

AUDIT REPORT  
TOWN OF GARVIN, OKLAHOMA  
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF GARVIN, OKLAHOMA  
JUNE 30, 2012

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TOWN OF GARVIN, OKLAHOMA  
JUNE 30, 2012

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TOWN OF GARVIN, OKLAHOMA  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2012

BOARD OF TRUSTEES

| <u>NAME</u>   | <u>POSITION</u> |
|---------------|-----------------|
| BYRON FOSTER  | MAYOR           |
| ANTHONY SMITH | TREASURER       |
| BRITT MABRY   | TRUSTEE         |
| DAVID RODGERS | TRUSTEE         |

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Garvin, 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 Garvin, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Garvin, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Garvin, 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 I 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. I 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 net of accumulated 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 Garvin, 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 August 5, 2013, on our consideration of the Town of Garvin, 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 budgetary comparison information and the notes to the budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Garvin has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Garvin's 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

August 5, 2013

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

|                                                 | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>2012<br/>Total</u> |
|-------------------------------------------------|------------------------------------|-------------------------------------|-----------------------|
| <b><u>ASSETS</u></b>                            |                                    |                                     |                       |
| <b><u>Current Assets:</u></b>                   |                                    |                                     |                       |
| Cash and cash equivalents                       | \$ 15,660                          | \$ 41,894                           | \$ 57,554             |
| Investments                                     | 12,024                             | 16,368                              | 28,392                |
| Total Current Assets                            | <u>27,684</u>                      | <u>58,262</u>                       | <u>85,946</u>         |
| <b><u>Other Assets:</u></b>                     |                                    |                                     |                       |
| Cash and cash equivalents - Restricted          | -                                  | 9,336                               | 9,336                 |
| Total Other Assets                              | <u>-</u>                           | <u>9,336</u>                        | <u>9,336</u>          |
| <b><u>Capital Assets:</u></b>                   |                                    |                                     |                       |
| Capital Assets, net of Accum. Depreciation      | 205,782                            | 445,718                             | 651,500               |
| Total Capital Assets                            | <u>205,782</u>                     | <u>445,718</u>                      | <u>651,500</u>        |
| <b>TOTAL ASSETS</b>                             | <u>233,466</u>                     | <u>513,316</u>                      | <u>746,782</u>        |
| <b><u>LIABILITIES</u></b>                       |                                    |                                     |                       |
| <b><u>Current Liabilities:</u></b>              |                                    |                                     |                       |
| Current Portion of Long-Term Debt               | -                                  | 2,829                               | 2,829                 |
| Customer Deposits                               | -                                  | 6,923                               | 6,923                 |
| Total Current Liabilities                       | <u>-</u>                           | <u>9,752</u>                        | <u>9,752</u>          |
| <b><u>Long-Term Liabilities:</u></b>            |                                    |                                     |                       |
| Capital Debt Obligations                        | -                                  | -                                   | -                     |
| Notes Payable - USDA RD                         | -                                  | 18,377                              | 18,377                |
| Less: Current Portion of Long-Term Debt         | -                                  | (2,829)                             | (2,829)               |
| Total Long-Term Liabilities                     | <u>-</u>                           | <u>15,547</u>                       | <u>15,547</u>         |
| <b>TOTAL LIABILITIES</b>                        | <u>-</u>                           | <u>25,300</u>                       | <u>25,300</u>         |
| <b><u>NET ASSETS</u></b>                        |                                    |                                     |                       |
| Invested in capital assets, net of related debt | 205,782                            | 427,341                             | 633,123               |
| Restricted for:                                 |                                    |                                     |                       |
| Debt Service                                    | -                                  | 9,336                               | 9,336                 |
| Other Purposes                                  | -                                  | -                                   | -                     |
| Unrestricted                                    | <u>27,684</u>                      | <u>51,340</u>                       | <u>79,024</u>         |
| <b>TOTAL NET ASSETS</b>                         | <u>\$ 233,466</u>                  | <u>\$ 488,017</u>                   | <u>\$ 721,483</u>     |

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

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

| Functions/Programs                    | Expenses          | Program Revenues        |                                          |                                        | Net<br>(Expenses)/<br>Revenue |
|---------------------------------------|-------------------|-------------------------|------------------------------------------|----------------------------------------|-------------------------------|
|                                       |                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                               |
| <b>Governmental activities:</b>       |                   |                         |                                          |                                        |                               |
| General Government                    | \$ 101,249        | \$ -                    | \$ 39,698                                | \$ -                                   | \$ (61,551)                   |
| Public Safety                         | -                 | -                       | -                                        | -                                      | -                             |
| Highways & Streets                    | -                 | -                       | -                                        | -                                      | -                             |
| Debt Service - Interest Expense       | -                 | -                       | -                                        | -                                      | -                             |
| <b>Total Governmental Activities</b>  | <b>101,249</b>    | <b>-</b>                | <b>39,698</b>                            | <b>-</b>                               | <b>(61,551)</b>               |
| <b>Business-type activities:</b>      |                   |                         |                                          |                                        |                               |
| Water, Sewer & Sanitation             | 52,588            | 47,645                  | -                                        | -                                      | (4,942)                       |
| <b>Total Business-type Activities</b> | <b>52,588</b>     | <b>47,645</b>           | <b>-</b>                                 | <b>-</b>                               | <b>(4,942)</b>                |
| <b>Total</b>                          | <b>\$ 153,836</b> | <b>\$ 47,645</b>        | <b>\$ 39,698</b>                         | <b>\$ -</b>                            | <b>\$ (66,493)</b>            |

## Changes in Net Assets:

|                                               | Governmental<br>Activities | Business-Type<br>Activities | Total             |
|-----------------------------------------------|----------------------------|-----------------------------|-------------------|
| Net (expense)/revenue                         | \$ (61,551)                | \$ (4,942)                  | \$ (66,493)       |
| <b>General revenues:</b>                      |                            |                             |                   |
| <b>Taxes:</b>                                 |                            |                             |                   |
| Sales Tax                                     | 22,258                     | -                           | 22,258            |
| Cigar Tax                                     | 309                        | -                           | 309               |
| Franchise Tax                                 | 2,665                      | -                           | 2,665             |
| <b>Intergovernmental:</b>                     |                            |                             |                   |
| Motor Vehicle Tax                             | 1,266                      | -                           | 1,266             |
| Alcoholic Beverage Tax                        | 2,710                      | -                           | 2,710             |
| Gasoline Excise Tax                           | 640                        | -                           | 640               |
| Donations                                     | -                          | -                           | -                 |
| Sale of Property/Equipment                    | -                          | -                           | -                 |
| Miscellaneous Income                          | 10,976                     | -                           | 10,976            |
| Interest Income                               | 206                        | 175                         | 381               |
| Transfers - Internal Activity                 | -                          | -                           | -                 |
| <b>Total general revenues &amp; transfers</b> | <b>41,029</b>              | <b>175</b>                  | <b>41,204</b>     |
| <b>Changes in net assets</b>                  | <b>(20,521)</b>            | <b>(4,768)</b>              | <b>(25,289)</b>   |
| Net assets - beginning                        | 253,987                    | 492,735                     | 746,722           |
| Net assets - prior year adjustment            | -                          | 50                          | 50                |
| <b>Net assets - ending</b>                    | <b>\$ 233,466</b>          | <b>\$ 488,017</b>           | <b>\$ 721,483</b> |

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

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

|                                            | General<br>Fund  | Community<br>Center | Wellness<br>Center | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------------|------------------|---------------------|--------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                  |                     |                    |                                |                                |
| Cash and cash equivalents                  | \$ 9,032         | \$ 68               | \$ 5,770           | \$ 790                         | \$ 15,660                      |
| Investments                                | 12,024           | -                   | -                  | -                              | 12,024                         |
| <b>TOTAL ASSETS</b>                        | <b>\$ 21,056</b> | <b>\$ 68</b>        | <b>\$ 5,770</b>    | <b>\$ 790</b>                  | <b>\$ 27,684</b>               |
| <b>LIABILITIES &amp; FUND EQUITY</b>       |                  |                     |                    |                                |                                |
| <b>LIABILITIES:</b>                        |                  |                     |                    |                                |                                |
| Payroll Taxes Payable                      | \$ -             | \$ -                | \$ -               | \$ -                           | \$ -                           |
| <b>TOTAL LIABILITIES</b>                   | <b>-</b>         | <b>-</b>            | <b>-</b>           | <b>-</b>                       | <b>-</b>                       |
| <b>FUND BALANCES:</b>                      |                  |                     |                    |                                |                                |
| Nonspendable                               | -                | -                   | -                  | -                              | -                              |
| Restricted                                 | -                | -                   | -                  | -                              | -                              |
| Committed                                  | -                | 68                  | 5,770              | 790                            | 6,628                          |
| Assigned                                   | -                | -                   | -                  | -                              | -                              |
| Unassigned                                 | 21,056           | -                   | -                  | -                              | 21,056                         |
| <b>TOTAL FUND BALANCES</b>                 | <b>21,056</b>    | <b>68</b>           | <b>5,770</b>       | <b>790</b>                     | <b>27,684</b>                  |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 21,056</b> | <b>\$ 68</b>        | <b>\$ 5,770</b>    | <b>\$ 790</b>                  | <b>-</b>                       |

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 \$205,781.33, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. | 205,782           |
| Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.                           | -                 |
| <b>Net Assets of Governmental Activities</b>                                                                                                                                       | <b>\$ 233,466</b> |

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

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

|                                                         | <u>General<br/>Fund</u> | <u>Community<br/>Center</u> | <u>Wellness<br/>Center</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---------------------------------------------------------|-------------------------|-----------------------------|----------------------------|-----------------------------------------|-----------------------------------------|
| <b>REVENUES:</b>                                        |                         |                             |                            |                                         |                                         |
| <b>Taxes:</b>                                           |                         |                             |                            |                                         |                                         |
| Sales Tax                                               | \$ 22,258               | \$ -                        | \$ -                       | \$ -                                    | 22,258                                  |
| Cigar Tax                                               | 309                     | -                           | -                          | -                                       | 309                                     |
| Franchise Tax                                           | 2,665                   | -                           | -                          | -                                       | 2,665                                   |
| <b>Intergovernmental:</b>                               |                         |                             |                            |                                         |                                         |
| Motor Vehicle Tax                                       | 1,266                   | -                           | -                          | -                                       | 1,266                                   |
| Alcoholic Beverage Tax                                  | 2,710                   | -                           | -                          | -                                       | 2,710                                   |
| Gasoline Excise Tax                                     | 640                     | -                           | -                          | -                                       | 640                                     |
| Grants                                                  | 9,800                   | 29,898                      | -                          | -                                       | 39,698                                  |
| Donations                                               | -                       | -                           | -                          | -                                       | -                                       |
| Sale of Property/Equipment                              | -                       | -                           | -                          | -                                       | -                                       |
| Miscellaneous Income                                    | 1,800                   | -                           | 4,949                      | 4,227                                   | 10,976                                  |
| Interest Income                                         | 202                     | -                           | 4                          | -                                       | 206                                     |
| <b>TOTAL REVENUES</b>                                   | <b>41,650</b>           | <b>29,898</b>               | <b>4,953</b>               | <b>4,227</b>                            | <b>80,727</b>                           |
| <b>EXPENDITURES:</b>                                    |                         |                             |                            |                                         |                                         |
| General Government                                      | 72,352                  | 2,649                       | 2,628                      | 4,020                                   | 81,649                                  |
| Public Safety                                           | -                       | -                           | -                          | -                                       | -                                       |
| Highways & Streets                                      | -                       | -                           | -                          | -                                       | -                                       |
| Debt Service                                            | -                       | -                           | -                          | -                                       | -                                       |
| Capital Outlay                                          | 19,600                  | -                           | -                          | -                                       | 19,600                                  |
| <b>TOTAL EXPENDITURES</b>                               | <b>91,952</b>           | <b>2,649</b>                | <b>2,628</b>               | <b>4,020</b>                            | <b>101,249</b>                          |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>(50,303)</b>         | <b>27,249</b>               | <b>2,325</b>               | <b>207</b>                              | <b>(20,521)</b>                         |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                         |                             |                            |                                         |                                         |
| Operating Transfers In                                  | 27,292                  | -                           | -                          | -                                       | 27,292                                  |
| Operating Transfers Out                                 | -                       | (27,292)                    | -                          | -                                       | (27,292)                                |
| Capital Debt Proceeds                                   | -                       | -                           | -                          | -                                       | -                                       |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <b>27,292</b>           | <b>(27,292)</b>             | <b>-</b>                   | <b>-</b>                                | <b>-</b>                                |
| <b>NET CHANGES IN FUND BALANCES</b>                     | <b>(23,011)</b>         | <b>(42)</b>                 | <b>2,325</b>               | <b>207</b>                              | <b>(20,521)</b>                         |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>                 | <b>44,067</b>           | <b>110</b>                  | <b>3,445</b>               | <b>583</b>                              | <b>48,205</b>                           |
| <b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>             | <b>-</b>                | <b>-</b>                    | <b>-</b>                   | <b>-</b>                                | <b>-</b>                                |
| <b>FUND BALANCE - END OF YEAR</b>                       | <b>\$ 21,056</b>        | <b>\$ 68</b>                | <b>\$ 5,770</b>            | <b>\$ 790</b>                           | <b>27,684</b>                           |

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

**TOWN OF GARVIN, 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                                                                                                                                     | \$ | (20,521)        |
| <br>Amounts reported for governmental activities in the Statement of Activities are different because:                                                                                     |    |                 |
| <br>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                                                                                                                                                 |    | -               |
| <br>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                                                                                                                                                                      |    | -               |
| <br>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                                                                                                                                                                       |    | -               |
|                                                                                                                                                                                            |    | -               |
| <b>Change in Net Assets of Governmental Activities</b>                                                                                                                                     | \$ | <b>(20,521)</b> |

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

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

|                                                       | <b>Garvin Public<br/>Works Authority<br/>Enterprise Fund</b> |                                    |
|-------------------------------------------------------|--------------------------------------------------------------|------------------------------------|
|                                                       | <u>June 30, 2012</u>                                         | <u>Memo Only<br/>June 30, 2011</u> |
| <b><u>ASSETS</u></b>                                  |                                                              |                                    |
| <b>Current Assets:</b>                                |                                                              |                                    |
| Cash and cash equivalents                             | \$ 41,894                                                    | \$ 34,915                          |
| Investments                                           | <u>16,368</u>                                                | <u>16,230</u>                      |
| <b>Total Current Assets</b>                           | <u>58,262</u>                                                | <u>51,145</u>                      |
| <b>Noncurrent Assets:</b>                             |                                                              |                                    |
| Restricted cash and cash equivalents                  | 9,336                                                        | 8,753                              |
| Other capital assets, net of accumulated depreciation | <u>445,718</u>                                               | <u>460,677</u>                     |
| <b>Total Noncurrent Assets</b>                        | <u>455,054</u>                                               | <u>469,430</u>                     |
| <b>TOTAL ASSETS</b>                                   | <u>513,316</u>                                               | <u>520,575</u>                     |
| <b><u>LIABILITIES &amp; FUND EQUITY</u></b>           |                                                              |                                    |
| <b>Current Liabilities:</b>                           |                                                              |                                    |
| Accrued Interest Payable                              | -                                                            | 50                                 |
| Current Portion of Long-Term Debt                     | 2,829                                                        | 2,692                              |
| Customer Deposits                                     | <u>6,923</u>                                                 | <u>6,723</u>                       |
| <b>Total Current Liabilities</b>                      | <u>9,752</u>                                                 | <u>9,465</u>                       |
| <b>Noncurrent Liabilities:</b>                        |                                                              |                                    |
| Notes Payable - USDA RD                               | 18,377                                                       | 21,068                             |
| Less: Current Portion of Long-Term Debt               | <u>(2,829)</u>                                               | <u>(2,692)</u>                     |
| <b>Total Noncurrent Liabilities</b>                   | <u>15,547</u>                                                | <u>18,376</u>                      |
| <b>TOTAL LIABILITIES</b>                              | <u>25,300</u>                                                | <u>27,841</u>                      |
| <b>NET ASSETS:</b>                                    |                                                              |                                    |
| Invested in capital assets, net of related debt       | 427,341                                                      | 439,609                            |
| Restricted for debt service                           | 9,336                                                        | 8,753                              |
| Unrestricted                                          | <u>51,340</u>                                                | <u>44,373</u>                      |
| <b>TOTAL NET ASSETS</b>                               | <u>\$ 488,017</u>                                            | <u>\$ 492,735</u>                  |

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

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

|                                                               | <b>Garvin Public<br/>Works Authority<br/>Enterprise Fund</b> |                                    |
|---------------------------------------------------------------|--------------------------------------------------------------|------------------------------------|
|                                                               | <u>June 30, 2012</u>                                         | <u>Memo Only<br/>June 30, 2011</u> |
| <b><u>OPERATING REVENUES:</u></b>                             |                                                              |                                    |
| Water, Sewer, Sanitation, and Tap Fees                        | \$ 47,645                                                    | \$ 43,405                          |
| <b>TOTAL OPERATING REVENUES</b>                               | <u>47,645</u>                                                | <u>43,405</u>                      |
| <b><u>OPERATING EXPENSES:</u></b>                             |                                                              |                                    |
| Water Purchases                                               | 13,523                                                       | 9,517                              |
| Commissions & Fees                                            | 1,197                                                        | 1,141                              |
| Materials & Supplies                                          | -                                                            | -                                  |
| Depreciation Expense                                          | 14,960                                                       | 15,265                             |
| Office Expense & Miscellaneous                                | 368                                                          | 457                                |
| Professional Fees                                             | 2,375                                                        | -                                  |
| Repairs & Maintenance                                         | 907                                                          | -                                  |
| Contract Labor                                                | 9,055                                                        | 7,964                              |
| Utilities                                                     | 8,472                                                        | 7,077                              |
| Bank Charges                                                  | 620                                                          | 154                                |
| Miscellaneous                                                 | 119                                                          | 100                                |
| <b>TOTAL OPERATING EXPENSES</b>                               | <u>51,595</u>                                                | <u>41,675</u>                      |
| <b>NET OPERATING INCOME (LOSS)</b>                            | <u>(3,950)</u>                                               | <u>1,730</u>                       |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                      |                                                              |                                    |
| Interest Income                                               | 175                                                          | 299                                |
| Interest Expense                                              | (992)                                                        | (1,121)                            |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>                | <u>(818)</u>                                                 | <u>(822)</u>                       |
| <b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b> | <u>(4,768)</u>                                               | <u>908</u>                         |
| Capital Contributions                                         | -                                                            | -                                  |
| Transfers in                                                  | -                                                            | -                                  |
| Transfers out                                                 | -                                                            | -                                  |
| <b>CHANGE IN NET ASSETS</b>                                   | <u>(4,768)</u>                                               | <u>908</u>                         |
| <b>TOTAL NET ASSETS - BEGINNING</b>                           | 492,735                                                      | 491,827                            |
| <b>TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT</b>               | 50                                                           | -                                  |
| <b>TOTAL NET ASSETS - ENDING</b>                              | <u>\$ 488,017</u>                                            | <u>\$ 492,735</u>                  |

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

## EXHIBIT G

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

|                                                                                                         | <u>2012</u>             | <u>Memo Only<br/>2011</u> |
|---------------------------------------------------------------------------------------------------------|-------------------------|---------------------------|
| <b><u>Net Cash Flows from Operating Activities:</u></b>                                                 |                         |                           |
| Cash Receipts from Customers                                                                            | \$ 47,645               | \$ 43,405                 |
| Other Cash Receipts                                                                                     | -                       | -                         |
| Payments to Suppliers, Employees & Laborers                                                             | (36,636)                | (26,410)                  |
| Receipts of Customer Utility Deposits, Net of Refunds                                                   | 200                     | (200)                     |
| Net Cash Provided (Used) by Operating Activities                                                        | <u>11,210</u>           | <u>16,795</u>             |
| <b><u>Net Cash Flows from Non-Capital Financing Activities:</u></b>                                     |                         |                           |
| Operating Transfers in                                                                                  | -                       | -                         |
| Operating Transfers Out                                                                                 | -                       | -                         |
| Net Cash Provided (Used) by Non-Capital Financing Activities                                            | <u>-</u>                | <u>-</u>                  |
| <b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>                           |                         |                           |
| Additions to Capital Assets                                                                             | -                       | -                         |
| Capital Contributions                                                                                   | -                       | -                         |
| Loan Proceeds received                                                                                  | -                       | -                         |
| Principal paid on Notes                                                                                 | (2,692)                 | (2,561)                   |
| Interest paid on Notes                                                                                  | (992)                   | (1,123)                   |
| Net Cash Provided (Used) by Capital & Related Financing Activities                                      | <u>(3,684)</u>          | <u>(3,684)</u>            |
| <b>Net Cash Flows from Investing Activities:</b>                                                        |                         |                           |
| (Increase)Decrease in Investments                                                                       | (138)                   | (256)                     |
| Interest Income                                                                                         | 175                     | 299                       |
| Net Cash Provided (Used) by Investing Activities                                                        | <u>37</u>               | <u>43</u>                 |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                             | <b>7,563</b>            | <b>13,154</b>             |
| <b>Cash &amp; Cash Equivalents, Beginning of Year</b>                                                   | <b>43,668</b>           | <b>30,514</b>             |
| <b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>                                               | <b>-</b>                | <b>-</b>                  |
| <b>Cash &amp; Cash Equivalents, End of Year</b>                                                         | <b><u>\$ 51,231</u></b> | <b><u>\$ 43,668</u></b>   |
| <b><u>Reconciliation of operating income (loss) to net cash provided<br/>operating activities:</u></b>  |                         |                           |
| Operating Income (Loss)                                                                                 | \$ (3,950)              | \$ 1,730                  |
| Adjustments to reconcile operating income (loss) to net cash<br>provided (used) by operating activities |                         |                           |
| Depreciation Expense                                                                                    | 14,960                  | 15,265                    |
| Increase(Decrease) in Customer Deposits                                                                 | 200                     | (200)                     |
| Net Cash Provided (Used) by Operating Activities                                                        | <u>\$ 11,210</u>        | <u>\$ 16,795</u>          |

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Town of Garvin, Oklahoma is a "Statutory Town Government" under Title 11 of the Oklahoma Statutes.

The Town provides the following services: public safety, streets and highways, sanitation, public improvements, and general administrative services. The Garvin Public Works Authority (Enterprise Fund) provides water and sewer services. The Garvin Public Works Authority (the PWA) is a public trust created under the authority of Title 60 Oklahoma Statutes. The Town board of trustees and PWA board of directors are the same.

FUND ACCOUNTING

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 accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund types and two generic categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is used to account for all of the general revenues of the Town not specifically levied or collected for other Town funds, and for expenditures primarily related to the rendering of the general services to the Town.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Garvin Public Works Authority is accounted for as the Town's Enterprise Fund.

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

|                               |                                                                                                      |
|-------------------------------|------------------------------------------------------------------------------------------------------|
| Garvin Public Works Authority | Accounts for the activities of the public trust in providing water and sewer services to the public. |
|-------------------------------|------------------------------------------------------------------------------------------------------|

**BASIS OF ACCOUNTING**

Basis of accounting refers to the time when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurement made, regardless of the measurement focus applied.

The modified cash basis of accounting is followed by all funds of the Town, which is not in accordance with generally accepted accounting principles. Under this modified cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, governmental fund types would utilize the modified accrual basis of accounting while proprietary type funds would use the accrual basis of accounting.

If the books of the governmental fund types and the similar trust fund were maintained on the basis of accounting required by generally accepted accounting principles, revenues would be recorded when susceptible to accrual (i.e. both measurable) and available and expenditures would be recorded when the current liability is incurred. If the books of the proprietary fund types and similar trust funds were maintained on the basis of accounted required by generally accepted accounting principles, revenues would be recognized when earned and expenses would be recorded when the liability is incurred.

**CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, "cash and cash equivalents" includes all demand deposits (checking accounts, NOW accounts, and savings). All investments are stated at cost, which approximates market, unless otherwise indicated. The PWA considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**ENCUMBRANCES**

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

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

BUDGET

In accordance with Oklahoma Statutes, Title 68, the Town Council is required to formally adopt annual budgets, which include substantially all general funds. These required annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

CAPITAL ASSETS

The Town records all capital assets at cost. The capitalization threshold has been set at \$500.00. Capital assets purchased by the Town are recorded as capital outlay in the Governmental Fund Type Balance Sheet. Assets purchased by the PWA (Enterprise Fund) are recorded in the PWA as assets at cost or if contributed property at the estimated fair market value at the time of contribution. Repairs and maintenance cost are recorded as expenses. Governmental Fund Type capital assets are not depreciated. The sale or disposition of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Assets recorded in the PWA are depreciated over their useful lives of 5 to 50 years using the straight-line method. The Town does not include "infrastructure" capital assets - roads, bridges, streets, and similar assets that are immovable, in its financial statements. The Enterprise Fund applies FASB No. 62 and capitalizes interest expense of borrowings related to construction project loans less the related interest earned on temporary interest bearing investments.

The Town and Enterprise Fund have not maintained complete detailed records of capital assets owned and still in service. The amounts recorded as property, plant, and equipment of the Enterprise Fund at June 30, 2012 has been estimated. The amounts of property, plant and equipment recorded in the Governmental Fund Types have also been estimated.

Enterprise Fund Depreciation:

Depreciation has been calculated on the straight-line basis over the assets estimated useful lives. Estimated useful lives are as follows:

|                         |             |
|-------------------------|-------------|
| Water and sewer system  | 30-50 Years |
| Machinery and equipment | 5-20 Years  |

DUE TO AND DUE FROM OTHER FUNDS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

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

ESTIMATES

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND FRINGE BENEFITS

Governmental Generally Accepted Accounting Principles require the recording of an expenditure and the accrual of a liability for future vacation, sick pay, and other leave benefits for employee services already rendered, related to rights that vest, if the payment of compensation is probable and the amount of benefits can be reasonably estimated.

The Town's financial statements have been prepared on the modified cash basis and benefit cost (if any) are recognized when the benefits are paid. An accrued liability for benefits has not been recognized or reported in the financial statements.

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.

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

- 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.

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

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|-----------------------|
| Community Center Fund             | Grant Income          |
| Wellness Center Fund              | Miscellaneous Income  |

#### REVENUES, EXPENDITURES AND EXPENSES

##### Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

##### Property Tax

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

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

Enterprise Fund Revenues

Revenues consist of sales of water, sewer, and sanitation services to individuals, business owners, and others within the Town corporate limits and nearby area.

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.

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.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Authority was in compliance with the reserve requirements of the Rural Development loan agreements.

Deficit Fund Balance or Retained Earnings

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

Excess of Expenditures Over Appropriations

The Towns total charges to appropriations did not exceed budgeted amounts. However, the amounts available for appropriation were less than budgeted.

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

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

At June 30, 2012, the Town held deposits of approximately \$95,282 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 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 Town 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 Town.
- 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

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$3,684), 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 account balance for the reserve account was \$6,202.20, which complies with the covenants of the loan agreement

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the Governmental Fund Type, resulting from the modified cash transactions, for the fiscal year ended June 30, 2012, was as follows:

|                           | Balance<br>7/1/11 | Additions   | Deductions  | Balance<br>6/30/12 |
|---------------------------|-------------------|-------------|-------------|--------------------|
| Buildings & Improvements  | \$ 117,818        | \$ -        | \$ -        | \$ 117,818         |
| Equipment                 | 87,964            | -           | -           | 87,964             |
| Subtotal                  | 205,782           | -           | -           | 205,782            |
| Less: Accum. Depreciation | -                 | -           | -           | -                  |
| Total Capital Assets      | <u>\$ 205,782</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 205,782</u>  |

Capital asset activity for the Proprietary Fund Type, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2012, was as follows:

|                                               | Balance<br>7/1/11 | Additions          | Deductions  | Balance<br>6/30/12 |
|-----------------------------------------------|-------------------|--------------------|-------------|--------------------|
| Land                                          | \$ 78,750         | \$ -               | \$ -        | \$ 78,750          |
| System & Improvements                         | 623,199           | -                  | -           | 623,199            |
| Subtotal                                      | 701,949           | -                  | -           | 701,949            |
| Less: Accum. Depreciation                     | (241,272)         | (14,960)           | -           | (256,231)          |
| Total Capital Assets<br>(Net of Depreciation) | <u>\$ 460,677</u> | <u>\$ (14,960)</u> | <u>\$ -</u> | <u>\$ 445,718</u>  |

Depreciation expense for the year ended June 30, 2012, aggregating \$14,960, has been computed on assets with a cost basis totaling \$701,949. There were no current year additions.

NOTE 6 - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

As of June 30, 2012, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

There are currently no governmental fund long-term debts outstanding.

BUSINESS-TYPE ACTIVITIES

ENTERPRISE FUND - GARVIN PUBLIC WORKS AUTHORITY

The Authority has a note payable (Note 92-02) dated July 11, 1978 to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$246 until maturity, including interest at 5.0%. The original amount of the loan was \$50,000.00. The final payment is scheduled for July 11, 2018. The note is secured by a mortgage on the Authority's water and sewer systems including

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

all real and personal property and including the revenues and profits from the operations of the systems.

The Authority has a note payable (Note 92-03) dated August 54, 1979 to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$61 until maturity, including interest at 5.0%. The original amount of the loan was \$12,400.00. The final payment is scheduled for August 54, 2019. The note is secured by a mortgage on the Authority's water and sewer systems including all real and personal property and including the revenues and profits from the operations of the systems.

Changes in Long-Term Debt

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

|                      | Balance at<br>June 30, 2011 | Additions   | Deductions           | Balance at<br>June 30, 2012 |
|----------------------|-----------------------------|-------------|----------------------|-----------------------------|
| USDA RD Note 92-02   | \$ 16,555.85                | \$ -        | \$ (2,173.44)        | \$ 14,382.41                |
| USDA RD Note 92-03   | 4,512.36                    | -           | (518.11)             | 3,994.25                    |
| Total Long-Term Debt | <u>\$ 21,068.21</u>         | <u>\$ -</u> | <u>\$ (2,691.55)</u> | <u>\$ 18,376.66</u>         |

Debt Services Requirements to Maturity

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

| Year Ended<br>June 30, | USDA RD Note 92-02 |                 |                   | USDA RD Note 92-03 |               |                   |
|------------------------|--------------------|-----------------|-------------------|--------------------|---------------|-------------------|
|                        | Principal          | Interest        | Annual<br>Payment | Principal          | Interest      | Annual<br>Payment |
| 2013                   | \$ 2,285           | \$ 667          | \$ 2,952          | \$ 545             | \$ 187        | \$ 732            |
| 2014                   | 2,402              | 550             | 2,952             | 573                | 159           | 732               |
| 2015                   | 2,525              | 427             | 2,952             | 602                | 130           | 732               |
| 2016                   | 2,654              | 298             | 2,952             | 633                | 99            | 732               |
| 2017                   | 2,789              | 163             | 2,952             | 665                | 67            | 732               |
| 2018-2022              | 1,728              | 30              | 1,758             | 978                | 36            | 1,014             |
| Total                  | <u>\$ 14,382</u>   | <u>\$ 2,135</u> | <u>\$ 16,518</u>  | <u>\$ 3,994</u>    | <u>\$ 680</u> | <u>\$ 4,674</u>   |

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

NOTE 7 - INTERFUND TRANSFERS

The interfund transactions for the year were as follows:

|                                | Transfers Out | Transfers In |
|--------------------------------|---------------|--------------|
| General Fund:                  |               |              |
| Special Revenue                | -             | 27,292       |
| Wellness Center                | -             | -            |
| Garvin PWA                     | -             | -            |
| Garvin Public Works Authority: |               |              |
| General Fund                   | -             | -            |
| Special Revenue:               |               |              |
| General Fund                   | 27,292        | -            |
| Wellness Center:               |               |              |
| General Fund                   | -             | -            |
| Total All Funds                | 27,292        | 27,292       |

NOTE 8 - RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major government programs and areas.

The types of insurance coverage carried by the Town are listed below:

| <u>Type of Coverage</u>    | <u>Provided By</u>   |
|----------------------------|----------------------|
| Public Officials Liability | Commercial Insurance |
| Commercial Property        | Commercial Insurance |
| General Liability          | Commercial Insurance |
| Workers Compensation       | State Insurance Fund |

NOTE 9 - WATER PURCHASES

Up until January 1996, the PWA was using wells located in Garvin for its water supply. During January 1996, the PWA began to purchase its water supply from Forest Grove at a rate of \$1.11 per 1,000 gallons. During the year ended June 30, 1999, the PWA began purchasing water from Broken Bow PWA gravity flow at a rate of \$0.82 per 1,000 gallons. That rate has increased several times over the years. As of the year ending June 30, 2007, the rates have increased and are now \$1.94 per 1,000 gallons.

NOTE 10 - FUND EQUITY

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

TOWN OF GARVIN, 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 restricted net assets include assets related to Note 7 above.

Fund Balances

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

|                       | General<br>Fund  | Street<br>& Alley<br>Fund | Fire<br>Dept.<br>Fund | CDBG<br>Grant<br>Funds | Total<br>Governmental<br>Funds |
|-----------------------|------------------|---------------------------|-----------------------|------------------------|--------------------------------|
| <b>FUND BALANCES:</b> |                  |                           |                       |                        |                                |
| Committed to:         |                  |                           |                       |                        |                                |
| Community Center      | \$ -             | \$ 68                     | \$ -                  | \$ -                   | \$ 68                          |
| Wellness Center       | -                | -                         | 5,770                 | -                      | 5,770                          |
| Nutrition Center      | -                | -                         | -                     | 790                    | 790                            |
| Unassigned            | 21,056           | -                         | -                     | -                      | 21,056                         |
| Total                 | <u>\$ 21,056</u> | <u>\$ 68</u>              | <u>\$ 5,770</u>       | <u>\$ 790</u>          | <u>\$ 27,684</u>               |

NOTE 11 - COMMITMENTS AND CONTINGENCIES

**GRANT PROGRAMS**

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

**LITIGATION**

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

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

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 12 - LEASES

The Garvin Public Works Authority leases from the Town of Garvin, the water production, storage, transportation and distribution system, and facilities including all tangible property and all interest thereof as well as the sanitary sewage collection, transportation, processing, and disposal system, and garbage and trash collection system and facilities including all tangible property and all interest, for a term of 50 years that commenced January 12, 1977, and terminates January 11, 2027. The stipulated lease payment is the installation and construction of improvements to the leased property and the operation of the facilities for the benefit of the lessor. These ongoing improvements and operations will be the total consideration for the lease terms and all renewals thereafter. At the expiration of the term of the lease, the lessee has the option to renew the lease for the same number of years under the same terms and conditions.

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through August 5, 2013, 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.

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

|                                                     | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance with<br>Final Budget |
|-----------------------------------------------------|----------------------|----------------------|----------------------|-------------------------------|
|                                                     | Original             | Final                |                      | Positive (Negative)           |
| Beginning Budgetary Fund Balance:                   | \$ 44,067            | \$ 44,067            | \$ 44,067            | \$ -                          |
| <b><u>Resources (Inflows):</u></b>                  |                      |                      |                      |                               |
| Taxes:                                              |                      |                      |                      |                               |
| Sales Tax                                           | 24,701               | 24,701               | 22,258               | (2,443)                       |
| Cigar Tax                                           | 351                  | 351                  | 309                  | (42)                          |
| Franchise Tax                                       | 2,309                | 2,309                | 2,665                | 356                           |
| Intergovernmental:                                  |                      |                      |                      |                               |
| Motor Vehicle Tax                                   | 986                  | 986                  | 1,266                | 280                           |
| Alcoholic Beverage Tax                              | 1,998                | 1,998                | 2,710                | 712                           |
| Gasoline Excise Tax                                 | 227                  | 227                  | 640                  | 413                           |
| Grants                                              | -                    | -                    | 9,800                | 9,800                         |
| Donations                                           | -                    | -                    | -                    | -                             |
| Sale of Property/Equipment                          | -                    | -                    | -                    | -                             |
| Miscellaneous Income                                | 1,845                | 1,845                | 1,800                | (45)                          |
| Interest Income                                     | 356                  | 356                  | 202                  | (154)                         |
| Operating Transfers In                              | 17,078               | 17,078               | 27,292               | 10,214                        |
| Amounts available for appropriation                 | <u>93,918</u>        | <u>93,918</u>        | <u>113,008</u>       | <u>19,090</u>                 |
| <b><u>Charges to Appropriations (Outflows):</u></b> |                      |                      |                      |                               |
| General Government                                  | 49,851               | 49,851               | 72,352               | (22,501)                      |
| Public Safety                                       | -                    | -                    | -                    | -                             |
| Highways & Streets                                  | -                    | -                    | -                    | -                             |
| Debt Service                                        | -                    | -                    | -                    | -                             |
| Capital Outlay                                      | -                    | -                    | 19,600               | (19,600)                      |
| Operating Transfers Out                             | -                    | -                    | -                    | -                             |
| Total Charges to Appropriations                     | <u>49,851</u>        | <u>49,851</u>        | <u>91,952</u>        | <u>(42,101)</u>               |
| Prior Year Adjustments to Fund Balance              | -                    | -                    | -                    | -                             |
| Ending Budgetary Fund Balance                       | <u><u>44,067</u></u> | <u><u>44,067</u></u> | <u><u>21,056</u></u> | <u><u>(23,011)</u></u>        |

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

In accordance with Oklahoma Statutes, Title 68, the Town Council is required to formally adopt annual budgets, which include substantially all general funds. These required annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

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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 Board of Trustees  
Town of Garvin, 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 Garvin, 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 5, 2013, which was qualified for the effect on the basic financial statements of the omission of capital assets. The Town of Garvin 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. 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 Garvin is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Garvin'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 Garvin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Garvin's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 12-01, 12-02 & 12-03. A

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significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Garvin's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are included in the Schedule of Findings as Items 12-04 and 12-05. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, the board of trustees, others within the entity, the USDA Rural Development and the Oklahoma State Auditor and Inspector's office 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 5, 2013

TOWN OF GARVIN, 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 organization.

Item 12-02: Capital Asset Recordkeeping

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

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

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

Recommendation: We recommend the governing body and management take appropriate action to direct the staff to initiate this project and provide

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

funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town does not have the resources available to maintain such a list.

Item 12-03: Refundable Water Deposits

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

Condition: The Authority does not keep a ledger regarding the balance of customer deposits. Also, the water meter deposit bank account is not sufficient to cover the customer deposits liability shown in the financial statements.

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 Authority has been made aware of the problem and will take steps to correct the situation.

COMPLIANCE FINDINGS

Item 12-04: Water and Sewer Recordkeeping

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

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

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

Response: The Authority was not aware of the requirement.

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

Item 12-05: Budget

Criteria: Oklahoma State Law prescribes that no encumbrances or expenditures may be authorized or made, by an officer or employee, which exceeds the available appropriations for each object category within a department or fund.

Condition: Expenditures exceeded appropriations at the legal level of control for the General Fund. The total excess over appropriations was \$42,101.

Cause/Effect: Exceeding appropriations, leaves the Town out of compliance with Oklahoma Statutes.

Recommendation: The Town should adopt formal budget amendments, especially at or near yearend by department.

Response: The Town is aware of the problem.

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

|                                            | Nutrition<br>Center | Special<br>Projects<br>Fund | Emergency<br>Food<br>Account | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------------------|---------------------|-----------------------------|------------------------------|--------------------------------------------|
| <b>ASSETS</b>                              |                     |                             |                              |                                            |
| Cash and cash equivalents                  | \$ 790              | \$ -                        | \$ -                         | \$ 790                                     |
| Investments                                | -                   | -                           | -                            | -                                          |
| Due from General Fund                      | -                   | -                           | -                            | -                                          |
| Due from other governments                 | -                   | -                           | -                            | -                                          |
| <b>TOTAL ASSETS</b>                        | <b>\$ 790</b>       | <b>\$ -</b>                 | <b>\$ -</b>                  | <b>\$ 790</b>                              |
| <b>LIABILITIES &amp; FUND EQUITY</b>       |                     |                             |                              |                                            |
| <b>LIABILITIES:</b>                        |                     |                             |                              |                                            |
| Due to Other Governments                   | \$ -                | \$ -                        | \$ -                         | \$ -                                       |
| Payroll Taxes                              | -                   | -                           | -                            | -                                          |
| <b>TOTAL LIABILITIES</b>                   | <b>-</b>            | <b>-</b>                    | <b>-</b>                     | <b>-</b>                                   |
| <b>FUND BALANCES:</b>                      |                     |                             |                              |                                            |
| Nonspendable                               | -                   | -                           | -                            | -                                          |
| Restricted                                 | -                   | -                           | -                            | -                                          |
| Committed                                  | 790                 | -                           | -                            | 790                                        |
| Assigned                                   | -                   | -                           | -                            | -                                          |
| Unassigned                                 | -                   | -                           | -                            | -                                          |
| <b>TOTAL FUND BALANCES</b>                 | <b>790</b>          | <b>-</b>                    | <b>-</b>                     | <b>790</b>                                 |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 790</b>       | <b>\$ -</b>                 | <b>\$ -</b>                  | <b>\$ 790</b>                              |

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

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

|                                                         | Nutrition<br>Center | Special<br>Projects<br>Fund | Emergency<br>Food<br>Account | Total<br>Nonmajor<br>Governmental<br>Funds |
|---------------------------------------------------------|---------------------|-----------------------------|------------------------------|--------------------------------------------|
| <b>REVENUES:</b>                                        |                     |                             |                              |                                            |
| Taxes:                                                  |                     |                             |                              |                                            |
| Sales Tax                                               | \$ -                | \$ -                        | \$ -                         | \$ -                                       |
| Franchise Tax                                           | -                   | -                           | -                            | -                                          |
| Intergovernmental:                                      |                     |                             |                              |                                            |
| Alcoholic Beverage Tax                                  | -                   | -                           | -                            | -                                          |
| Gasoline Excise Tax                                     | -                   | -                           | -                            | -                                          |
| Motor Vehicle Tax                                       | -                   | -                           | -                            | -                                          |
| Grants                                                  | -                   | -                           | -                            | -                                          |
| Fines & Forfeitures                                     | -                   | -                           | -                            | -                                          |
| Miscellaneous Income                                    | 4,227               | -                           | -                            | 4,227                                      |
| Interest Income                                         | -                   | -                           | -                            | -                                          |
| <b>TOTAL REVENUES</b>                                   | <b>4,227</b>        | <b>-</b>                    | <b>-</b>                     | <b>4,227</b>                               |
| <b>EXPENDITURES:</b>                                    |                     |                             |                              |                                            |
| Current:                                                |                     |                             |                              |                                            |
| Personal Services                                       | -                   | -                           | -                            | -                                          |
| Maintenance & Operations                                | 4,020               | -                           | -                            | 4,020                                      |
| Capital Outlay                                          | -                   | -                           | -                            | -                                          |
| Debt Service - Principal & Interest                     | -                   | -                           | -                            | -                                          |
| <b>TOTAL EXPENDITURES</b>                               | <b>4,020</b>        | <b>-</b>                    | <b>-</b>                     | <b>4,020</b>                               |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> | <b>207</b>          | <b>-</b>                    | <b>-</b>                     | <b>207</b>                                 |
| <b>OTHER FINANCING SOURCES (USES):</b>                  |                     |                             |                              |                                            |
| Operating Transfers In                                  | -                   | -                           | -                            | -                                          |
| Operating Transfers Out                                 | -                   | -                           | -                            | -                                          |
| Capital Debt Proceeds                                   | -                   | -                           | -                            | -                                          |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>             | <b>-</b>            | <b>-</b>                    | <b>-</b>                     | <b>-</b>                                   |
| <b>NET CHANGES IN FUND BALANCES</b>                     | <b>207</b>          | <b>-</b>                    | <b>-</b>                     | <b>207</b>                                 |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>                 | <b>583</b>          | <b>-</b>                    | <b>-</b>                     | <b>583</b>                                 |
| <b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>             | <b>-</b>            | <b>-</b>                    | <b>-</b>                     | <b>-</b>                                   |
| <b>FUND BALANCE - END OF YEAR</b>                       | <b>\$ 790</b>       | <b>\$ -</b>                 | <b>\$ -</b>                  | <b>\$ 790</b>                              |

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