

AUDIT REPORT

TOWN OF KEOTA, OKLAHOMA

JUNE 30, 2012



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TOWN OF KEOTA, OKLAHOMA
JUNE 30, 2012

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TOWN OF KEOTA, OKLAHOMA
JUNE 30, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31-32
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TOWN OF KEOTA, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2012

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
DOYE DUNKIN	MAYOR
ED MCCORMICK	VICE-MAYOR
JACKIE LASHLEY	MEMBER
JAMES O'CONNOR	MEMBER
LISA LAWSON	MEMBER

TOWN CLERK & TREASURER

VICKIE REED

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INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2012, on our consideration of the Town of Keota, Oklahoma's internal control

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over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Town of Keota has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

December 13, 2012

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2012 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 109,675	\$ 13,629	\$ 123,303
Accounts Receivable	-	-	-
Due from Other Funds	5,674	4,841	10,515
Total Current Assets	<u>115,349</u>	<u>18,470</u>	<u>133,819</u>
<u>Other Assets:</u>			
Cash and cash equivalents - Restricted	-	50,294	50,294
Total Other Assets	<u>-</u>	<u>50,294</u>	<u>50,294</u>
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	-	2,633,366	2,633,366
Total Capital Assets	<u>-</u>	<u>2,633,366</u>	<u>2,633,366</u>
TOTAL ASSETS	<u>115,349</u>	<u>2,702,129</u>	<u>2,817,478</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Current Portion of Long-Term Debt	-	13,207	13,207
Due to Other Funds	10,515	-	10,515
Due to Depositors	-	17,676	17,676
Total Current Liabilities	<u>10,515</u>	<u>30,883</u>	<u>41,398</u>
<u>Long-Term Liabilities:</u>			
Capital Lease Obligations	-	-	-
Notes Payable	-	789,148	789,148
Less: Current Portion of Long-Term Debt	-	(13,207)	(13,207)
Total Long-Term Liabilities	<u>-</u>	<u>775,941</u>	<u>775,941</u>
TOTAL LIABILITIES	<u>10,515</u>	<u>806,823</u>	<u>817,339</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	-	1,844,218	1,844,218
Restricted for:			-
Debt Service	-	50,294	50,294
Other Purposes	7,014	-	7,014
Unrestricted	97,819	794	98,613
TOTAL NET ASSETS	<u>\$ 104,833</u>	<u>\$ 1,895,306</u>	<u>\$ 2,000,139</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Current:					
General Government	\$ 294,190	\$ -	\$ -	\$ 262,500	\$ (31,690)
Public Safety	88,607	28,934	-	-	(59,673)
Highway & Streets	31,378	-	-	7,980	(23,398)
Capital Outlay	4,146	-	-	-	(4,146)
Total Governmental Activities	418,321	28,934	-	270,480	(118,907)
Business-type activities:					
Water	160,427	142,679	-	-	(17,748)
Sewer	56,262	58,337	-	25,650	27,725
Refuse	28,000	24,132	-	-	(3,868)
Other Business-type activities	-	14,826	-	-	14,826
Total Business-type Activities	244,689	239,973	-	25,650	20,935
Total	\$ 663,009	\$ 268,907	\$ -	\$ 296,130	\$ (97,972)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (118,907)	\$ 20,935	\$ (97,972)
General revenues:			
Taxes:			
Sales Tax	138,715	-	138,715
Tobacco Tax	2,134	-	2,134
Franchise Tax	11,434	-	11,434
Intergovernmental:			
Alcoholic Beverage Tax	8,559	-	8,559
Gasoline Excise Tax	1,066	-	1,066
Motor Vehicle Tax	3,812	-	3,812
Royalty Income	6	-	6
Miscellaneous Income	4,237	-	4,237
Interest Income	13	53	66
Transfers - Internal Activity	(15,808)	15,808	-
Total general revenues & transfers	154,168	15,861	170,029
Changes in net assets	35,261	36,795	72,057
Net assets - beginning	69,372	1,858,511	1,927,883
Net assets - prior year adjustment	200	-	200
Net assets - ending	\$ 104,833	\$ 1,895,306	\$ 2,000,139

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

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

	General Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash, including time deposits	\$ 108,335	\$ 1,340	\$ -	\$ 109,675
Accounts Receivable	-	-	-	-
Due from other funds	-	5,674	-	5,674
TOTAL ASSETS	<u>\$ 108,335</u>	<u>\$ 7,014</u>	<u>\$ -</u>	<u>\$ 115,349</u>
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Due to Other Funds	\$ 10,515	\$ -	\$ -	\$ 10,515
Due to Other Governments	-	-	-	-
Due to Employee	-	-	-	-
Payroll Taxes Payable	-	-	-	-
TOTAL LIABILITIES	<u>10,515</u>	<u>-</u>	<u>-</u>	<u>10,515</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	7,014	-	7,014
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	97,819	-	-	97,819
TOTAL FUND BALANCES	<u>97,819</u>	<u>7,014</u>	<u>-</u>	<u>104,833</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 108,335</u>	<u>\$ 7,014</u>	<u>\$ -</u>	

Reconciliation to Statement of Net Assets:

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

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

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

Net Assets of Governmental Activities **\$ 104,833**

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

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

	General Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 138,715	\$ -	\$ -	\$ 138,715
Tobacco Tax	2,134	-	-	2,134
Franchise Tax	11,434	-	-	11,434
Intergovernmental:				
Alcoholic Beverage Tax	8,559	-	-	8,559
Gasoline Excise Tax	-	1,066	-	1,066
Motor Vehicle Tax	-	3,812	-	3,812
Grants	262,500	7,980	-	270,480
Fines & Forfeitures	28,934	-	-	28,934
Royalty Income	6	-	-	6
Miscellaneous Income	3,817	420	-	4,237
Interest Income	6	7	-	13
TOTAL REVENUES	456,105	13,285	-	469,390
EXPENDITURES:				
General Government	294,190	-	-	294,190
Public Safety	88,607	-	-	88,607
Highway & Streets	-	31,378	-	31,378
Capital Outlay	1,487	2,659	-	4,146
Debt Service	-	-	-	-
TOTAL EXPENDITURES	384,284	34,037	-	418,321
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	71,821	(20,752)	-	51,069
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	2,325	16,065	-	18,390
Operating Transfers Out	(31,643)	(2,554)	-	(34,197)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(29,318)	13,511	-	(15,808)
NET CHANGES IN FUND BALANCES	42,503	(7,241)	-	35,261
FUND BALANCE - BEGINNING OF YEAR	55,117	14,256	-	69,372
FUND BALANCE - PRIOR YEAR ADJUSTMENT	200	-	-	200
FUND BALANCE - END OF YEAR	\$ 97,819	\$ 7,014	\$ -	\$ 104,833

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

TOWN OF KEOTA, 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	\$	35,261
Amounts reported for governmental activities in the Statement of Activities are different because:		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital debt obligation principal payments		-
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:		
Capital Debt Proceeds		-
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		-
Depreciation expense		-
Change in Net Assets of Governmental Activities	\$	<u><u>35,261</u></u>

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

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

	Keota Public Works Authority Enterprise Fund June 30, 2012	Memo Only June 30, 2011
<u>ASSETS</u>		
Current Assets:		
Cash, including time deposits	\$ 13,629	\$ 22,444
Due from Other Funds	4,841	4,841
Total Current Assets	18,470	27,285
Noncurrent Assets:		
Restricted cash, including time deposits	50,294	38,374
Capital assets, net of accumulated depreciation	2,633,366	2,436,841
Total Noncurrent Assets	2,683,660	2,475,215
TOTAL ASSETS	2,702,129	2,502,500
<u>LIABILITIES & FUND EQUITY</u>		
Current Liabilities:		
Current Portion of Long-Term Debt	13,207	9,814
Due to depositors	17,676	15,310
Total Current Liabilities	30,883	25,124
Noncurrent Liabilities:		
Notes Payable	789,148	628,679
Less: Current Portion	(13,207)	(9,814)
Total Noncurrent Liabilities	775,941	618,865
TOTAL LIABILITIES	806,823	643,989
NET ASSETS:		
Invested in capital assets, net of related debt	1,844,218	1,808,162
Restricted for debt service	50,294	38,374
Unrestricted	794	11,976
TOTAL NET ASSETS	\$ 1,895,306	\$ 1,858,511

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

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

	Keota Public Works Authority Enterprise Fund	
	June 30, 2012	Memo Only June 30, 2011
<u>OPERATING REVENUES:</u>		
Water Revenue	\$ 142,679	\$ 125,112
Sewer Charges	58,337	61,880
Refuse Charge	24,132	21,992
Miscellaneous	14,826	8,336
TOTAL OPERATING REVENUES	239,973	217,321
<u>OPERATING EXPENSES:</u>		
Current:		
Water	160,427	124,149
Sewer	23,255	45,309
Refuse	28,000	18,600
Administrative & Other	-	-
TOTAL OPERATING EXPENSES	211,682	188,058
NET OPERATING INCOME (LOSS)	28,292	29,263
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	53	49
Interest Expense	(33,007)	(27,598)
Grant Income	25,650	12,921
TOTAL NON-OPERATING REVENUES (EXPENSES)	(7,304)	(14,629)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	20,988	14,634
Transfers in	16,076	20,941
Transfers out	(268)	(2,004)
CHANGE IN NET ASSETS	36,795	33,571
TOTAL NET ASSETS - BEGINNING	1,858,511	1,834,417
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-	(9,477)
TOTAL NET ASSETS - ENDING	\$ 1,895,306	\$ 1,858,511

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

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

	<u>June 30, 2012</u>	<u>Memo Only June 30, 2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 239,973	\$ 217,321
Payments to Suppliers, Employees & Laborers	(211,682)	(188,058)
Receipts of Customer Utility Deposits, Net of Refunds	2,366	(3,801)
Net Cash Provided (Used) by Operating Activities	<u>30,658</u>	<u>25,462</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>		
Operating Transfers in	16,076	20,941
Operating Transfers Out	(268)	(2,004)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>15,808</u>	<u>18,937</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(196,525)	(25,394)
Grant Income	25,650	12,921
Loan Proceeds received	173,795	3,500
Principal paid	(13,327)	(11,281)
Interest paid	(33,007)	(27,598)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(43,414)</u>	<u>(47,853)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Interest Earned	53	49
Net Cash Provided (Used) by Investing Activities	<u>53</u>	<u>49</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,104	(3,405)
Cash & Cash Equivalents, Beginning of Year	60,818	73,700
Cash & Cash Equivalents, Prior Year Adjustment	-	(9,477)
Cash & Cash Equivalents, End of Year	<u>\$ 63,923</u>	<u>\$ 60,818</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Net Operating Income (Loss)	\$ 28,292	\$ 29,263
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation Expense	-	-
(Increase)Decrease in Due from Other Funds	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-
Increase(Decrease) in Due to Other Funds	-	-
Customer Deposits	2,366	(3,801)
Net Cash Provided (Used) by Operating Activities	<u>\$ 30,658</u>	<u>\$ 25,462</u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town operates under the "Town board of Trustees" form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services. The following is a summary of the more significant accounting policies of the Town.

Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government: Town of Keota

Component Units: Keota Public Works Authority (KPWA)

For financial reporting purposes, the Town complies with Governmental Accounting Standards Board (Statement No. 14), in defining the Town's financial reporting entity. The public trust listed below was determined to be part of the Town of Keota's reporting entity based on the degree of oversight responsibility exercised by the Town. Manifestations of oversight responsibility include, but are not limited to (1) selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, (4) accountability for fiscal matters and (5) scope of public service.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the Town's Board of Trustees or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town's by appropriate fund type to comprise the primary government presentation.

The component unit that is blended into the primary government's funds types of the Town's report is presented below:

INCLUDED COMPONENT UNITS

Keota Public Works Authority

The Keota Public Works Authority (KPWA) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961 Section 176 to 180, on December 1, 1964, for the use and benefit of the Town of Keota, Oklahoma. The Trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water, sewage, garbage, trash disposal recreation and industrial facilities, or other forms or types of public and municipal services within or without the corporate boundaries of the Town of Keota, Oklahoma.

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

The KPWA is empowered to lease, acquire or construct the properties necessary to provide and maintain these services. It is also empowered to obtain funds for these purposes and in so doing, to incur indebtedness whether unsecured or secured by all or any part of the Trust Estate and its revenues. The KPWA is also permitted to transfer monies to the Town of Keota for the use of the Town. The Board of Trustees of the Town of Keota acts as Board of Trustees of the KPWA.

In order to fulfill these functions, the KPWA has leased from the Town of Keota its sewer system, its rights to all improvements thereto, its rights to any and all municipal services and revenues therefrom.

Based on an overall evaluation of the foregoing criteria, the KPWA is included in this financial report.

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 three broad funds types and five generic fund categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue source (other than expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

Street & Alley Fund	Accounts for commercial vehicle and gasoline excise tax from county and state sources and 33% of the 3 cent sales tax collected for street construction, maintenance and repairs.
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CDBG Grant	Accounts for receipt of grant funds from the OK Department of Commerce
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TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Debt Service Fund

The Debt Service Fund is used, in accordance with State law, to receive ad-valorem taxes assessed for the payment of maturing principal and interest on general obligation bonds or judgments.

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 Keota Public Works Authority is accounted for as the Town's Enterprise Fund.

Keota Public Works Authority	Accounts for the activities of the public trust in providing water and sewer services to the public.
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FIDUCIARY FUND TYPES

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

MEMORANDUM TOTALS

The "memorandum only" captions mean that totals are presented for overview information purposes only.

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 cash basis of accounting is followed by all funds of the Town, which is not in accordance with U.S. generally accepted accounting principles. Under this 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.

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

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 accounting required by generally accepted accounting principles, revenues would be recognized when earned and expenses would be recorded when the liability is incurred.

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 as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at yearend, if any, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CASH AND CASH EQUIVALENTS

For the purposes of the financial statements, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, and open-ended mutual funds.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portions) are reported as "advances from and to other funds". See Note 8 for details of interfund transactions, including receivables and payables at year-end.

ACCOUNTS RECEIVABLE

As a result of the use of the cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

INVENTORIES

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the financial statements.

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

FIXED ASSETS

Expenditures for property and equipment of governmental funds and expendable trust funds are recorded as fund expenditures; however, no detail fixed asset records are maintained for such assets still in service.

Fixed assets acquired by the Enterprise Funds are not capitalized as property and equipment within the Funds. No detail fixed asset records are maintained for such assets still in service. Therefore, financial statements of the Enterprise Funds do not contain a provision for depreciation expense.

RESERVES

Reserves are recorded to signify that a portion of the fund equity is segregated from future use and is not available for appropriation or expenditure.

REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax received is recorded as sales tax revenue within the following funds:

- 2 cents General Fund
- 1 cent Street & Alley

Of the two cents collected in the General Fund, one cent is required to be transferred to the Keota Public Works Authority in accordance with Ordinance No. 97-1 approved by the voters on April 1, 1997, for the purpose of sanitary Sewer Department Involvement and operation.

Property Tax

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

Expenditures/Expenses

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

Governmental Fund Types - By Character: Current (further classified by activity)

Proprietary Fund Types - By Operating and Non-Operating

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

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

Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

Accumulated Vacation and Sick Leave

Under Town personnel policies, Town employees are granted vacation and sick leave in varying amounts as approved by the board. In the event of termination, an employee will receive any compensatory time accumulated.

Fund Balance

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

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

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

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

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

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town uses the following procedures in establishing the budgetary data reflected in the financial statements:

- a) The mayor submits to the Town Council a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted by the Town to obtain taxpayer comments.
- c) The Town Council adopts the budget.
- d) The City Clerk, with approval, is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- e) The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Revenues shall be classified separately by source. Expenditures shall be departmentalized within each fund and shall be classified into at least the following accounts: Personal services, Materials and supplies, Other services and charges, Capital outlays, and Debt service.

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

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$173,597 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the Town's name.

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

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

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

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

NOTE 4 - COMPENSATED ABSENCES

It is the Town's policy to permit employees to accumulate earned but unused vacation benefits for one year. The cost of the compensated absences is recognized when payments are made to the employees due to the cash basis of accounting. Therefore no long-term liability has been recorded.

NOTE 5 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the Authority to set aside into a Reserve Account the sum of the annual installment for each loan (\$17,808, \$1,980 \$11,964 & \$5,208), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

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

Components of Restricted Assets

	Enterprise Fund				Total
	Reserve Funds	Project Funds	Grant Accounts	Customer Deposits	
Cash and cash equivalents	\$ 28,249	\$ 1	\$ 2,500	\$ 19,544	\$ 50,294

NOTE 6 - VOLUNTEER FIREFIGHTERS PENSION FUND

The Town volunteer firemen participate only in the Oklahoma State Firefighters Pension and Retirement System which is a defined contributions plan applying only to the Town's volunteer firefighters. Eligibility to participate includes all full-time or voluntary firefighters or a participating municipality if they are hired before age 45. The State Statute gives the authority to establish contribution obligations and benefits. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The eligibility and benefits for distribution for volunteer firemen is 20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.

Contributions are made by the Town at the rate of \$60 per volunteer firefighter per year. A contribution for was not made for 2011/2012.

NOTE 7 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

LEASE PURCHASE OBLIGATIONS:

<u>Terms and Collateral</u>	<u>Outstanding Debt June 30, 2012</u>
The Town no longer has outstanding lease purchases	\$ -0-
Total Lease Purchases Outstanding	<u>\$ -0-</u>

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

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Capital Lease Payable	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

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

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

Year Ending June 30,	General Fund Debt		Total
	Principal	Interest	
2013	\$ -	\$ -	\$ -
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KEOTA PUBLIC WORKS AUTHORITY

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2012

Promissory Note to the Rural Utilities Service in the Amount \$326,800 with an interest only payment on February 4, 2000 and monthly payments of principal and interest (4.50%) of \$1,484 starting March 4, 2000 and due February 4, 2040. The note is secured by sewer system revenue and in part by a one cent sales tax collected in accordance with ordinance 97-1 for sewer improvements. Scheduled debt service payments in the Public Works Authority.

\$ 273,267.57

Note due to Rural Development in the amount of \$35,000 with a fixed interest rate of 4.75% with 480 monthly payments of principal and interest of \$165 starting March 2002 and due March 2042. The note is for the purpose of providing loan funds for a portion of the cost of acquiring and constructing the Keota community facility.

30,597.83

Note due to Rural Development in the amount of \$234,000 with a fixed interest rate of 4.125% with 480 monthly payments of principal and interest of \$997 starting July 2008 and due July 2048. The note is for the purpose of providing loan funds for a portion of the cost of a sewer improvement project. As of June 30, 2009, all loan proceeds have been received.

221,768.84

Note due to Rural Development in the amount of \$98,000 with a fixed interest rate of 4.375% with 480 monthly payments of principal and interest of \$434 starting July 2008 and due March 2048. The note is for the purpose of

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

providing loan funds for a portion of the cost of a sewer improvement project. As of June 30, 2008, all loan proceeds have been received. 91,612.36

Note due to Community Resource Group, Inc. in the amount of \$34,730 with a fixed interest rate of 5.9% with 120 monthly payments of principal and interest of \$383.83 starting February 2011 and due March 2021. The note is for the purpose of providing loan funds for a portion of the cost of a system improvement project. As of June 30, 2012, all loan proceeds have been received. 29,334.96

Note due to the First National Bank of Stigler in the amount of \$166,330 with a fixed interest rate of 5.5% with interest only payments beginning July 23, 2011 and all remaining interest and principal due August 23, 2013. The note is for the purpose of providing loan funds for a portion of the cost of a system improvement project. As of June 30, 2012, only 142,565 of the loan proceeds have been received. 142,566.00

Total Notes Payable Outstanding \$ 789,147.56

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

	<u>7/1/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/2012</u>
Note Payable - RD #3	\$ 278,646	\$ -	\$ (5,378)	\$ 273,268
Note Payable - RD #5	31,111	-	(513)	30,598
Note Payable - RD #6	224,523	-	(2,754)	221,769
Note Payable - RD #8	92,784	-	(1,172)	91,612
Note Payable - CRG, Inc.	1,615	31,230	(3,510)	29,335
Note Payable - FNB	1	142,565	-	142,566
	<u>\$ 628,680</u>	<u>\$ 173,795</u>	<u>\$ (13,327)</u>	<u>\$ 789,148</u>

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

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

Year Ending June 30,	Notes Payable - RD #3		Total
	Principal	Interest	
2013	\$ 5,626	\$ 12,182	\$ 17,808
2014	5,885	11,923	17,808
2015	6,155	11,653	17,808
2016	6,438	11,370	17,808
2017	6,734	11,074	17,808
2018-2022	38,602	50,438	89,040
2023-2027	48,321	40,719	89,040
2028-2032	60,476	28,564	89,040
2033-2037	75,679	13,361	89,040
2038-2039	19,352	546	19,898
Total	<u>\$ 273,268</u>	<u>\$ 191,830</u>	<u>\$ 465,098</u>

Year Ending June 30,	Notes Payable - RD #5		Total
	Principal	Interest	
2013	\$ 538	\$ 1,442	\$ 1,980
2014	564	1,416	1,980
2015	592	1,388	1,980
2016	620	1,360	1,980
2017	651	1,329	1,980
2018-2022	3,759	6,141	9,900
2023-2027	4,764	5,136	9,900
2028-2032	6,038	3,862	9,900
2033-2037	7,654	2,246	9,900
2038-2040	5,418	396	5,815
Total	<u>\$ 30,598</u>	<u>\$ 24,716</u>	<u>\$ 55,315</u>

Year Ending June 30,	Notes Payable - RD #6		Total
	Principal	Interest	
2013	\$ 2,870	\$ 9,094	\$ 11,964
2014	2,991	8,973	11,964
2015	3,116	8,848	11,964
2016	3,247	8,717	11,964
2017	3,384	8,580	11,964
2018-2022	19,176	40,644	59,820
2023-2027	23,561	36,259	59,820
2028-2032	28,947	30,873	59,820
2033-2037	35,565	24,255	59,820
2038-2042	43,696	16,124	59,820
2043-2047	53,687	6,133	59,820
2048	1,528	6	1,534
Total	<u>\$ 221,769</u>	<u>\$ 198,506</u>	<u>\$ 420,274</u>

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

Year Ending June 30,	Notes Payable - RD #8		Total
	Principal	Interest	
2013	\$ 1,219	\$ 3,989	\$ 5,208
2014	1,274	3,934	5,208
2015	1,330	3,878	5,208
2016	1,390	3,818	5,208
2017	1,451	3,757	5,208
2018-2022	8,284	17,756	26,040
2023-2027	10,298	15,742	26,040
2028-2032	12,800	13,240	26,040
2033-2037	15,911	10,129	26,040
2038-2042	19,779	6,261	26,040
2043-2046	17,876	1,599	19,475
Total	<u>\$ 91,612</u>	<u>\$ 84,103</u>	<u>\$ 175,715</u>

Year Ending June 30,	Notes Payable - CRG, Inc.		Total
	Principal	Interest	
2013	\$ 2,954	\$ 1,652	\$ 4,606
2014	3,133	1,473	4,606
2015	3,323	1,283	4,606
2016	3,525	1,081	4,606
2017	3,738	868	4,606
2018-2022	12,661	1,187	13,848
Total	<u>\$ 29,335</u>	<u>\$ 7,543</u>	<u>\$ 36,878</u>

NOTE 8 - FUND EQUITY

Government-Wide Financial Statements

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

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

Restricted Net Assets are described in Note 5 above.

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

Governmental Fund Balances

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

	General Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
<u>FUND BALANCES:</u>				
Restricted for:				
Road Maintenance	-	7,014	-	7,014
Unassigned	97,819	-	-	97,819
Total	<u>\$ 97,819</u>	<u>\$ 7,014</u>	<u>\$ -</u>	<u>\$ 104,833</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Grant Programs

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

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

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

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

Commitments

At June 30, 2012, the Town had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service.

NOTE 10 - PWA SEWER SYSTEM IMPROVEMENT PROJECT

The Keota Public Works Authority has been approved by USDA Rural Development for a Sewer System Improvement Project. The loan disbursement cannot exceed \$234,000. The grant disbursement cannot exceed \$672,400.

The estimated project costs are as follows:

Construction	\$ 1,159,990
Engineering	\$ 68,300
Resident Inspection	\$ 22,400
Legal Fees	\$ 24,000
Interest	\$ 9,653
Testing	\$ 1,500
Surveying	\$ 15,000
Post Const Flow Monitoring	\$ 35,000
Administration	\$ 15,000
ODEQ Permit	\$ 2,000
Contingencies	\$ 88,500
Misc	\$ 6,997
	<u>\$ 1,448,340</u>

The project funding is planned in the form of loan and grants from the following sources and amounts:

Rural Development Loan	\$ 234,000
Rural Development Loan	98,000
Rural Development Grant	672,400
Rural Development Grant	183,940
Department of Commerce (CDBG)	250,000
KEDDO Grant	<u>10,000</u>
Total	\$1,448,340

As of June 30, 2012, the \$234,000 and \$98,000 loans have been received in full. The KPWA has also received both Rural Development Grants of \$672,400 and \$183,940 and the \$250,000 DOC Grant. The KEDDO Grant has not been received yet.

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

NOTE 11 - PRIOR YEAR ADJUSTMENT

For fiscal year ending June 30, 2012, the prior year adjustments were to remove old outstanding checks and deposits from the books.

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 13, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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

To the Town Council
Town of Keota, 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 Keota, State of Oklahoma, as of June 30, 2012, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 13, 2012, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping. The Town of Keota has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A or Budgetary Comparison Information. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

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financial reporting. Those deficiencies are listed as Items 12-01 and 12-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Keota'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 12-03. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

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

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

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 13, 2012

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Segregation of Duties

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

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

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

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

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

Item 12-02: Meter Deposits

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

Condition: The City does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

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

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

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

COMPLIANCE FINDINGS:

Item 12-03: Reserve Requirements

Criteria: The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the Authority to set aside into a Reserve Account the sum of 10% of the monthly installments until there is accumulated in the account the sum of the annual installment for each loan (\$17,808, \$1,980 \$11,964 & \$5,208), after which deposits may be suspended, except to replace withdrawals.

Condition: The Authority did not make monthly deposits into the reserve accounts.

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

Recommendation: The Authority should make the required monthly payments.

Response: The Authority made a large transfer to the account in July 2012 after the fiscal yearend to bring the account into compliance.