,271.78	16,938.79	-	5,667.01
Total Revenues Collected	<u>323,693.16</u>	<u>323,693.16</u>	<u>364,113.39</u>	<u>-</u>	<u>40,420.23</u>
Expenditures:					
Clerk/Treasurer	23,000.00	23,000.00	18,526.20	-	4,473.80
Attorney	45,000.00	45,000.00	32,882.12	-	12,117.88
Court	30,000.00	30,000.00	22,725.60	-	7,274.40
EMS	35,000.00	35,000.00	1,138.04	-	33,861.96
Community Center	8,000.00	8,000.00	4,173.72	-	3,826.28
General Government	230,398.03	230,398.03	49,378.09	-	181,019.94
Street and Alley	90,000.00	90,000.00	4,016.03	-	85,983.97
Audit	7,500.00	7,500.00	7,500.00	-	-
Animal Control	7,100.00	7,100.00	4,580.04	-	2,519.96
Park	6,000.00	6,000.00	1,103.97	-	4,896.03
Police	125,000.00	125,000.00	106,626.73	-	18,373.27
Fire Department	65,000.00	65,000.00	30,428.04	-	34,571.96
Fire Dept Capital Outlay	70,635.00	70,635.00	1,169.23	-	69,465.77
Fire Dept Sales Tax	108,938.46	108,938.46	48,894.29	-	60,044.17
Total Expenditures Paid	<u>851,571.49</u>	<u>851,571.49</u>	<u>333,142.10</u>	<u>-</u>	<u>518,429.39</u>
Excess (Deficit) of Revenues					
Collected Over (Under)					
Expenditures Paid	(527,878.33)	(527,878.33)	30,971.29	-	558,849.62
Cash Fund Balance					
Beginning of Year	<u>527,878.33</u>	<u>527,878.33</u>	<u>527,878.33</u>	<u>-</u>	<u>-</u>
Cash Fund Balance					
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 558,849.62</u>	<u>\$ -</u>	<u>\$ 558,849.62</u>

Amounts reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Amounts Due from Other Governments	65,342.18
Prepaid Insurance	5,282.91
Cash difference between budget and audit	<u>(8,725.84)</u>

Cash Fund Balance - General Fund \$ 620,748.87

Unaudited

OTHER SUPPLEMENTAL INFORMATION

Town of Bernice, Oklahoma
Schedule of Expenditures of State & Federal Awards
For the Year Ended June 30, 2011

<u>Grantor/Pass Through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Program</u> <u>or Award</u> <u>Amount</u>	<u>Revenue</u> <u>Collected</u>	<u>Total</u> <u>Expenditures</u>
State of Oklahoma Programs:				
Passed through the Oklahoma Department of Agriculture				
Rural Fire Defense Grant		<u>\$ 4,412.77</u>	<u>\$ 4,412.77</u>	<u>\$ 4,412.77</u>

Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT

2012-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:

The Government's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Government's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:

As is the case with many smaller and medium-sized entities, the Government has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls. This finding was also noted in 2011.

Cause:

Government personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:

As a result of this condition, without assistance from its external auditors or another outside source, the Government may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation:

We recommend that the Government consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012**

**2012-1 Material Weakness in Internal Control over Financial Reporting – Preparation of
Financial Statements in Accordance with GAAP (continued)**

Client Response:

This would not be cost effective given the size of the Town.

Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012

2012-2 Material Adjusting Journal Entries

Criteria:

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The government's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; adjusting note activity for unrecorded debt; recording accounting activity for funds held at county; recording adjustments from the prior period; writing off outstanding checks; prepaid insurance, meter deposits payable, depreciation, and due from other governments. This finding was also noted in 2011.

Cause:

The Government's accounting and financial reporting staff does not possess the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect:

As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding to the trial balances.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012**

2012-2 Material Adjusting Journal Entries (continued)

Recommendation:

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

This would not be cost effective given the size of the Town.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012**

2012-3 Deposit Requirements

Criteria:

According to Public Deposits (62 O.S., S. 517.3b & 62 O.S., S. 34.57 C.2.) the treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office. Receipts of less than One Hundred Dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day.

Condition:

The Public Works Authority deposits are not always made daily.

Cause:

The cash and checks received by the Public Works Authority are not always being deposited daily or even the following day.

Effect:

The Public Works Authority is not in compliance with state statute. The Authority's funds received are at risk of loss from burglary, misplacement, or misappropriation, additionally the cash is not available for expenditures or investment.

Recommendation:

We recommend that deposits be made on a daily basis, or at least the following day, both to improve cash flow and to reduce the risk of loss.

Client Response:

Deposits are made by the weekend so no checks will be held over the weekend in the office.

**Town of Bernice, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2012**

2012-4 Pledged Collateral Requirements

Criteria:

According to Public Trust Investments (62 O.S., S. 72.4a & 60 O.S., S.175.24g), public trust moneys in financial institutions must be fully insured or collateralized CDs or other evidences of deposit.

Condition:

The town of Bernice deposits were uncollateralized by \$259,370.32.

Cause:

The bank did not automatically renew the collateral.

Effect:

The town of Bernice was not in compliance with state statute. Also, at June 30, 2012, the town's funds were at risk in the event of bank default.

Recommendation:

We recommend that the town ensure that all funds are collateralized at all times during the fiscal year.

Client Response:

This was an oversight by the town which has since been remedied. The town is currently fully collateralized.