

AUDIT REPORT
TOWN OF COLCORD, OKLAHOMA
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF COLCORD, OKLAHOMA
JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	6
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	7
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	8
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9-10
EXHIBIT E STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	11
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	13
NOTES TO THE FINANCIAL STATEMENTS	14-24
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>	25-26
SCHEDULE OF FINDINGS	27-30
OTHER SUPPLEMENTARY INFORMATION:	
EXHIBIT H COMBINING BALANCE SHEET - NONMAJOR	

TOWN OF COLCORD, OKLAHOMA
JUNE 30, 2012

	GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	31
EXHIBIT I	COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	32

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Colcord, 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 Colcord, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Colcord, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Colcord, 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.

As described in Item 12-02 on Page 27, the Town of Colcord and the Colcord Public Works Authority (Management) did not properly record transactions in the books of account; past and present Management did not assume responsibility for the selection and method of appropriate accounting principles and their application; past and present Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including reviewing proposed entries and understanding the nature and impact of proposed entries to the financial statements; past and present Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for adjusting the financial statements for all material adjustments, individually and in the aggregate, to the financial statements taken as a whole.

Because of the significance of the matter(s) described in the preceding paragraph, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Colcord, Oklahoma, as of and for the year ended June 30, 2012. Accordingly, we do not express an opinion on these financial statements as of and for the year ended June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2013, on our consideration of the Town of Colcord, 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 Town of Colcord has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

August 8, 2013

TOWN OF COLCORD, 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>2011 Total</u>
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 100,951	\$ 22,962	\$ 123,912	\$ 152,888
Total Current Assets	<u>100,951</u>	<u>22,962</u>	<u>123,912</u>	<u>152,888</u>
<u>Restricted Assets:</u>				
Cash and cash equivalents	-	54,191	54,191	53,080
Total Current Assets	<u>-</u>	<u>54,191</u>	<u>54,191</u>	<u>53,080</u>
<u>Capital Assets:</u>				
Land	-	95,745	95,745	95,745
Other Capital Assets, Net of Accum. Depr.	334,653	1,220,249	1,554,902	1,606,859
Total Capital Assets	<u>334,653</u>	<u>1,315,994</u>	<u>1,650,647</u>	<u>1,702,604</u>
TOTAL ASSETS	<u>435,604</u>	<u>1,393,146</u>	<u>1,828,750</u>	<u>1,908,571</u>
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Current Portion of Long-Term Debt	-	11,237	11,237	15,275
Customer Meter Deposits Payable	-	43,843	43,843	36,008
Total Current Liabilities	<u>-</u>	<u>55,080</u>	<u>55,080</u>	<u>51,283</u>
<u>Long-Term Liabilities:</u>				
Notes Payable	-	385,394	385,394	396,680
Total Long-Term Liabilities	<u>-</u>	<u>385,394</u>	<u>385,394</u>	<u>396,680</u>
TOTAL LIABILITIES	<u>-</u>	<u>440,474</u>	<u>440,474</u>	<u>447,962</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	334,653	919,363	1,254,016	1,290,650
Restricted for:				
Debt Service	-	54,191	54,191	53,080
Other Purposes	-	-	-	-
Unrestricted	<u>100,951</u>	<u>(20,881)</u>	<u>80,070</u>	<u>116,879</u>
TOTAL NET ASSETS	<u>\$ 435,604</u>	<u>\$ 952,672</u>	<u>\$ 1,388,277</u>	<u>\$ 1,460,609</u>

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

TOWN OF COLCORD, 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	\$ 190,640	\$ -	\$ -	\$ 4,000	\$ (186,640)
Public Safety	7,117	15,707	4,413	-	13,003
Highways & Streets	15,741	-	-	-	(15,741)
Debt Service - Interest	-	-	-	-	-
Total Governmental Activities	213,498	15,707	4,413	4,000	(189,378)
Business-type activities:					
Water, Sewer & Sanitation	233,566	184,789	-	-	(48,777)
Total Business-type Activities	233,566	184,789	-	-	(48,777)
Total	\$ 447,064	\$ 200,496	\$ 4,413	\$ 4,000	\$ (238,155)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (189,378)	\$ (48,777)	\$ (238,155)
General revenues:			
Taxes:			
Franchise Tax	13,347	-	13,347
Sales Tax	91,387	-	91,387
Use Tax	16,663	-	16,663
Cigar Tax	1,344	-	1,344
Intergovernmental:			
Alcoholic Beverage Tax	8,165	-	8,165
Gasoline Excise Tax	2,271	-	2,271
Motor Vehicle Tax	5,884	-	5,884
Contributions	7,192	-	7,192
Miscellaneous Income	19,508	-	19,508
Interest Income	34	27	61
Transfers - Internal Activity	(15,335)	15,335	-
Total general revenues & transfers	150,460	15,362	165,822
Changes in net assets	(38,918)	(33,415)	(72,333)
Net assets - beginning	474,522	986,087	1,460,609
Net assets - prior year adjustment	-	-	-
Net assets - ending	\$ 435,604	\$ 952,672	\$ 1,388,277

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

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

	General Fund	Street & Alley Fund	Fire Dept Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents	\$ 17,982	\$ 49,579	\$ 30,047	\$ 3,342	\$ 100,951
TOTAL ASSETS	\$ 17,982	\$ 49,579	\$ 30,047	\$ 3,342	\$ 100,951
<u>LIABILITIES & FUND EQUITY</u>					
LIABILITIES:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-	-	-
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	49,579	-	-	49,579
Committed	-	-	-	-	-
Assigned	-	-	30,047	3,342	33,389
Unassigned	17,982	-	-	-	17,982
TOTAL FUND BALANCES	17,982	49,579	30,047	3,342	100,951
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,982	\$ 49,579	\$ 30,047	\$ 3,342	\$ 100,951

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 \$360,510, net of accumulated depreciation of \$25,857, are not financial resources and, therefore, are not reported in the funds.	334,653
--	---------

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	\$ 435,604
--	-------------------

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

TOWN OF COLCORD, 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	Street & Alley Fund	Fire Department Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>					
Taxes:					
Franchise Tax	\$ 13,347	\$ -	\$ -	\$ -	\$ 13,347
Sales Tax	91,387	-	-	-	91,387
Use Tax	16,663	-	-	-	16,663
Cigar Tax	1,344	-	-	-	1,344
Intergovernmental:					
Alcoholic Beverage Tax	8,165	-	-	-	8,165
Gasoline Excise Tax	2,271	-	-	-	2,271
Motor Vehicle Tax	5,884	-	-	-	5,884
Grants	4,000	-	4,413	-	8,413
Fines & Forfeitures	15,707	-	-	-	15,707
Contributions	-	-	3,583	3,610	7,192
Miscellaneous Income	10,039	-	9,469	-	19,508
Interest Income	-	34	-	-	34
TOTAL REVENUES	168,808	34	17,464	3,610	189,916
<u>EXPENDITURES:</u>					
Current:					
General Government	178,280	-	-	2,343	180,623
Public Safety	-	-	6,413	703	7,117
Highways & Streets	-	7,877	-	-	7,877
Debt Service	-	-	-	-	-
Capital Outlay	10,018	7,865	-	-	17,882
TOTAL EXPENDITURES	188,298	15,741	6,413	3,046	213,498
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,490)	(15,707)	11,051	563	(23,583)
<u>OTHER FINANCING SOURCES (USES):</u>					
Operating Transfers In	24,093	12,296	-	-	36,389
Operating Transfers Out	(29,382)	(18,575)	(2,645)	(1,122)	(51,724)
Capital Debt Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,289)	(6,280)	(2,645)	(1,122)	(15,335)
NET CHANGES IN FUND BALANCES	(24,779)	(21,987)	8,406	(559)	(38,918)
FUND BALANCE - BEGINNING OF YEAR	\$ 42,761	71,566	21,641	3,900	139,869
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 17,982	\$ 49,579	\$ 30,047	\$ 3,342	100,951

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

TOWN OF COLCORD, 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	\$ (38,918)
--	-------------

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	-
----------------------	---

	<hr style="border: 1px solid black;"/> \$ (38,918) <hr style="border: 1px solid black;"/>
--	--

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

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

	Colcord Public Works Authority Enterprise Fund June 30, 2012	Memo Only June 30, 2011
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 22,962	\$ 13,019
Total Current Assets	22,962	13,019
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	54,191	53,080
Land	95,745	95,745
Other capital assets, net of accumulated depreciation	1,220,249	1,272,206
Total Noncurrent Assets	1,370,185	1,421,031
TOTAL ASSETS	1,393,146	1,434,050
<u>LIABILITIES & FUND EQUITY</u>		
Current Liabilities:		
Current Portion of Long-Term Debt	11,237	15,275
Customer Meter Deposits Payable	43,843	36,008
Total Current Liabilities	55,080	51,283
Noncurrent Liabilities:		
Notes Payable	385,394	396,680
Total Noncurrent Liabilities	385,394	396,680
TOTAL LIABILITIES	440,474	447,962
NET ASSETS:		
Invested in capital assets, net of related debt	919,363	955,997
Restricted for debt service	54,191	53,080
Unrestricted	(20,881)	(22,990)
TOTAL NET ASSETS	\$ 952,672	\$ 986,087

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

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

	Colcord Public Works Authority Enterprise Fund June 30, 2012	Memo Only June 30, 2011
<u>OPERATING REVENUES:</u>		
Charges for Services	\$ 180,724	\$ 189,253
Miscellaneous Income	4,065	170
TOTAL OPERATING REVENUES	184,789	189,424
<u>OPERATING EXPENSES:</u>		
Electric Purchased	25,915	29,805
Waste Management	9,838	9,944
Salaries & related expenses	68,613	89,878
Maintenance & Operations	60,724	52,672
Depreciation	51,957	51,957
TOTAL OPERATING EXPENSES	217,047	234,256
NET OPERATING INCOME (LOSS)	(32,258)	(44,832)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	27	34
Interest Expense	(16,519)	(17,050)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(16,493)	(17,016)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(48,750)	(61,848)
Capital Contributions	-	20,750
Transfers in	27,247	40,325
Transfers out	(11,912)	(7,066)
CHANGE IN NET ASSETS	(33,415)	(7,839)
TOTAL NET ASSETS - BEGINNING	986,087	996,407
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-	(2,481)
TOTAL NET ASSETS - ENDING	\$ 952,672	\$ 986,087

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

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

	<u>June 30, 2012</u>	<u>Memo Only June 30, 2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 184,789	\$ 189,424
Payments to Suppliers & Laborers	(165,090)	(182,299)
Customer Meter Deposits Received, Net of Refunded	<u>7,834</u>	<u>5,877</u>
Net Cash Provided (Used) by Operating Activities	<u>27,534</u>	<u>13,003</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>		
Transfers to other funds	(11,912)	(7,066)
Transfers from other funds	<u>27,247</u>	<u>40,325</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>15,335</u>	<u>33,259</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	(23,179)
Capital Contributions	-	20,750
Loan Proceeds received	-	-
Principal paid on Notes Payable	(15,323)	(15,105)
Interest paid	<u>(16,519)</u>	<u>(17,050)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(31,842)</u>	<u>(34,583)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Additions to Restricted Cash & Cash Equivalents	(1,111)	(3,642)
Interest Income	<u>27</u>	<u>34</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,084)</u>	<u>(3,608)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,943	8,071
Cash & Cash Equivalents, Beginning of Year	13,019	7,429
Cash & Cash Equivalents, Prior Year Adjustment	-	<u>(2,481)</u>
Cash & Cash Equivalents, End of Year	<u>\$ 22,962</u>	<u>\$ 13,019</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (32,258)	\$ (44,832)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	51,957	51,957
(Increase)Decrease in Accounts Receivable	-	-
(Increase)Decrease in Prepaid Insurance	-	-
Increase(Decrease) in Customer Meter Deposits Payable	<u>7,834</u>	<u>5,877</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 27,534</u>	<u>\$ 13,003</u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Town of Colcord, Oklahoma is incorporated and operates under a statutory town form of government as directed by Title 11 of the Oklahoma statutes. The duties of the mayor are set forth in Title 11 and the Town is governed by five board members each representing a ward within the Town. Major operations include police and fire protection, parks and recreation, public works, sanitation and streets, and general administrative services.

B. Basis of Presentation

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 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. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the primary operating fund of the Town. 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. Special revenue funds consist of the Fire Department, Street & Alley, First Responder and Civil Defense funds.

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 services, such as water, sewer and trash disposal, 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 are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed

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

property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. Total Columns (Memorandum Only) & Beginning Fund Balances

Total Columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

D. Basis of Accounting

The Town of Colcord prepares its financial statements on 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. Grant income is recognized when received.

E. Budget and Budgetary Procedures

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. By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

F. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

G. Accounts Receivable

Management has not established an allowance for uncollectible accounts receivable. Accounts are written off as bad debt expense when it is deemed that they are uncollectible. The allowance for doubtful accounts was considered immaterial for reporting purposes.

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded as historical cost or estimated historical cost if purchased or constructed. The capitalization threshold has been set at \$1,000.00. Donated assets are recorded at estimated fair market values as of the date of the donation.

The costs of normal maintenance are repairs that do not add to the value or capacity of the asset or materiality extend assets lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water Plant & Sewer System	40
Automobiles & Equipment	5
Building	20

I. 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 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

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

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
Fire Department Fund	Grant Income Membership Fees Contributions

J. 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 general 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) 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.

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

K. 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). 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.

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

M. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at yearend are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities have been eliminated in the presentation of the government-wide financial statements.

N. Compensated Absences

At fiscal year end, no determination of the aggregate dollar value of vacation or sick pay had been made. The Town's position is that any accrued benefits are not significant and would not materially affect the financial statements.

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

0. Memorandum Only

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

NOTE 2 - 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

The annual budget required to be prepared and filed with the State Auditor and Inspector's office has not been prepared.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$178,103 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.

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

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

- 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

Payments into a reserve account are required to meet the requirement of USDA Rural Development. The Colcord Public Works Authority is also required to deposit \$41.00, \$76.00, and \$118.00 per month into a Debt Reserve Account until \$28,092.00 is accumulated for USDA Rural Development. These reserve accounts may be combined and should only be used for operation in the event of an emergency and after approval of the USDA Rural Development. The Authority is not making the required monthly deposits.

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds. Restricted cash consisted of the following:

Consumer Meter Deposits	\$33,818
Debt Reserve	<u>20,373</u>
Total Restricted Cash	<u>\$54,191</u>

NOTE 5 - CAPITAL ASSETS

The governmental fund type operations have not kept detailed capital assets records. These assets would include public domain infrastructure such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems. Capital assets include furniture, fixtures and equipment. No depreciation expense has been provided on such assets.

The proprietary fund also does not keep detailed capital asset records. The capital assets included in the financial statements do not reflect all capital assets owned by the PWA. For the proprietary fund type capital assets, the sale or disposal of such assets is recorded by removing cost and accumulated depreciation from the accounts, and charging the resulting gain or loss to income. Depreciation has been calculated on the sewer system using the straight-line method with an estimated useful life of 40 years.

Capital asset activity for the Authority, for the fiscal year ended June 30, 2012, was as follows:

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

	6/30/11			6/30/12
	Balance	Additions	Deletions	Balance
Land	\$ 95,745	\$ -	\$ -	\$ 95,745
Buildings	9,692	-	-	9,692
Furniture & Equipment	135,673	-	-	135,673
Infrastructure	2,078,286	-	-	2,078,286
Total Capital Assets	2,319,396	-	-	2,319,396
Less: Accum. Depreciation	(951,445)	(51,957)	-	(1,003,402)
Net Capital Assets	<u>\$ 1,367,951</u>	<u>\$ (51,957)</u>	<u>\$ -</u>	<u>\$ 1,315,994</u>

Depreciation expense for the year ended June 30, 2012, aggregating \$51,957, has been computed on assets with a cost basis totaling \$2,319,396.

NOTE 6 - LONG-TERM DEBT

The Colcord Public Works Authority has the authority to incur long-term debt as needed for operations, maintenance, and expansion.

The Authority has three notes payable to the United States Department of Agriculture Rural Development (USDA), payable

<u>Monthly Payment</u>	<u>Interest Rate</u>	<u>Date of Loan</u>
\$ 401.00	5.00%	9/10/74
\$1,181.00	4.50%	3/25/98
\$ 759.00	4.50%	6/21/01

The Town of Colcord Public Works Authority has a note payable to the Oklahoma Department of Commerce, payable in monthly installments of \$312.50. This note is an interest free loan, payable in 240 monthly payments. The first payment was due by March 2002.

Changes in Long-Term Debt

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

Notes Payable:	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
USDA Rural Development #1	\$ 4,943.53	\$ -	\$ (4,670.71)	\$ 272.82
USDA Rural Development #2	217,704.73	-	(4,466.15)	213,238.58
USDA Rural Development #3	149,368.38	-	(2,435.92)	146,932.46
Department of Commerce	39,937.50	-	(3,750.00)	36,187.50
Total Long-Term Debt	<u>\$ 411,954.14</u>	<u>\$ -</u>	<u>\$ (15,322.78)</u>	<u>\$ 396,631.36</u>

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

Debt Service Requirements to Maturity

USDA Rural Development #1:

FYE June 30,	Principal	Interest	Total
2013	\$ 272.82	\$ 1.14	\$ 273.96
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
	<u>\$ 272.82</u>	<u>\$ 1.14</u>	<u>\$ 273.96</u>

USDA Rural Development #2:

FYE June 30,	Principal	Interest	Total
2013	\$ 4,668.50	\$ 9,503.50	\$ 14,172.00
2014	4,882.99	9,289.01	14,172.00
2015	5,107.30	9,064.70	14,172.00
2016	5,317.60	8,854.40	14,172.00
2017	5,586.20	8,585.80	14,172.00
2018-2022	32,001.21	38,858.79	70,860.00
2023-2027	40,061.93	30,798.07	70,860.00
2028-2032	50,144.82	20,715.18	70,860.00
2033-2037	62,793.36	8,066.64	70,860.00
2038-2042	2,674.67	78.95	2,753.62
	<u>\$ 213,238.58</u>	<u>\$ 143,815.04</u>	<u>\$ 357,053.62</u>

USDA Rural Development #3:

FYE June 30,	Principal	Interest	Total
2013	\$ 2,545.92	\$ 6,562.08	\$ 9,108.00
2014	2,662.89	6,445.11	9,108.00
2015	2,785.20	6,322.80	9,108.00
2016	2,896.09	6,211.91	9,108.00
2017	3,046.22	6,061.78	9,108.00
2018-2022	17,446.35	28,093.65	45,540.00
2023-2027	21,840.68	23,699.32	45,540.00
2028-2032	27,333.54	18,206.46	45,540.00
2033-2037	34,232.54	11,307.46	45,540.00
2038-2042	32,143.03	2,977.87	35,120.90
	<u>\$ 146,932.46</u>	<u>\$ 115,888.44</u>	<u>\$ 262,820.90</u>

Department of Commerce:

FYE June 30,	Principal	Interest	Total
2013	\$ 3,750.00	\$ -	\$ 3,750.00
2014	3,750.00	-	3,750.00
2015	3,750.00	-	3,750.00
2016	3,750.00	-	3,750.00
2017	3,750.00	-	3,750.00
2018-2022	17,437.50	-	17,437.50
	<u>\$ 36,187.50</u>	<u>\$ -</u>	<u>\$ 36,187.50</u>

NOTE 7 - FUND EQUITY

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

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

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

The Town's restricted net assets are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The Town currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - INTERFUND TRANSACTIONS

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

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

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Street & Alley Fund	\$ 8,618.55	\$ 12,295.67
Fire Department Fund	2,440.94	-
First Responders Fund	1,088.98	-
Civil Defense Fund	32.98	
Colcord Public Works Authority	11,911.78	17,086.57
Total General Fund	\$ 24,093.23	\$ 29,382.24
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	\$ 12,295.67	\$ 8,618.55
Colcord Public Works Authority	-	9,956.86
First Responders Fund:		
General Fund	-	1,088.98
Fire Department	-	-
Fire Department Fund:		
General Fund	-	2,440.94
First Responders Fund	-	-
Colcord Public Works Authority	-	203.72
Civil Defense Fund:		
General Fund	-	32.98
Total Special Revenue Funds	\$ 12,295.67	\$ 22,342.03
ENTERPRISE FUNDS		
Colcord Public Works Authority		
General Fund	\$ 17,086.57	\$ 11,911.78
Street & Alley Fund	9,956.86	-
Fire Department Fund	203.72	-
Total Enterprise Funds	\$ 27,247.15	\$ 11,911.78
	\$ 63,636.05	\$ 63,636.05

NOTE 10 - SUBSEQUENT EVENTS

On July 22, 2013, the Town sent out notice to companies to which it had outstanding invoices stating, "Unfortunately, due to the previous Board's decisions of overspending the Town is now very heavily in debt." The letter also stated that "the situation will be resolved as quickly as possible with no possibility of this happening again."

Also after the fiscal year ending June 30, 2012, the PWA's Customer Deposit account was used for operating cash. These funds are considered restricted and are to be used to refund customer deposits only.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 Colcord, 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 Colcord, 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 August 8, 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 Colcord 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.

Internal Control Over Financial Reporting

Management of the Town of Colcord is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Colcord'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 Colcord's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Colcord's internal control over financial reporting.

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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as Items 12-01, 12-02, 12-03 & 12-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Colcord'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 is 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 Colcord's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit Town of Colcord's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the town council and management of the Town of Colcord, 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

August 8, 2013

TOWN OF COLCORD, 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 organization.

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

Recommendation: The Town needs to prepare financial statements which will provide a better audit trail of financial transactions. Management needs to designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

Response: The Town is aware of the problem. However, the condition still exists.

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: Past and present Management did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

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

Cause/Effect: Due to the weak internal control system, the revenue and expenses for the year were not properly divided into categories. Sales revenues, taxes, and other revenues were not properly identified on deposit slips or in other revenue records. Revenue and expense documentation needed to perform some audit procedures was not adequately maintained.

Recommendation: The Town needs to prepare financial statements which will provide a better audit trail of financial transactions. Management needs to designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements.

Response: The Town is aware of the problem.

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 WaterWorks 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.

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 is aware of the problem.

Item 12-04: Bank Deposits

Criteria: Daily bank deposits reduce the risk of lost or stolen cash on hand.

Condition: Receipts are not being deposited on a daily basis. During the current audit, it was noted that deposits of revenues continue to be held in some cases for extended periods. Some franchise tax receipts from early in the fiscal year that were confirmed with outside entities have still not been deposited at yearend.

Cause: The cost of fuel for going to the bank to make daily deposits is such that the Town is not cost effectively able to make daily deposits.

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

Effect: These conditions result in weakened control over cash receipts and could result in excess cash being maintained on-hand during the month or checks being misplaced or lost.

Recommendation: All receipts should be deposited daily and not retained on-site.

Response: At this time the Town is not able to cost effectively make such deposits.

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. The town began trying to separate some of the income but not all of it.

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 was not aware of the requirement until sometime during the fiscal year.

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 loans is \$28,092, the Authority is required to set aside into a Reserve Account the sum of 10% of the monthly installments or \$235.00 each month until there is accumulated in that account the sum of the annual installments (\$28,092), 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 \$26,100 set aside in the reserve account for the three loans.

Condition: The Authority has a loan reserve account with a balance of \$20,372.81 and is not making monthly deposits.

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

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

Recommendation: The Authority should continue to deposit \$235.00 a month into the reserve account as required by Rural Development and make a deposit to bring the account into compliance.

Response: The Authority is aware of the problem.

TOWN OF COLCORD, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	Civil Defense Fund	First Responders Fund	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,342	\$ -	\$ 3,342
TOTAL ASSETS	\$ 3,342	\$ -	\$ 3,342
<u>LIABILITIES & FUND BALANCES</u>			
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	3,342	-	3,342
Unassigned	-	-	-
TOTAL FUND BALANCES	3,342	-	3,342
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,342	\$ -	\$ 3,342

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

EXHIBIT I

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

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	Civil Defense Fund	First Responders Fund	
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Intergovernmental:			
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	-	-	-
Grants	-	-	-
Charges for Services	-	-	-
Contributions	2,947	663	3,610
Miscellaneous	-	-	-
Interest Income	-	-	-
TOTAL REVENUES	<u>2,947</u>	<u>663</u>	<u>3,610</u>
<u>EXPENDITURES:</u>			
General Government	2,343	-	2,343
Public Safety	-	703	703
Highways & Streets	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	<u>2,343</u>	<u>703</u>	<u>3,046</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	604	(40)	563
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	(33)	(1,089)	(1,122)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(33)</u>	<u>(1,089)</u>	<u>(1,122)</u>
NET CHANGES IN FUND BALANCES	571	(1,129)	(559)
FUND BALANCE - BEGINNING OF YEAR	2,771	1,129	3,900
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ 3,342</u>	<u>\$ -</u>	<u>\$ 3,342</u>

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