

AUDIT REPORT
TOWN OF BOKOSHE, OKLAHOMA
&
BOKOSHE PUBLIC WORKS AUTHORITY
JUNE 30, 2012

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF BOKOSHE, OKLAHOMA
JUNE 30, 2012

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TOWN OF BOKOSHE, OKLAHOMA
JUNE 30, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> STANDARDS	29-30
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TOWN OF BOKOSHE, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2012

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
PAULA JONES	MAYOR
DALE WHITECOTTON	CO-MAYOR
MARION KATES	MEMBER
JAMES TACKETT	MEMBER
BRUCE CALDWELL	MEMBER
JACQUELINE CAMEL	CLERK/TREASURER

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Bokoshe, Oklahoma

We were engaged to audit 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 Bokoshe, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Bokoshe, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Bokoshe, Oklahoma's management.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

This year, the Town's accounting system was significantly improved. However, the Town of Bokoshe did not maintain a double-entry general ledger system during the audit year. In addition, reconciliations of cash, accounts receivable and accounts payable were not adequately prepared. The Town's records do not permit the application of other auditing procedures to cash, accounts receivable and accounts payable. The accounting records are not sufficient to permit the application of auditing procedures that would be adequate for us to express an opinion on the accompanying financial statements, and therefore, we do not express an opinion on these financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2013, on our consideration of the Town of Bokoshe, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the

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Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Bokoshe has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town 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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

January 14, 2013

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	2012 Total	Memo Only 2011 Total
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 18,132	\$ 19,081	\$ 37,213	\$ 16,650
Accounts Receivable	-	-	-	-
Total Current Assets	<u>18,132</u>	<u>19,081</u>	<u>37,213</u>	<u>16,650</u>
<u>Restricted Assets:</u>				
Cash and cash equivalents	-	3,079	3,079	2,316
Investments	-	-	-	-
Total Restricted Assets	<u>-</u>	<u>3,079</u>	<u>3,079</u>	<u>2,316</u>
<u>Capital Assets:</u>				
Construction in Progress	-	-	-	-
Construction costs and improvements	-	1,505,143	1,505,143	1,505,143
Machinery, Equipment & Vehicles	-	37,360	37,360	37,360
Less: Accumulated Depreciation	-	(796,014)	(796,014)	(732,809)
Total Capital Assets	<u>-</u>	<u>746,489</u>	<u>746,489</u>	<u>809,694</u>
TOTAL ASSETS	<u>18,132</u>	<u>768,649</u>	<u>786,781</u>	<u>828,660</u>
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Accounts Payable	-	-	-	-
Payroll Taxes Payable	-	-	-	-
Accrued Interest Payable	-	-	-	-
Current Portion of Long-Term Debt	-	12,359	12,359	11,744
Total Current Liabilities	<u>-</u>	<u>12,359</u>	<u>12,359</u>	<u>11,744</u>
<u>Long-Term Liabilities:</u>				
Due to Depositors	-	18,538	18,538	16,646
Note Payable - RD	-	277,927	277,927	289,713
Less: Current Portion of Long-Term Debt	-	(12,359)	(12,359)	(11,744)
Total Long-Term Liabilities	<u>-</u>	<u>284,107</u>	<u>284,107</u>	<u>294,615</u>
TOTAL LIABILITIES	<u>-</u>	<u>296,466</u>	<u>296,466</u>	<u>306,359</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	-	468,562	468,562	519,981
Restricted for:				
Debt Service	-	3,079	3,079	2,316
Other Purposes	-	-	-	-
Unrestricted	18,132	543	18,675	4
TOTAL NET ASSETS	<u>\$ 18,132</u>	<u>\$ 472,184</u>	<u>\$ 490,316</u>	<u>\$ 522,301</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 36,566	\$ -	\$ 19,812	\$ -	\$ (16,754)
Police Department	74,801	32,185	-	-	(42,617)
Fire Department	3,808	4,090	-	-	282
Highways & Streets	7,230	-	-	-	(7,230)
Capital Outlay	-	-	-	-	-
Total Governmental Activities	<u>122,405</u>	<u>36,275</u>	<u>19,812</u>	<u>-</u>	<u>(66,318)</u>
Business-type activities:					
Water, Sewer & Sanitation	179,842	139,284	-	-	(40,557)
Total Business-type Activities	<u>179,842</u>	<u>139,284</u>	<u>-</u>	<u>-</u>	<u>(40,557)</u>
Total	<u>\$ 302,247</u>	<u>\$ 175,559</u>	<u>\$ 19,812</u>	<u>\$ -</u>	<u>\$ (106,876)</u>

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (66,318)	\$ (40,557)	\$ (106,876)
General revenues:			
Taxes:			
Sales Tax	46,685	-	46,685
Use Tax	614	-	614
Cigar Tax	693	-	693
Franchise Tax	12,704	-	12,704
Intergovernmental:			
Alcoholic Beverage Tax	4,250	-	4,250
Commercial Vehicle Tax	4,109	-	4,109
Gasoline Excise Tax	1,293	-	1,293
Investment Income	5	5	9
Miscellaneous	5,654	-	5,654
Transfers - Internal Activity	1,085	(2,206)	(1,121)
Total general revenues & transfers	<u>77,092</u>	<u>(2,202)</u>	<u>74,890</u>
Changes in net assets	10,774	(42,759)	(31,985)
Net assets - beginning	7,358	514,943	522,301
Net assets - prior year adjustment	-	-	-
Net assets - ending	<u>\$ 18,132</u>	<u>\$ 472,184</u>	<u>\$ 490,316</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF BOKOSHE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Capital Improvement Fund	Street & Alley Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 13,241	\$ -	\$ 4,891	\$ 18,132
Investments	-	-	-	-
Accounts Receivable	-	-	-	-
TOTAL ASSETS	\$ 13,241	\$ -	\$ 4,891	\$ 18,132
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	4,891	4,891
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	13,241	-	-	13,241
TOTAL FUND BALANCES	13,241	-	4,891	18,132
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,241	\$ -	\$ 4,891	\$ 18,132

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. -

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

Net Assets of Governmental Activities **\$ 18,132**

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Capital Improvement Fund	Street & Alley Fund	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 46,685	\$ -	\$ -	\$ 46,685
Use Tax	614	-	-	614
Cigar Tax	693	-	-	693
Franchise Tax	12,704	-	-	12,704
Intergovernmental:				
Alcoholic Beverage Tax	4,250	-	-	4,250
Commercial Vehicle Tax	4,109	-	-	4,109
Gasoline Excise Tax	-	-	1,293	1,293
Grants	16,727	-	3,085	19,812
Fines & Forfeitures	32,185	-	-	32,185
Fire Department Income	4,090	-	-	4,090
Miscellaneous Income	5,654	-	-	5,654
Interest Income	4	-	1	5
TOTAL REVENUES	127,715	-	4,379	132,093
<u>EXPENDITURES:</u>				
Current:				
General Government	36,566	-	-	36,566
Police Department	74,801	-	-	74,801
Fire Department	3,808	-	-	3,808
Highways & Streets	7,230	-	-	7,230
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	122,405	-	-	122,405
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,310	-	4,379	9,688
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	9,652	-	-	9,652
Operating Transfers Out	(8,283)	-	(284)	(8,567)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,369	-	(284)	1,085
NET CHANGES IN FUND BALANCES	6,678	-	4,095	10,774
FUND BALANCE - BEGINNING OF YEAR	6,562	-	796	7,358
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 13,241	\$ -	\$ 4,891	18,132

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds \$ 10,774

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Capital debt obligation principal payments -

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:

Capital Debt Proceeds -

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized -

Depreciation expense -

Change in Net Assets of Governmental Activities \$ 10,774

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2012

	<u>Bokoshe Public Works Authority Enterprise Fund June 30, 2012</u>	<u>Memo Only June 30, 2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 19,081	\$ 9,291
Accounts Receivable	-	-
Total Current Assets	<u>19,081</u>	<u>9,291</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	3,079	2,316
Restricted Investments	-	-
Construction in Progress	-	-
Other capital assets, net of accumulated depreciation	746,489	809,694
Total Noncurrent Assets	<u>749,568</u>	<u>812,010</u>
TOTAL ASSETS	<u>768,649</u>	<u>821,301</u>
<u>LIABILITIES & FUND EQUITY</u>		
Current Liabilities:		
Accounts Payable	-	-
Payroll Taxes Payable	-	-
Accrued Interest Payable	-	-
Current Portion of Long-Term Debt	12,359	11,744
Total Current Liabilities	<u>12,359</u>	<u>11,744</u>
Noncurrent Liabilities:		
Due to Depositors	18,538	16,646
Note Payable - RD	277,927	289,713
Less: Current Portion of Long-Term Debt	(12,359)	(11,744)
Total Noncurrent Liabilities	<u>284,107</u>	<u>294,615</u>
TOTAL LIABILITIES	<u>296,466</u>	<u>306,359</u>
NET ASSETS:		
Invested in capital assets, net of related debt	468,562	519,981
Restricted for debt service	3,079	2,316
Unrestricted	543	(7,354)
TOTAL NET ASSETS	<u>\$ 472,184</u>	<u>\$ 514,943</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Bokoshe Public Works Authority Enterprise Fund June 30, 2012	Memo Only June 30, 2011
<u>OPERATING REVENUES:</u>		
Charges for Services		
Water	\$ 73,402	\$ 122,533
Sewer	57,969	-
Miscellaneous Income	7,913	-
TOTAL OPERATING REVENUES	139,284	122,533
<u>OPERATING EXPENSES:</u>		
Payroll and Related Expenses	34,545	36,138
Water Purchases	21,570	20,705
Office Expenses	5,243	-
Supplies	4,702	-
Insurance	100	3,682
Legal & Accounting	6,000	-
Automobile Expense	9,035	-
Repairs and Maintenance	15,200	-
Utilities	5,508	-
Miscellaneous	1,933	31,046
Depreciation	63,205	63,205
TOTAL OPERATING EXPENSES	167,039	154,776
NET OPERATING INCOME (LOSS)	(27,755)	(32,244)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	5	6
Interest Expense	(12,802)	(13,357)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(12,798)	(13,351)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(40,553)	(45,594)
Capital Contributions - KEDDO	-	15,000
Capital Contributions - Choctaw Nation	-	-
Transfers in	3,310	-
Transfers out	(5,516)	-
CHANGE IN NET ASSETS	(42,759)	(30,594)
TOTAL NET ASSETS - BEGINNING	514,943	545,537
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-	-
TOTAL NET ASSETS - ENDING	\$ 472,184	\$ 514,943

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>6/30/2012</u>	<u>Memo Only 6/30/2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 139,284	\$ 122,533
Other Cash Receipts	-	-
Payments to Suppliers for Goods & Services	(69,289)	(55,433)
Payments to Employees & Laborers	(34,545)	(36,138)
Receipts of Customer Utility Deposits, Net of Refunds	1,892	368
Net Cash Provided (Used) by Operating Activities	<u>37,342</u>	<u>31,330</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>		
Transfers to other funds	(5,516)	-
Transfers from other funds	3,310	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(2,206)</u>	<u>-</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Capital grant received for capital assets	-	15,000
Additions to Capital Assets	-	(15,000)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds received	-	-
Principal paid on Notes Payable	(11,786)	(11,231)
Interest paid	(12,802)	(13,357)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(24,588)</u>	<u>(24,588)</u>
Net Cash Flows from Investing Activities:		
Interest Income	5	6
Net Cash Provided (Used) by Investing Activities	<u>5</u>	<u>6</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,553	6,748
Cash & Cash Equivalents, Beginning of Year	11,607	4,859
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 22,160</u>	<u>\$ 11,607</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ (27,755)	\$ (32,244)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	63,205	63,205
(Increase)Decrease in Accounts Receivable	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-
Increase(Decrease) in Due to Depositors	1,892	368
Net Cash Provided (Used) by Operating Activities	<u>\$ 37,342</u>	<u>\$ 31,330</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Town of Bokoshe, Oklahoma is a municipality with a five-member Board of Trustees comprised of the Mayor and four at large members. In evaluating the Town as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities), which may or may not fall within the Town's oversight and control and, as such, be included within the Town's financial statements. Generally, component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The specific factors, which are assessed in determining which operations to include in the Town reporting entity, are delineated below:

LEGALLY SEPARATE ORGANIZATION

FINANCIAL ACCOUNTABILITY

Appointment of Board of Directors

Imposition of Will

Financial Benefits or Burdens

FINANCIAL ACCOUNTABILITY

Budgetary Authority

Levying of Taxes

Responsibility for Debt

Additional factors, which may significantly influence the definition of the reporting entity, are:

Scope of Public Service

Special Financing Relationships

The relative importance of each criterion must be evaluated in light of specific circumstances. Although the decision to include or exclude a potential component unit is left to the professional judgment of responsible local officials, a positive response to any of the above criteria requires that the specific reason for excluding the potential component unit be disclosed.

B. INCLUDED WITHIN THE ENTITY

Bokoshe Public Works Authority - The Board of Trustees appoints the board of directors, sets the budget, and approves all significant management issues.

C. BASIS OF PRESENTATION

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

D. BASIS OF ACCOUNTING

All funds are accounted for using the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Governmental Fund types recognize revenues, expenditures, and liabilities when received or paid. Proprietary Fund types recognize revenues when received and expenses are recorded at the time they are paid.

E. FUND ACCOUNTING

The financial statements are presented using principles of fund accounting. Each fund is considered an accounting entity with a self-balancing set of accounts. The Town utilizes the following fund types:

- A. Government Funds
 - 1) General Fund
 - 2) Special Revenue

- B. Proprietary Funds
 - 1) Public Works Authority

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

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts of major capital projects). Special revenue funds consist of the street and alley fund.

The public works authority is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the Council has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The public works authority for the Town of Bokoshe, Oklahoma, consists of one fund - the water department.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

F. CAPITAL OUTLAYS AND DEPRECIATION

Expenditures for fixed assets within the General and Special Revenue funds are not capitalized. They are recorded as expenditures when paid for. In addition, the Town does not maintain general fixed asset account detail.

Property, plant and equipment in the proprietary fund of the Town are recorded at cost. Property, plant and equipment donated to the proprietary fund type operations are recorded at their estimated fair value at the date of donation. Capital outlays of the Proprietary Fund are recorded as fixed assets and depreciated using the straight-line method with the following estimated useful lives:

	<u>YEARS</u>
Construction costs and improvements	25
Automobiles	3
Equipment	5-10

Purchases of capital items in excess of \$2,500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

G. BUDGETARY BASIS

The Town utilizes the modified cash basis of accounting in the preparation of its budget. The budget data reflected in this report was taken from the budget formally enacted by the Town Council.

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

I. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Town considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

J. ACCRUED COMPENSATED ABSENCES

Employee's vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence; therefore, no accruals for compensated absences have been reflected in the accompanying financial statements.

K. RECEIVABLES AND PAYABLES

The Town is on the modified cash basis of accounting and therefore, does not account for receivables or payables.

L. EQUITY CLASSIFICATION

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as

TOWN OF BOKOSHE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax Grant Income

M. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent 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.

Property Tax

For the year ended June 30, 2012, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types -	By Character:	Current (further classified by activity)	Capital Outlay
Proprietary Fund Types -	By Operating and Non-Operating		

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

N. MEMORANDUM ONLY

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As indicated in Note 4, The District was in compliance with the reserve requirement of the Rural Development loan agreement.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$40,292 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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 BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS - CASH

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds received in payment of customer meter deposits and meeting the reserve requirements of the USDA Rural Development loans. The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of the annual installment (\$11,472), after which deposits may be suspended, except to replace withdrawals. The new loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$109.30 each month until there is accumulated in that account the sum of the annual installment (\$13,116), after which deposits may be suspended, except to replace withdrawals. As of June 30, 2012, the total reserve requirement for all three Rural Development loans is \$20,873. The reserve account (the certificate of deposit/investment) currently has a balance of \$0, which does not meet the reserve requirement. This account was closed during a previous fiscal year.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Town of Bokoshe:

As described above the Town does not keep detailed fixed asset information.

Bokoshe Public Works Authority:

Activity of property, plant and equipment consists of the following:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Construction costs & improvements	\$ 1,505,143	\$ -	\$ -	\$ 1,505,143
Machinery & equipment	32,360	-	-	32,360
Automobiles	5,000	-	-	5,000
Construction in progress	-	-	-	-
Subtotal	1,542,503	-	-	1,542,503
Less: Accum. Depr.	(732,809)	(63,205)	-	(796,014)
Total Capital Assets (Net of Depreciation)	<u>\$ 809,694</u>	<u>\$ (63,205)</u>	<u>\$ -</u>	<u>\$ 746,489</u>

NOTE 6 - LONG-TERM DEBT

The following shows the balances of the Bokoshe Public Works Authority's long-term notes payable:

	6/30/12	6/30/11
Rural Development-original balance of \$245,000 bearing 4.375% interest payable over a 40-year term at \$1,096 per month. Matures April 2044. Secured by system.	\$224,874	\$228,075
Rural Development-original balance of \$194,400 bearing 5% interest payable over a 40-year term at \$956 per month. Matures January 1, 2021. Secured by real estate.	53,053	61,638
Total	277,927	289,713
Less Current Maturities	12,359	11,744
Long-Term Debt	<u>\$265,568</u>	<u>\$277,969</u>

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Changes in Long-Term Debt

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Rural Development Note #1	\$ 45,996.99	\$ -	\$ (6,965.99)	\$ 39,031.00
Rural Development Note #2	15,640.83		(1,618.63)	14,022.20
Rural Development Note #3	228,075.21	-	(3,200.94)	224,874.27
Total Long-Term Debt	<u>\$ 289,713.03</u>	<u>\$ -</u>	<u>\$ (11,785.56)</u>	<u>\$ 277,927.47</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2012, are as follows:

Rural Development Note #1

Year Ended June 30,	Principal	Interest	Total
2013	\$ 7,319	\$ 1,789	\$ 9,108
2014	7,694	1,414	9,108
2015	8,087	1,021	9,108
2016	8,499	609	9,108
2017	7,432	228	7,660
2018-2022	-	-	-
Total	<u>\$ 39,031</u>	<u>\$ 5,061</u>	<u>\$ 44,092</u>

Rural Development Note #2

Year Ended June 30,	Principal	Interest	Total
2013	\$ 1,700	\$ 664	\$ 2,364
2014	1,787	577	2,364
2015	1,879	485	2,364
2016	1,974	390	2,364
2017	2,076	288	2,364
2018-2022	4,605	268	4,874
Total	<u>\$ 14,022</u>	<u>\$ 2,671</u>	<u>\$ 16,694</u>

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Rural Development Note #3

Year Ended June 30,	Principal	Interest	Total
2013	\$ 3,340	\$ 9,776	\$ 13,116
2014	3,489	9,627	13,116
2015	3,645	9,471	13,116
2016	3,782	9,334	13,116
2017	3,977	9,139	13,116
2018-2022	22,683	42,897	65,580
2023-2027	28,220	37,360	65,580
2028-2032	35,093	30,487	65,580
2033-2037	43,683	21,897	65,580
2038-2042	54,347	11,233	65,580
2043-2044	22,615	1,017	23,632
Total	<u>\$ 224,874</u>	<u>\$ 192,238</u>	<u>\$ 417,112</u>

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Town and Bokoshe Public Works Authority to credit risk consist primarily of the accounts receivable of Bokoshe Public Works Authority. Bokoshe Public Works Authority sells primarily to members in and around Bokoshe, Oklahoma.

NOTE 8 - ACCRUED COMPENSATED ABSENCES

Employee's vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence; therefore, no accruals for compensated absences have been reflected in the accompanying financial statements

NOTE 9 - INTERFUND TRANSACTIONS

Current year interfund transactions were not reconciled. Not all transfers are shown below.

Interfund operating transfers for the year ended June 30, 2012, were as follows:

TOWN OF BOKOSHE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Street & Alley Fund	\$ -	\$ -
Bokoshe Public Works Authority	-	684.00
Total General Fund	<u>\$ -</u>	<u>\$ 684.00</u>
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	\$ -	\$ -
Bokoshe Public Works Authority	-	-
Total Special Revenue Funds	<u>\$ -</u>	<u>\$ -</u>
ENTERPRISE FUNDS		
Bokoshe Public Works Authority:		
General Fund	\$ 684.00	\$ -
Street & Alley Fund	-	-
Total Enterprise Funds	<u>\$ 684.00</u>	<u>\$ -</u>
	<u>\$ 684.00</u>	<u>\$ 684.00</u>

NOTE 10 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include assets related to Note 4 above.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available, currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year.

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

TOWN OF BOKOSHE, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 6,562	\$ 6,562	\$ 6,562	\$ 0
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	43,954	43,954	46,685	2,731
Use Tax	3,863	3,863	614	(3,249)
Cigar Tax	704	704	693	(12)
Franchise Tax	11,495	11,495	12,704	1,209
Intergovernmental:				
Alcoholic Beverage Tax	2,931	2,931	4,250	1,319
Commercial Vehicle Tax	2,897	2,897	4,109	1,211
Gasoline Excise Tax	-	-	-	-
Grants	17,783	17,783	16,727	(1,055)
Fines & Forfeitures	44,671	44,671	32,185	(12,487)
Fire Department	4,357	4,357	4,090	(267)
Miscellaneous Income	11,255	11,255	5,654	(5,601)
Transfers In	1,800	1,800	9,652	7,852
Interest Income	4	4	4	(0)
Amounts available for appropriation	<u>152,277</u>	<u>152,277</u>	<u>143,929</u>	<u>(8,348)</u>
<u>Charges to Appropriations (Outflows):</u>				
General Government	94,677	94,677	36,566	58,112
Police Department	32,200	32,200	74,801	(42,601)
Fire Department	5,400	5,400	3,808	1,592
Highways & Streets	-	-	7,230	(7,230)
Capital Outlay	-	-	-	-
Transfers	20,000	20,000	8,283	11,717
Total Charges to Appropriations	<u>152,277</u>	<u>152,277</u>	<u>130,688</u>	<u>21,589</u>
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	<u>-</u>	<u>-</u>	<u>13,241</u>	<u>13,241</u>

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.

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

To the Town Council
Town of Bokoshe, Oklahoma

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Bokoshe, State of Oklahoma, as of June 30, 2012, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 14, 2013, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. The Town of Bokoshe has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A.

Internal Control Over Financial Reporting

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

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financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01, 12-02, 12-03 and 12-04. 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 of Bokoshe's financial statements are free of material misstatement, we performed tests of 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are included in the Schedule of Findings as Item 12-05 and 12-06. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the board of trustees and management of the Town of Bokoshe, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

January 14, 2013

TOWN OF BOKOSHE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations of the Town.

Item 12-02: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: Personnel of the Town did not maintain a double-entry general ledger system during the audit year.

Cause/Effect: The staff not following a general ledger system resulted in a failure to maintain records in an accurate manner. The financial statements may contain misstatements and omit financial information.

Recommendation: The Town needs to upgrade accounting software programs to a double-entry system which will provide a better audit trail of financial transactions.

Response: The Town has considered using QuickBooks to maintain a double-entry general ledger system.

TOWN OF BOKOSHE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

Item 12-03: Meter Deposits

Criteria: It is the responsibility of the Town to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions. The Authority has a meter deposit ledger that can be kept in its water program. The report has to be printed monthly and was not printed for any of the twelve months included in the current fiscal year.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account. Also, the amounts in the meter deposit bank accounts are not sufficient to cover the meter deposit liability.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: The Town hopes to improve this for future years.

Item 12-04: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: Periodic physical inventories required for good internal control should be conducted.

Response: The Town is aware of the problem and currently does not have the resources to correct this problem.

TOWN OF BOKOSHE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

COMPLIANCE FINDINGS:

Item 12-05: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate income and expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority began separating income for water and sewer.

Item 12-06: Reserve Requirements

Criteria: The Authority's loan agreement with the USDA Rural Development requires the Authority to maintain reserve accounts. The reserve requirement for the existing loan was \$11,472.00. For the new loan, the Authority is required to set aside into a Reserve Account the sum of 10% of the monthly installment or \$109.30 each month until there is accumulated in that account the sum of the annual installment (\$13,116.00), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2012, the Authority was required to have at least \$20,873 set aside in the reserve account.

Condition: The Authority cashed in the certificate of deposit during a previous fiscal year for unknown purposes leaving a reserve balance of zero.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement.

Recommendation: The Authority needs to re-establish a reserve account and begin making monthly deposits to bring the account into compliance.

Response: Current management is not sure what happened to the account but is aware that a new one needs to be established.