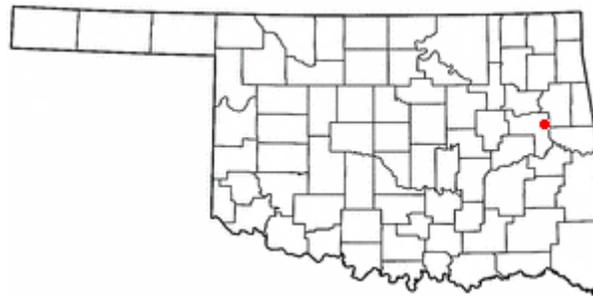


AUDIT REPORT

TOWN OF BRAGGS, OKLAHOMA

JUNE 30, 2012



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TOWN OF BRAGGS, OKLAHOMA
JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
LIST OF ELECTED OFFICIALS	4
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	5-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	8
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10-11
EXHIBIT E STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	13
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	14
NOTES TO THE FINANCIAL STATEMENTS	15-29

TOWN OF BRAGGS, 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 STANDARDS</i>	30-31
SCHEDULE OF FINDINGS	32-33

TOWN OF BRAGGS, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2012

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
JOHN LAYMON	MAYOR
RUDY WILSON	TRUSTEE
JENNIFER KOLISE	TRUSTEE

TOWN CLERK/TREASURER

REBECCA SMITH

BPWA CLERK

CHARLENE ISBELL

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Braggs, 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 Braggs, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Braggs, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Braggs, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. 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 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.

As discussed in Note 1 to the financial statements, the Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. Documentation supporting historical cost was not readily available for our review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Braggs, Oklahoma, as of June 30, 2012, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2012, on our consideration of the Town of Braggs, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

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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 Town of Braggs has not presented the Management's Discussion and Analysis or Budgetary Comparison Information 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 Braggs' basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 4, 2012

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2012 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 19,016	\$ 167,894	\$ 186,910
Due from Other Funds	-	-	-
Total Current Assets	19,016	167,894	186,910
<u>Other Assets:</u>			
Restricted Cash and cash equivalents	-	49,053	49,053
Restricted Investments	-	103,374	103,374
Total Other Assets	-	152,427	152,427
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	77,348	746,393	823,741
Total Capital Assets	77,348	746,393	823,741
TOTAL ASSETS	96,364	1,066,714	1,163,078
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Payroll Taxes Payable	-	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Notes Payable - Current Portion	4,097	42,097	46,195
Refundable Customer Deposits	-	29,455	29,455
Total Current Liabilities	4,097	71,552	75,649
<u>Long-Term Liabilities:</u>			
Notes Payable - Long-Term	14,311	136,113	150,424
Total Long-Term Liabilities	14,311	136,113	150,424
TOTAL LIABILITIES	18,408	207,665	226,073
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	58,940	568,183	627,123
Restricted for:			-
Debt Service	-	59,053	59,053
Other Purposes	-	-	-
Unrestricted	19,016	231,812	250,828
TOTAL NET ASSETS	\$ 77,956	\$ 859,049	\$ 937,005

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

TOWN OF BRAGGS, 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:					
Current:					
General Government	\$ 82,591	\$ -	\$ -	\$ -	\$ (82,591)
PWA	-	-	-	-	-
Public Safety	62,554	37,959	-	7,215	(17,381)
Depreciation Expense	9,405	-	-	-	(9,405)
Total Governmental Activities	154,550	37,959	-	7,215	(109,376)
Business-type activities:					
Water	110,551	164,805	-	18,700	72,954
Sewer	35,015	21,846	-	-	(13,169)
Sanitation	26,895	27,599	-	-	704
Other Business-type Activities	68,337	10,123	-	-	(58,214)
Total Business-type Activities	240,798	224,373	-	18,700	2,275
Total	\$ 395,348	\$ 262,332	\$ -	\$ 25,915	\$ (107,101)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (109,376)	\$ 2,275	\$ (107,101)
General revenues:			
Taxes:			
Sales Tax	50,680	-	50,680
Tobacco Tax	729	-	729
Franchise Tax	8,410	-	8,410
Intergovernmental:			
Alcoholic Beverage Tax	938	-	938
Gasoline Excise Tax	490	-	490
Motor Vehicle Tax	1,800	-	1,800
Licenses and Permits	421	-	421
Miscellaneous Income	13,730	15,161	28,891
Interest Income	29	478	507
Transfers - Internal Activity	15,002	(15,002)	-
Total general revenues & transfers	92,228	637	92,865
Changes in net assets	(17,148)	2,912	(14,236)
Net assets - beginning	94,994	859,389	954,383
Net assets - prior year adjustment	111	(3,253)	(3,141)
Net assets - ending	\$ 77,956	\$ 859,049	\$ 937,005

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

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

	General Fund	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, including time deposits	\$ 5,026	\$ 13,990	\$ -	\$ 19,016
Due from other funds	-	-	-	-
TOTAL ASSETS	\$ 5,026	\$ 13,990	\$ -	\$ 19,016
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	13,990	-	13,990
Unassigned	5,026	-	-	5,026
TOTAL FUND BALANCES	5,026	13,990	-	19,016
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,026	\$ 13,990	\$ -	

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 \$222,938, net of accumulated depreciation of \$145,590, are not financial resources and, therefore, are not reported in the funds.	77,348
---	--------

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	(18,408)
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Net Assets of Governmental Activities	\$ 77,956
--	------------------

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

TOWN OF BRAGGS, 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	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 50,680	\$ -	\$ -	\$ 50,680
Tobacco Tax	729	-	-	729
Franchise Tax	8,410	-	-	8,410
Intergovernmental:				
Alcoholic Beverage Tax	938	-	-	938
Gasoline Excise Tax	490	-	-	490
Motor Vehicle Tax	1,800	-	-	1,800
Grants	2,802	4,413	-	7,215
Fines & Forfeitures	37,959	-	-	37,959
Donations	-	3,745	-	3,745
Licenses and permits	421	-	-	421
Miscellaneous Income	18,094	1,021	-	19,114
Interest Income	-	29	-	29
TOTAL REVENUES	122,322	9,208	-	131,529
EXPENDITURES:				
Current:				
General Government	82,591	-	-	82,591
PWA	-	-	-	-
Public Safety:				
Police	31,093	-	-	31,093
Fire	-	29,818	-	29,818
Debt Service	14,135	-	-	14,135
Capital Outlay	25,416	-	-	25,416
TOTAL EXPENDITURES	153,235	29,818	-	183,053
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(30,913)	(20,610)	-	(51,523)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	15,002	-	15,002
Operating Transfers Out	-	-	-	-
Capital Debt Proceeds	21,952	-	-	21,952
TOTAL OTHER FINANCING SOURCES (USES)	21,952	15,002	-	36,954
NET CHANGES IN FUND BALANCES	(8,961)	(5,608)	-	(14,569)
FUND BALANCE - BEGINNING OF YEAR	13,875	19,599	-	33,474
FUND BALANCE - PRIOR YEAR ADJUSTMENT	111	-	-	111
FUND BALANCE - END OF YEAR	\$ 5,026	\$ 13,990	\$ -	19,016

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

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

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	(14,569)
 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		12,491
 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		(21,952)
 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		25,416
Depreciation expense		(9,405)
Basis in Assets Sold		(9,130)
		(17,148)
Change in Net Assets of Governmental Activities	\$	(17,148)

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

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

	<u>Braggs Public Works Authority Enterprise Fund June 30, 2012</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 167,894
Due from Other Funds	-
Total Current Assets	<u>167,894</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	49,053
Restricted investments	103,374
Capital assets, net of accumulated depreciation	746,393
Total Noncurrent Assets	<u>898,821</u>
TOTAL ASSETS	<u>1,066,714</u>
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Refundable Customer Deposits	29,455
Current portion of Notes Payable	42,097
Total Current Liabilities	<u>71,552</u>
Noncurrent Liabilities:	
Notes Payable - USDA Rural Development	176,674
Notes Payable - GMAC	1,536
Less: Current Portion	(42,097)
Total Noncurrent Liabilities	<u>136,113</u>
TOTAL LIABILITIES	<u>207,665</u>
NET ASSETS:	
Invested in capital assets, net of related debt	568,183
Restricted for debt service	59,053
Unrestricted	231,812
TOTAL NET ASSETS	<u>\$ 859,049</u>

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

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

	<u>Braggs Public Works Authority Enterprise Fund</u>
	<u>June 30, 2012</u>
<u>OPERATING REVENUES:</u>	
Water Revenue	\$ 164,805
Sewer Charges	21,846
Trash Collections Fees	27,599
Grant Income	18,700
Penalty Income	6,810
Reconnect Fees	553
Miscellaneous	2,760
TOTAL OPERATING REVENUES	<u>243,073</u>
<u>OPERATING EXPENSES:</u>	
Current:	
Water	110,551
Sewer	35,015
Trash	26,895
Depreciation	59,034
Miscellaneous	-
TOTAL OPERATING EXPENSES	<u>231,496</u>
NET OPERATING INCOME (LOSS)	<u>11,577</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	478
Interest Expense	(9,302)
SHDA - Fire	15,161
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>6,337</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	17,915
Transfers in	-
Transfers out	(15,002)
CHANGE IN NET ASSETS	2,912
TOTAL NET ASSETS - BEGINNING	859,389
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	(3,253)
TOTAL NET ASSETS - ENDING	<u>\$ 859,049</u>

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

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

	<u>June 30, 2012</u>
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 224,373
Other Cash Receipts	18,700
Payments to Suppliers, Employees & Laborers	(172,461)
Receipts of Customer Utility Deposits, Net of Refunds	1,445
Net Cash Provided (Used) by Operating Activities	<u>72,057</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
SHDA - Fire	15,161
Operating Transfers in	-
Operating Transfers Out	(15,002)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>159</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(35,537)
Loan Proceeds received	-
Principal paid	(25,893)
Interest paid	(9,302)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(70,733)</u>
<u>Net Cash Flows from Investing Activities:</u>	
(Increase) Decrease in Investments	25
Interest Earned	478
Net Cash Provided (Used) by Investing Activities	<u>503</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,987
Cash & Cash Equivalents, Beginning of Year	215,160
Cash & Cash Equivalents, Prior Year Adjustment	(200)
Cash & Cash Equivalents, End of Year	<u>\$ 216,947</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Net Operating Income (Loss)	\$ 11,577
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation Expense	59,034
(Increase)Decrease in Due from Other Funds	-
Increase(Decrease) in Payroll Taxes Payable	-
Increase(Decrease) in Due to Other Funds	-
Customer Deposits	1,445
Net Cash Provided (Used) by Operating Activities	<u>\$ 72,057</u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Braggs, Oklahoma presents its financial statements on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standard (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, have been applied to the extent they are applicable to the basis of accounting utilized by the fund, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements), as applicable to the modified cash basis. The Town has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

A. Reporting Entity

The Town of Braggs, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a three member board of trustees. The trustees elect a mayor from their own body. The Town provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (water, sewer, and trash), judicial, public improvements, and planning and zoning for the geographical area organized as the Town of Braggs, Oklahoma.

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

As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government.

Blended Component Units

The Braggs Public Works Authority (PWA) was created pursuant to a Trust Indenture to acquire, construct, lease and operate the water and sewer facilities for the benefit of the Town of Braggs, Oklahoma. The PWA is empowered to incur debt for the purposes stated above. The water and sewer systems owned by the Town have been leased to the PWA. The PWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by the board consisting of three trustees identical with the Town Council. The PWA is exempt from State and Federal Income Taxes and is reported as an enterprise fund.

B. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

The Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of government and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. There was on non-major fund to present.

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

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are two categories of funds: governmental and proprietary.

Governmental Fund Types

Governmental Fund Types are used to account for the Town's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

The following are the Town's major governmental funds:

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

Special Revenue Funds account for revenue sources that are either legally restricted to expenditures for specific purposes or designated to finance particular functions of the Town. The reporting entity includes the following special revenue funds.

<u>Fund</u>	<u>Brief Description</u>
Volunteer Fire Department	Accounts for the fire dues and runs and Operational grants charged to residents

Proprietary Fund Types

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing

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

services, such as sewer, water and trash, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues and expenses are recorded when they result from cash transactions. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statements of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash

The restricted cash is the result of financial requirements of promissory notes between the Braggs Public Works Authority and the USDA Rural Development which consist of funds held in a Debt Service Reserve Account.

3. Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, and certain liabilities. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Net Assets. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by Town requires

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

management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds."

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund-type and proprietary fund inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets

Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following ranges of estimated useful lives:

Buildings	40 Years
Improvements, other than buildings	10 Years
Machinery, furniture and equipment	5-10 Years
Utility property and improvements	40 Years

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

The Town has not maintained accurate capital asset records to support historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost is not readily available. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental Activities is not readily determinable.

The capitalization threshold has been set at \$2,500.00.

8. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time and part-time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

9. Revenues, Expenditures and Expenses

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 generally obligation bonded debt approved by voters and court-assessed judgments.

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)

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.

10. Equity Classification

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

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

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 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.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Fire Department Fund	Grants Donations

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town prepares its annual budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the Mayor submits to the Town Trustees a proposed operating budget for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Trustees.
- d. The adopted budget is filed with the Office of State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as the minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Interfund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Trustee approval. The Mayor may transfer appropriations between object categories within a department without Town Trustees approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$339,337 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 District or by its agent in the Town's name.

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

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.

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.).

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

NOTE 4 - CAPITAL ASSETS

Town of Braggs:

As described above the Town does not keep detailed fixed asset information. However, the following information is included in the financial statements.

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
<u>Other Capital Assets:</u>				
Buildings	\$ 92,483	\$ -	\$ -	\$ 92,483
Infrastructure	-	-	-	-
Vehicles	110,126	25,416	(24,900)	110,642
Machinery & Equipment	19,813	-	-	19,813
Subtotal	222,422	25,416	(24,900)	222,938
Less: Accum. Depr.	(151,955)	(9,405)	15,770	(145,590)
Total Capital Assets (Net of Depreciation)	<u>\$ 70,467</u>	<u>\$ 16,011</u>	<u>\$ (9,130)</u>	<u>\$ 77,348</u>

The current year addition was the purchase of a 2011 Chevrolet Tahoe police vehicle. The deduction was for the sale of the 2008 Dodge Charger police vehicle.

Braggs Public Works Authority:

Activity of capital assets consists of the following:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Land	\$ -	\$ -	\$ -	\$ -
Property, plant & equipment	1,716,189	35,537	-	1,751,726
Construction in progress	-	-	-	-
Subtotal	1,716,189	35,537	-	1,751,726
Less: Accum. Depr.	(946,299)	(59,034)	-	(1,005,333)
Total Capital Assets (Net of Depreciation)	<u>\$ 769,890</u>	<u>\$ (23,497)</u>	<u>\$ -</u>	<u>\$ 746,393</u>

The current year additions included sewer upgrades and a CDBG project expense.

NOTE 7 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2012

Daimler Chrysler in the amount of \$20,400.00 with a fixed interest rate of 9.25% with 60 monthly payments of principal and interest of \$426 starting July 2008 and due June 2013. The note was used to purchase a

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

2008 Dodge Charger for the Police Department. \$ -0-

Kansas State Bank of Manhattan in the amount of \$21,952.20 with a fixed interest rate of 6.06% with 60 monthly payments of principal and interest of \$425 starting September 2011 and due August 2016. The note was used to purchase a 2011 Chevrolet Tahoe for the Police Department. \$18,408

Total Note Payable Outstanding \$18,408

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2012:

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Note Payable (PD) - Chrysler	\$ 8,947	\$ -	\$ (8,947)	\$ -
Note Payable (PD) - KSB	\$ -	\$ 21,952	\$ (3,544)	\$ 18,408
	\$ 8,947	\$ 21,952	\$ (12,491)	\$ 18,408

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Notes Payable - Police Department Debt		
	Principal	Interest	Total
2013	\$ 4,097	\$ 1,003	\$ 5,100
2014	4,352	748	5,100
2015	4,624	476	5,100
2016	4,912	188	5,100
2017	423	2	425
Total	\$ 18,408	\$ 2,417	\$ 20,825

BRAGGS PUBLIC WORKS AUTHORITY

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2012

Note #91-01 due to Rural Development in the amount of \$320,000 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of \$1,572 starting November 1981 and due October 2021. The note was for the purpose of providing loan funds for a portion of the cost of constructing and improving the water and sewer systems \$ 126,396.30

Note #91-03 due to Rural Development in the amount of \$70,000 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of \$344 starting November 1981 and due October 2021. The note was for the purpose of

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

providing loan funds for a portion of the cost of constructing and improving the water and sewer systems 25,500.19

Note #92-04 due to Rural Development in the amount of \$58,400 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of \$287 starting May 1982 and due April 2022. The note was for the purpose of providing loan funds for a portion of the cost of constructing and improving the water and sewer systems 24,804.64

Note #024-9139-17618 due to GMAC in the amount of \$15,560.00 with a fixed interest rate of 8.90% with 48 monthly payments of principal and interest of \$386 starting September 2008 and due August 2012. The note was used to purchase a 2008 GMC Canyon pickup. 766.33

Note #024-9131-20314 due to GMAC in the amount of \$15,738.00 with a fixed interest rate of 8.90% with 48 monthly payments of principal and interest of \$391 starting September 2008 and due August 2012. The note was used to purchase a 2008 GMC Sierra pickup. 769.83

Total Notes Payable Outstanding \$ 178,210.29

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2012:

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Note Payable - RD #91-01	\$ 138,581	\$ -	\$ (12,212)	\$ 126,369
Note Payable - RD #91-03	28,277	-	(2,777)	25,500
Note Payable - RD #92-04	26,950	-	(2,145)	24,805
Note Payable - GMAC (Canyon)	5,121	-	(4,355)	766
Note Payable - GMAC (Sierra)	5,175	-	(4,405)	770
	\$ 204,103	\$ -	\$ (25,893)	\$ 178,210

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Notes Payable - RD #91-01		Total
	Principal	Interest	
2013	\$ 12,837	\$ 6,027	\$ 18,864
2014	13,494	5,370	18,864
2015	14,184	4,680	18,864
2016	14,910	3,954	18,864
2017	15,673	3,191	18,864
2018-2022	55,270	4,614	59,885
Total	\$ 126,369	\$ 27,836	\$ 154,205

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

Year Ending June 30,	Notes Payable - RD #91-03		Total
	Principal	Interest	
2013	\$ 2,919	\$ 1,209	\$ 4,128
2014	3,069	1,059	4,128
2015	3,226	902	4,128
2016	3,391	737	4,128
2017	3,564	564	4,128
2018-2020	9,332	590	9,922
Total	<u>\$ 25,500</u>	<u>\$ 5,062</u>	<u>\$ 30,562</u>

No schedule is provided for #92-04 because the PWA will be paying that loan in full in July 2012.

Year Ending June 30,	Notes Payable - GMAC (Canyon)		Total
	Principal	Interest	
2013	766	8	\$ 774
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
Total	<u>\$ 766</u>	<u>\$ 8</u>	<u>\$ 774</u>

Year Ending June 30,	Notes Payable - GMAC (Sierra)		Total
	Principal	Interest	
2013	\$ 770	\$ 8	\$ 778
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
Total	<u>\$ 770</u>	<u>\$ 8</u>	<u>\$ 778</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The Town participates in the 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 revenue is specifically assessed for payment of the claim, and only to the extent of

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

the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Description of the Plan

Only the Town's volunteer firemen are covered by a pension plan. This noncontributory plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). The Oklahoma Firefighters Pension and Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-800-525-7461.

Funding Policy

The Town is required to make annual contributions of \$60.00 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and appropriation by the State of Oklahoma.

The Town's contribution to OFPRS was \$1,140.00 for 2012.

NOTE 10 - CENA FUND

Effective July 1, 2007, control of the CENA Fund for the benefit of the community center has been transferred to a group of local churches. The Town is no longer responsible for this fund. Therefore, financial data for this fund is no longer being included in the financial statements.

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

NOTE 12 - GOVERNMENTAL FUND BALANCES

Town of Braggs
 Disclosure of Fund Balances Reported on Balance Sheet
 For Fiscal Year Ending June 30, 2012

	General Fund	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Assigned	\$ -	\$ 13,990	\$ -	\$ 13,990
Unassigned	5,026	-	-	5,026
Total	<u>\$ 5,026</u>	<u>\$ 13,990</u>	<u>\$ -</u>	<u>\$ 19,016</u>

NOTE 13 - GRANT INCOME

The PWA received and expended \$18,700.00 from the Oklahoma Department of Commerce for Contract Number 14731 CDBG 11.

NOTE 14 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 4, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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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 Braggs, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Braggs, 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 December 4, 2012, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping. The Town of Braggs 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 or Budgetary Comparison Information. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of the Town of Braggs is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Braggs' 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 Braggs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Braggs' 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 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 I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01, 12-02 and 12-03. A significant deficiency is a deficiency, or a

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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 Braggs' 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Braggs' response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Town of Braggs' 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 Braggs, 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

December 4, 2012

TOWN OF BRAGGS, 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: Meter Deposits

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

Condition: The Town began keeping a ledger regarding the balance of customer meter deposits. However, the balance does not reconcile to the liability balance.

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.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Town is aware of the problem and has already taken steps to correct the situation.

Item 12-03 - 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,

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

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 has already taken steps to correct the situation.