

Town of Roff, Oklahoma
Financial Statements and Report
of Independent Accountants
As of and For the Year Ending
June 30, 2012

Table of Contents

Report of Independent Accountant	1
<u>Government Wide Financial Statements</u>	
Statement of Net Assets – Modified Cash Basis	2
Statement of Activities – Modified Cash Basis	3
<u>Fund Financial Statements</u>	
Balance Sheet-Governmental Funds – Modified Cash Basis	4
Statement of Revenues, Expenditures and Changes in in Fund Balances-Governmental Funds – Modified Cash Basis	5
Statement of Net Assets-Proprietary Funds – Modified Cash Basis	6
Statement of Revenue over Expenditures and Changes in Retained Earnings-Proprietary Funds – Modified Cash Basis	7
Statement of Cash Flows – Modified Cash Basis	8
Notes to the Basic Financial Statements	9-14
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	15-16
Schedule of Findings and Responses	17-18

Casey J. Russell CPA, Inc.

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

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

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

Report of Independent Accountants

To the Board of Trustees
Town of Roff, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Roff, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Town of Roff, Oklahoma prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Town has not recorded all of its capital assets as is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the incomplete presentation of capital assets as described in the preceding paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Town of Roff, Oklahoma as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting.

In addition, in our opinion, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Roff, Oklahoma as of June 30, 2012, and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the management discussion and analysis or the required budget to actual information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



February 8, 2013

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

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash in Bank - Unrestricted	\$ 51,168.27	\$ 5,520.28	\$ 56,688.55
Cash in Bank - Restricted	23,490.25	27,995.19	51,485.44
Total Current Assets	<u>74,658.52</u>	<u>33,515.47</u>	<u>108,173.99</u>
PROPERTY AND EQUIPMENT			
Capital Assets, net	<u>73,947.12</u>	<u>181,649.44</u>	<u>255,596.56</u>
TOTAL ASSETS	<u>\$ 148,605.64</u>	<u>\$ 215,164.91</u>	<u>\$ 363,770.55</u>
CURRENT LIABILITIES			
Payroll Taxes Payable	\$ 792.04	\$ 829.06	\$ 1,621.10
Current Portion of Long Term Debt	15,240.94	7,131.54	22,372.48
Meter Deposits	-	11,640.00	11,640.00
Total Current Liabilities	<u>16,032.98</u>	<u>19,600.60</u>	<u>35,633.58</u>
LONG-TERM LIABILITIES			
Notes Payable and Capital Leases	<u>35,854.01</u>	<u>298,165.22</u>	<u>334,019.23</u>
TOTAL LIABILITIES	<u>51,886.99</u>	<u>317,765.82</u>	<u>369,652.81</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	22,852.17	(123,647.32)	(100,795.15)
Restricted for Debt Service	-	21,476.17	21,476.17
Restricted for Other Purposes	-	6,519.02	6,519.02
Unrestricted	<u>73,866.48</u>	<u>(6,948.78)</u>	<u>66,917.70</u>
TOTAL NET ASSETS	<u>96,718.65</u>	<u>(102,600.91)</u>	<u>(5,882.26)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 148,605.64</u>	<u>\$ 215,164.91</u>	<u>\$ 363,770.55</u>

The accompanying footnotes are an integral part of these financial statements

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

	General Fund	Total Governmental Fund
ASSETS		
Cash in Bank - Unrestricted	51,168.27	51,168.27
Cash in Bank - Restricted	23,490.25	23,490.25
Total Assets	\$ 74,658.52	\$ 74,658.52
LIABILITIES		
Payroll Taxes Payable	792.04	792.04
Total Liabilities	792.04	792.04
FUND BALANCES		
Unrestricted - Fund Balance	50,376.23	50,376.23
Committed - Fund Balance	23,490.25	23,490.25
TOTAL FUND BALANCES	73,866.48	73,866.48
TOTAL LIABILITIES AND FUND BALANCES	\$ 74,658.52	\$ 74,658.52

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

Total Governmental Fund Balances	\$ 73,866.48
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.	73,947.12
Long Term Debt incurred with governmental activities are not liabilities in the funds.	(51,094.95)
Net Assets of Governmental Activities	\$ 96,718.65

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

	General Fund	Total Governmental Funds
Revenues		
Taxes	163,596.56	\$ 163,596.56
Fines	32,316.83	32,316.83
Other Revenues	13,185.28	13,185.28
Total Revenues	209,098.67	209,098.67
Expenditures		
Personel Services	71,832.22	71,832.22
Maintenance and Operations	97,941.75	97,941.75
Other Services and Charges	40,361.98	40,361.98
Capital Outlay	60,085.00	60,085.00
Debt Service	10,467.24	10,467.24
Total Expenditures	280,688.19	280,688.19
Opeating Income (Loss)	(71,589.52)	(71,589.52)
Nonoperating revenues (expenses)		
Capital Financing	46,110.00	46,110.00
Total Nonoperating Revenues (Expenses)	46,110.00	46,110.00
Change in Fund Balance	(25,479.52)	(25,479.52)
Fund Balance at beginning of year	99,346.00	99,346.00
Fund Balance at end of year	\$ 73,866.48	\$ 73,866.48

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

Change in Net Assets, Fund Financial Statements	(25,479.52)
Capital Outlay included in the expenditures of the fund financial statements but capitalized as a fixed asset in the government wide financial statements	60,085.00
Capital Financing included in nonoperating revenues in the fund financial statements but recorded as long term debt in the government wide statements	(46,110.00)
Debt Service included in operating expenses in the fund financial statements but recorded as a reduction of long term debt in the government wide statements	10,467.24
Depreciation recorded in the government wide financial statements but not recor in the fund financial statements.	(8,093.18)
Change in Net Assets per the Governmental Wide Financial Statements	\$ (9,130.46)

Town of Roff, Oklahoma
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2012

ASSETS

Current Assets:

Cash in Bank - Unrestricted	5,520.28
Cash in Bank - Restricted	<u>27,995.19</u>
Total Current Assets	33,515.47

Noncurrent Assets

Capital Assets, net	<u>181,649.44</u>
Total Noncurrent Assets	<u>181,649.44</u>
TOTAL ASSETS	<u>\$ 215,164.91</u>

LIABILITIES

Current Liabilities:

Payroll Taxes Payable	829.06
Meter Deposits	11,640.00
Current Portion of Long Term Debt	<u>7,131.54</u>
Total Current Liabilities	19,600.60

Noncurrent Liabilities:

Notes Payable	<u>298,165.22</u>
Total Noncurrent Liabilities	<u>298,165.22</u>
TOTAL LIABILITIES	317,765.82

NET ASSETS

Invested in Capital Assets, Net of Related Debt	(123,647.32)
Restricted for Debt Service	21,476.17
Restricted for Other Purposes	6,519.02
Unrestricted - Net Assets	<u>(6,948.78)</u>
TOTAL NET ASSETS	<u>(102,600.91)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 215,164.91</u>

Town of Roff, Oklahoma
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012

Operating Revenues:	
Water Sales	95,465.89
Sewer Fees	57,723.56
Trash Fees	68,824.24
Other Revenues	<u>290.26</u>
Total Operating Revenues	222,303.95
Operating Expenditures:	
Personnel Services	77,776.24
Maintenance and Operations	160,005.90
Other Services and Charges	<u>36,896.84</u>
Total Operating Expenditures	<u>274,678.98</u>
Excess Revenues over Expenditures	(52,375.03)
Net Assets at beginning of year	<u>(50,225.88)</u>
Net Assets at end of year	<u><u>\$(102,600.91)</u></u>

The accompanying footnotes are an integral part of these financial statements.

Town of Roff, 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	\$ 222,303.95
Payments to suppliers	(176,582.48)
Payments to employees	<u>(77,776.00)</u>
Net cash provided by operating activities	(32,054.53)
 Cash flows from capital and related financing activities	
Principal paid on long term debt	<u>(6,818.00)</u>
Net cash flows from capital and related financing activities	(6,818.00)
 Net increase (decrease) in cash	 (38,872.53)
 Cash, Beginning of the Year	 <u>72,388.00</u>
Cash, End of the Year	<u>\$ 33,515.47</u>
 <i>Reconciliation of change in net assets to net cash provided by operations</i>	
 Change in Net Assets	 (52,375.03)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	12,673.00
Change in meter deposit liability	<u>7,647.50</u>
Net cash provided by operating activities	<u>\$ (32,054.53)</u>

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

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Roff, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, public works and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town had only one component unit, the Roff Public Works Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012, the Town had governmental funds of general fund, street and alley fund, and volunteer fire department fund. The proprietary funds consisted of the Roff Public Works Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the modified cash basis of accounting. Revenues are recognized when collected and expenses are recognized when paid. This is the same approach used in the preparation of the proprietary fund financial statements. The fund financial statements also use the modified cash basis of accounting. The government-wide statements record fixed assets and long-term debt as assets and liabilities. The fund financial statements record fixed assets as expenditures. The fund financial statements records the proceeds of long term debt as a revenue and the repayment of long term debt as an expenditures. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are

allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

PROPRIETARY FUNDS

The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable, then Government Accounting Standards Board pronouncements are used

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of monies held in conjunction with the Roff Public Works Authority's meter deposits requirements and various construction projects.

Encumbrances

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

Budget

In accordance with Oklahoma Statutes, Title 11, Section 3002, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Budget Act.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Government-wide Proprietary Fund Net Assets

Government-wide and proprietary fund net assets are divided into three components:

- a. Invested in capital assets, net of related debt- consist of the historical cost of capital assets, loan proceeds that have not been spent less accumulated depreciation and less any debt that remains.
- b. Restricted net assets, consist of net assets that are restricted by the Town's creditors, by the state enabling legislation, by grantors and by other contributors.
- c. Unrestricted, all other net assets are reported in this category.

Governmental Fund Balances

- a. Nonspendable, amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted, amounts that can be spent only for specific purposes because of the Town's ordinances, state or federal law, or externally imposed conditions by grantors or creditors.
- c. Committed, amounts that can be used only for specific purposes determined by a formal action by Board of Trustee's resolution.
- d. Assigned, amounts that are designated by the Board of Trustees

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets) the Town's policy is to first apply the expense toward the restricted resources and then toward unrestricted resources. In governmental funds, the town's policy is to first apply the expenditure toward restricted fund balances and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Note 2-Deposits with Financial Institutions

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Roff is considered a separate entity from the Roff Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Roff's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Roff Public Works Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

Capital Asset activity for the year ended June 30, 2012 was as follows:

Governmental Funds

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	29,260	60,085	-	89,345
Total	\$ 29,260	60,085		\$ 89,345
Accumulated Depreciation	(7,305)	(8,093)	-	(15,398)
Net Assets	<u>\$ 21,955</u>			<u>\$ 73,947</u>

Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available.

Public Works Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer System	380,200	-	-	380,200
Total	\$ 380,200			\$ 380,200
Accumulated Depreciation	(185,877)	(12,673)	-	(198,550)
Net Assets	<u>\$ 194,323</u>			<u>\$ 181,650</u>

Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$12,673 was charged to the sewer department.

Note 4- Notes Payable and Capital Leases

As of June 30, 2012 the Town of Roff had three obligations payable to a local financial institution.

The first obligation had a balance of \$4,985 as of June 30, 2012 and carries an interest rate of 5.5%. The proceeds of this obligation were used to purchase a vehicle which was capitalized at \$14,195. This obligation was paid off as of October 2012.

The second obligation had a balance of \$14,530 as of June 30, 2012 and carries an interest rate of 5.5%. The proceeds of this obligation were used to purchase a vehicle which was capitalized at \$14,530. The debt agreement calls for annual payments of principal and interest of \$5,367.91. Collateral for this debt is the vehicle purchased. The debt will mature in September of 2014.

The third obligation had a balance of \$31,580 as of June 30, 2012 and carries an interest rate of 5.5%. The proceeds of this obligation were used to purchase a vehicle which was capitalized at \$31,580. The debt agreement calls for annual payments of principal and interest of \$7,395.68. Collateral for this debt is the vehicle purchased. The debt will mature in May of 2017.

Principal required to amortize these obligations to maturity is as follows:

	Obligation One		Obligation Two		Obligation Three	
	Principal	Interest	Principal	Interest	Principal	Interest
2012/2013	4,985	541	4,597	720	5,659	1737
2013/2014			4,827	531	5,970	1426
2014/2015			5,106	262	6,298	1097
2015/2016					6,645	751
2016/2017					7,008	387
Totals	\$ 4,985	\$ 541	\$ 14,530	1513	\$ 31,580	\$ 5,398

Principal and interest paid on the three obligations during the year ending June 30, 2012 was as follows:

	Obligation One	Obligation Two	Obligation Three
Balance, Beginning of Year	9,706	-	-
Principal Incurred During the Year		14,530	31,580
Principal Paid During Year	(4,721)	-	-
Balance, End of Year	\$ 4,985	\$ 14,530	\$ 31,580
Interest Paid	\$ 300	\$ 771	\$ -

As of June 30, 2012 the Roff Public Works Authority had a note payable outstanding to the United States Department of Agriculture. The note was for the renovation of the Authority's waste water treatment facility. The amount financed was \$380,200. The balance as of June 30, 2012 was \$305,297 and carries an interest rate of 4.5% with monthly payments of \$1,737. Collateral for this obligation is the renovated facility and resulting revenues.

Principal and interest required to amortize this obligation to maturity is as follows:

	Principal	Interest
2012/2013	7,132	13,592
2013/2014	7,459	13,265
2014/2015	7,801	12,922
2015/2016	8,160	12,564
2016/2017	8,535	12,189
2017/2022	48,930	54,690
2022/2027	61,250	42,370
2027/2033	76,673	30,160
2033/2037	79,356	7,901
	\$ 305,296	\$ 199,653

Principal and interest paid on this obligation for the year ending June 30, 2012 was as follows:

Beginning Balance	312,115
Principal Paid	(6,818)
Ending Balance	<u>\$ 305,297</u>
Interest Paid	<u>\$ 14,205</u>

Note 5-Subsequent Events

Subsequent events have been evaluated through February 8, 2013, which is the date the financial statements were issued.

Note 6-Risk Management

The Town is exposed to various risks and loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. Commercial insurance is used to cover general liability claims, worker, compensation and the risk of loss to Town buildings and mobile equipment. Judgment against the Town may be paid by a property tax assessment over a three-year period.

Casey J. Russell CPA, Inc.

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

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

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

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

To the Board of Trustees
Town of Roff, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Roff, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated February 8, 2013. Our report was a qualified report because of the use of the modified cash basis of accounting and incomplete capital asset presentation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of Roff, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Roff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Roff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Roff's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The result of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-3.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



February 8, 2013

Schedule of Findings and Questioned Costs

2012-1 Fixed Asset Accounting

CONDITION: During our audit we observed that the Town was not maintaining a depreciation schedule nor was the Town's outside accounting firm tracking fixed assets.

CRITERIA: Fixed assets represent a significant public investment and accounting standards require the recording of depreciation.

CAUSE OF CONDITION: Historically governmental entities use the current resources measurement focus of accounting. The emphasis was on current year resource inflows and outflows. Since the emphasis is on current outflows the purchase of capital assets is often times expensed in the accounting records and not capitalized as is required by accounting principles

EFFECT OF CONDITION: Without a detail listing of assets the accurate tracking of depreciation is not possible. The absence of a detail list leaves the Town open to having assets misappropriated.

RECOMMENDATION: The Town should develop a fixed asset list.

MANAGEMENT RESPONSE: The Town's staff will develop the appropriate list.

2012-2 Meter Deposit Accounting

CONDITION: During our audit we observed that the Town is not maintaining a detail list of customers who have deposits with the Roff Public Works Authority. These funds are the deposits the customers give the Town when the customer commences utility service.

CRITERIA: Sound accounting polices dictate that all liabilities have adequate detail to support the balances.

CAUSE OF CONDITION: The meter deposit function that is available in the utility billing software has not been fully updated and utilized.

EFFECT OF CONDITION: The Town does not have an accurate accounting of who is due money and what the amount should be.

RECOMMENDATION: The Town staff develop a detail list of individuals and the amounts due to each individual.

MANAGEMENT RESPONSE: OPEN WAITING FOR RESPONSE

2012-3 Meter Fund Cash Accounts Not Adequate

CONDITION: During our audit we observed that the dedicated bank accounts did not have adequate funds for the liability that needed to be funded.

CRITERIA: State law requires the meter monies collected as deposits for commencement of service be deposited into a separate banking accounts and only be used to refund customers or pay final bills.

CAUSE OF CONDITION: Deposit monies have not been deposited as required and or monies have been removed from the account and used for purposes not allowed.

EFFECT OF CONDITION: The deposit account is not adequate to cover the liability and the Town might have to use operating monies to pay customers.

RECOMMENDATION: The Town shift monies from other unrestricted resources to fully fund the meter cash account.

MANAGEMENT RESPONSE: The Town will implement a system to fund the appropriate account.