

AUDIT REPORT

TOWN OF MCCURTAIN, OKLAHOMA
&
MCCURTAIN MUNICIPAL AUTHORITY

JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2012

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TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2012

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

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
HARVEY WAY	CHAIRMAN	4/2013
DAVID FOX	VICE CHAIRMAN	4/2015
DAWNA FOX	TRUSTEE	4/2013
JOYCE ADAMS	TRUSTEE	4/2015
PATRICIA SHAFFER	TRUSTEE	4/2013

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of McCurtain, 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 McCurtain, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of McCurtain, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of McCurtain, 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 Note 1, 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, the business-type activities, each major fund and the aggregate remaining fund information of the Town of McCurtain, 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.

KERSHAW CPA & ASSOCIATES, PC

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In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2012, on our consideration of the Town of McCurtain, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information 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 McCurtain 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 McCurtain'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 10, 2012

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

	Governmental Activities	Business-Type Activities	2012 Total	Memo Only 2011 Total
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash, Including Time Deposits	\$ 411	\$ 28,572	\$ 28,983	\$ 7,459
Total Current Assets	411	28,572	28,983	7,459
<u>Restricted Assets:</u>				
Cash, Including Time Deposits	-	15,253	15,253	62,088
Total Restricted Assets	-	15,253	15,253	62,088
<u>Capital Assets:</u>				
Water & Sewer System Improvements	-	2,048,603	2,048,603	1,854,574
Equipment	-	57,887	57,887	53,454
Less: Accumulated Depreciation	-	(478,142)	(478,142)	(430,944)
Total Capital Assets	-	1,628,348	1,628,348	1,477,084
TOTAL ASSETS	411	1,672,172	1,672,584	1,546,631
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
Notes Payable - Current Portion	-	7,657	7,657	9,306
Accrued Interest Payable	-	-	-	-
Total Current Liabilities	-	7,657	7,657	9,306
<u>Long-Term Liabilities:</u>				
Due to Depositors	-	40,619	40,619	35,819
Note Payable - OWRB	-	-	-	27,867
Note Payable - RD	-	444,897	444,897	452,236
Notes Payable - CRG, Inc.	-	142,111	142,111	-
Less: Notes Payable - Current Portion	-	(7,657)	(7,657)	(9,306)
Total Long-Term Liabilities	-	619,971	619,971	506,616
TOTAL LIABILITIES	-	627,628	627,628	515,922
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	-	1,041,339	1,041,339	996,981
Restricted for:				
Debt Service	-	15,253	15,253	62,088
Other Purposes	-	-	-	-
Unrestricted	411	(12,048)	(11,637)	(28,360)
TOTAL NET ASSETS	\$ 411	\$ 1,044,544	\$ 1,044,955	\$ 1,030,709

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Govt. & Public Safety:					
General Government	\$ 92,658	\$ -	\$ -	\$ -	\$ (92,658)
Public Safety	62,849	48,774	-	-	(14,074)
Parks & Recreation	1,024	-	-	29,090	28,067
Streets & Highways	3,575	-	-	-	(3,575)
Total Governmental Activities	160,105	48,774	-	29,090	(82,241)
Business-type activities:					
Water	98,492	123,030	-	11,000	35,538
Sewer	32,670	41,918	-	-	9,248
Sanitation	40,453	45,438	-	-	4,985
Miscellaneous	47,198	7,886	-	-	(39,311)
Total Business-type Activities	218,813	218,273	-	11,000	10,459
Total	\$ 378,919	\$ 267,047	\$ -	\$ 40,090	\$ (71,782)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (82,241)	\$ 10,459	\$ (71,782)
General revenues:			
Taxes:			
Sales Tax	35,875	-	35,875
Tobacco Tax	492	-	492
Franchise Tax	7,708	-	7,708
Intergovernmental:			
Alcoholic Beverage Tax	7,839	-	7,839
Gasoline Excise Tax	976	-	976
Motor Vehicle Tax	3,491	-	3,491
Royalty Income	6,541	-	6,541
Rental Income	150	-	150
Investment Income	4	170	174
Miscellaneous	12,476	-	12,476
Transfers - Internal Activity	4,413	(4,413)	-
Total general revenues & transfers	79,963	(4,243)	75,720
Changes in net assets	(2,278)	6,216	3,938
Net assets - beginning	2,716	1,027,992	1,030,708
Net assets - prior year adjustment	(27)	10,336	10,309
Net assets - ending	\$ 411	\$ 1,044,544	\$ 1,044,955

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

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 262	\$ -	\$ 150	\$ 411
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	<u>\$ 262</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ 411</u>
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Due to Other Governments	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	150	150
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	262	-	-	262
TOTAL FUND BALANCES	<u>262</u>	<u>-</u>	<u>150</u>	<u>411</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 262</u>	<u>\$ -</u>	<u>\$ 150</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 **\$ 411**

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

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 35,875	\$ -	\$ -	35,875
Tobacco Tax	492	-	-	492
Franchise Tax	7,708	-	-	7,708
Intergovernmental:				
Alcoholic Beverage Tax	7,839	-	-	7,839
Gasoline Excise Tax	976	-	-	976
Motor Vehicle Tax	3,491	-	-	3,491
Grants	29,090	-	-	29,090
Fines & Forfeitures	45,764	-	3,010	48,774
Royalty Income	6,541	-	-	6,541
Rental Income	150	-	-	150
Miscellaneous Income	12,476	-	-	12,476
Interest Income	4	-	-	4
TOTAL REVENUES	150,405	-	3,010	153,415
<u>EXPENDITURES:</u>				
Fire Department:				
Maintenance & Operations	6,877	-	-	6,877
Debt Service	-	-	-	-
Parks & Recreation:				
Maintenance & Operations	1,024	-	-	1,024
Police Department:				
Personal Services	32,772	-	-	32,772
Maintenance & Operations	19,763	-	3,437	23,200
Street & Alley:				
Maintenance & Operations	3,575	-	-	3,575
General Government:				
Personal Services	31,077	-	-	31,077
Maintenance & Operations	61,580	-	-	61,580
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	156,668	-	3,437	160,105
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,263)	-	(427)	(6,691)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	9,350	-	-	9,350
Operating Transfers Out	(4,937)	-	-	(4,937)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	4,413	-	-	4,413
NET CHANGES IN FUND BALANCES	(1,851)	-	(427)	(2,278)
FUND BALANCE - BEGINNING OF YEAR	2,139	-	577	2,716
FUND BALANCE - PRIOR YEAR ADJUSTMENT	(27)	-	-	(27)
FUND BALANCE - END OF YEAR	\$ 262	\$ -	\$ 150	411

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

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

	McCurtain Municipal Authority Enterprise Fund June 30, 2012
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 28,572
Restricted cash and cash equivalents	15,253
Due from other governments	-
Total Current Assets	43,825
Noncurrent Assets:	
Restricted cash and cash equivalents	-
Land and construction-in-progress	-
Other capital assets, net of accumulated depreciation	1,628,348
Total Noncurrent Assets	1,628,348
TOTAL ASSETS	1,672,172
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Due to Other Governments	-
Payroll Taxes Payable	-
Notes Payable - Current Portion	7,657
Accrued Interest Payable	-
Total Current Liabilities	7,657
Noncurrent Liabilities:	
Due to Depositors	40,619
Note Payable - OWRB	-
Note Payable - RD	444,897
Notes Payable - CRG, Inc.	142,111
Less: Notes Payable - Current Portion	(7,657)
Total Noncurrent Liabilities	619,971
TOTAL LIABILITIES	627,628
NET ASSETS:	
Invested in capital assets, net of related debt	1,041,339
Restricted for debt service	15,253
Unrestricted	(12,048)
TOTAL NET ASSETS	\$ 1,044,544

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

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

	McCurtain Municipal Authority Enterprise Fund June 30, 2012
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 123,030
Sanitation Fees	45,438
Sewer Fees	41,918
Taps	700
Service Fees	1,295
Miscellaneous Income	5,891
TOTAL OPERATING REVENUES	218,273
<u>OPERATING EXPENSES:</u>	
Water	98,492
Sanitation	40,453
Sewer	8,076
Miscellaneous	-
Depreciation	47,198
TOTAL OPERATING EXPENSES	194,219
NET OPERATING INCOME (LOSS)	24,053
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	170
Interest Expense	(24,594)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(24,424)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(371)
Capital Contributions	11,000
Transfers in	4,937
Transfers out	(9,350)
CHANGE IN NET ASSETS	6,216
TOTAL NET ASSETS - BEGINNING	1,027,992
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	10,336
TOTAL NET ASSETS - ENDING	\$ 1,044,544

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

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

	<u>June 30, 2012</u>
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 218,273
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(147,021)
Receipts of Customer Utility Deposits, Net of Refunds	4,800
Net Cash Provided (Used) by Operating Activities	<u>76,052</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	(9,350)
Transfers from other funds	4,937
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(4,413)</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	11,000
Additions to Capital Assets	(188,316)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	143,055
Principal paid on Notes Payable	(36,149)
Principal paid on Lease Purchase Obligations	-
Interest paid	(24,594)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(95,004)</u>
Net Cash Flows from Investing Activities:	
Interest Income	170
Net Cash Provided (Used) by Investing Activities	<u>170</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(23,195)
Cash & Cash Equivalents, Beginning of Year	66,831
Cash & Cash Equivalents, Prior Year Adjustment	189
Cash & Cash Equivalents, End of Year	<u>\$ 43,825</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ 24,053
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	47,198
Increase(Decrease) in Due to Depositors	4,800
Increase(Decrease) in Payroll Taxes Payable	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 76,052</u>

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

TOWN OF MCCURTAIN, 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 McCurtain
Component Units: McCurtain Municipal Authority (MMA)

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 McCurtain'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 compromise the primary government presentation.

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

INCLUDED COMPONENT UNITS

McCurtain Municipal Authority

The McCurtain Municipal Authority (MMA) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961 Section 176 to 180, on November 17, 1967, for the use and benefit of the McCurtain Municipal Authority. 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 McCurtain Municipal Authority.

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

The MMA 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 MMA is also permitted to transfer monies to the Town of McCurtain for the use of the Town. The Board of Trustees of the Town of McCurtain acts as Trustees of the MMA.

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

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 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.

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 McCurtain Municipal Authority is accounted for as the Town's Enterprise Fund.

McCurtain Municipal Authority	Accounts for the activities of the public trust in providing water and sewer services to the public.
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MEMORANDUM TOTALS

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only. The totals do not fairly present financial

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

position or results of operations for the governmental unit as a whole in conformity with generally accepted accounting principles.

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 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.

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.

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 year end, if any, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "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

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

Note 9 for details of interfund transactions, including receivables and payables at yearend.

ACCOUNTS RECEIVABLE

As a result of the use of the modified 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 combined statement of assets, liabilities and fund balances.

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. Therefore, fixed assets of the Governmental Activities required by generally accepted accounting principles (GAAP) cannot be presented.

Fixed assets acquired by the Enterprise Funds are capitalized as property and equipment within the Funds. Property, plant and equipment are stated at cost. Where cost can be determined from the available records, estimated historical cost is used to record the estimated value of the assets.

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheet. Depreciation has provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Sewer System	40 years
Equipment	5-7 years

Capitalization Policy

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

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.

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

EQUITY CLASSIFICATION

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

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

Fund Balance

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

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government 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 MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The Town does not have any Major Special Revenue Funds

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:

- 2.5 cents General Fund

Of the two and one-half cents collected in the General Fund, one-half cents is required to be transferred to the McCurtain Municipal Authority in accordance with Ordinance No. 97-1 approved by the voters on April 1, 1997, for the purpose of sanitary Sewer Department Improvement 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 general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

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

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

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

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.

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

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.

GASB NO. 34

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

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

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

Memorandum Totals

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

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

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

1. Personal Services;

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

2. Maintenance and Operations; and
3. Capital Outlay

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

As described in Note 5, the Town was not in compliance with the reserve requirement of the Rural Development and OWRB 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 District for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 2, the Town prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations.

NOTE 4 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$44,236 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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

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

Investment Credit Risk

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

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

Carrying Value Reconciliation to Statement of Net Assets

Cash, Including Time Deposits:	
General Government	\$ 411
Enterprise	28,572
Restricted Cash: Enterprise Fund	<u>15,253</u>
 Total Carrying Value	 \$ 44,236

NOTE 5 - RESTRICTED ASSETS

General Fund cash and equivalents are restricted in accordance with Town Resolution 101 recognizing a \$15,000 gift for the purpose of building a recreational center. Due to the inability to comply with such bequest at present, the council has restricted the use of principal until such time when financially feasible. The interest earned is deposited into the General Fund.

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 (\$27,540), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

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

As of June 30, 2012 the account balance for the reserve account was \$5,806.33. On December 7, 2011, USDA Rural Development authorized the Authority to withdraw money from the Reserve Account to pay off the OWRB loan. USDA does not usually allow use of Reserve Account funds to pay off lender's debt, but made an exception in this case as the repayment ability for the proposed loan will be enhanced by removing this debt and the lender's debt service coverage requirement. The District continued to make the required monthly deposits of \$229.50 into the reserve account and will continue those deposits until the required balance is accumulated.

Components of Restricted Assets:

Meter Deposits	\$ 9,447
Debt Reserve	<u>5,806</u>
	<u>\$15,253</u>

NOTE 6 - CAPITAL ASSETS

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

	6/30/11				6/30/12
	Balance	Additions	Deductions		Balance
Water & Sewer System Improvements	\$ 1,854,574	\$ 198,462	\$ -		\$ 2,053,036
Equipment	53,454	-	-		53,454
	<u>1,908,028</u>	<u>198,462</u>	<u>-</u>		<u>2,106,490</u>
Less: Accum. Depreciation	(430,944)	(47,198)	-		(478,142)
	<u>\$ 1,477,084</u>	<u>\$ 151,264</u>	<u>\$ -</u>		<u>\$ 1,628,348</u>

Depreciation expense for the year ended June 30, 2012, aggregating \$47,198, has been computed on assets with a cost basis totaling \$2,106,490.

NOTE 7 - 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. The total contribution for 2011/2012 was \$6000 and covered 10 volunteers.

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

NOTE 8 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

The governmental funds currently have no long-term debt.

MCCURTAIN MUNICIPAL AUTHORITY

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2012

Promissory Note to the Rural Utilities Service in the Amount \$500,000 with an initial interest rate of 4.50%. The note is being retired through monthly payment of \$2,295 including principal and interest beginning September 12, 2003 until the note matures on July 12, 2041. The note is for the purpose of financing the construction of a sewage collection and treatment facility.

\$ 444,897

Promissory Note to the Oklahoma Water Resources Board in the amount of \$41,931 with an initial interest rate of 2.237%. The payment schedule is set semiannually at a rate set by the water resources board. The note was for the purpose of providing \$41,931 in loan funds to make sanitary sewer system improvements. Semiannual Payments began on September 15, 2003 in The amount of \$1,048.

-0-

Promissory Note 10220 to the CRG, Inc. in the amount of \$16,600 with an interest rate of 4.5%. Payment is to be made in 120 equal monthly installments of \$172.04 including principal and interest until the note matures on December 9, 2020. The note is for the purpose of funding Emergency repairs to the water storage tank.

15,456

Promissory Note 10236 to the CRG, Inc. in the amount of \$45,495 with an interest rate of 4.9%. Payment is to be made in 24 monthly interest only payments not to exceed \$189.41 beginning October 7, 2011 with the principal and any remaining interest due September 7, 2013. The note is for the purpose of funding predevelopment costs for a water system improvement project.

43,255

Promissory Note 10237 to the CRG, Inc. in the amount of \$83,400 with an interest rate of 4.0%. Payment is to

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

be made in 24 monthly interest only payments not to exceed \$283.34 beginning October 7, 2011 with the principal and any remaining interest due September 7, 2013. The note is for the purpose of funding predevelopment costs for a water system improvement project.

83,400

Total Notes Payable Outstanding

\$ 587,008

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2011:

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Note Payable - RD	\$ 452,236	\$ -	\$ (7,339)	\$ 444,897
Note Payable - OWRB	27,867	-	(27,867)	-
N/P - CRG 10220	-	16,400	(944)	15,456
N/P - CRG 10236	-	43,255	-	43,255
N/P - CRG 10237	-	83,400	-	83,400
	<u>\$ 480,102</u>	<u>\$ 143,055</u>	<u>\$ (36,149)</u>	<u>\$ 587,008</u>

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

Year Ending June 30,	Note Payable - RD		Total
	Principal	Interest	
2013	\$ 7,657	\$ 19,883	\$ 27,540
2014	8,009	19,531	27,540
2015	8,377	19,163	27,540
2016	8,762	18,778	27,540
2017	9,164	18,376	27,540
2018-2022	52,536	85,164	137,700
2023-2027	65,764	71,936	137,700
2028-2032	82,324	55,376	137,700
2033-2037	103,052	34,648	137,700
2038-2041	99,252	9,753	109,005
Total	<u>\$ 444,897</u>	<u>\$ 352,608</u>	<u>\$ 797,505</u>

Once all CRG, Inc. loans are closed, amortization schedules will be available.

NOTE 9 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2011, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
McCurtain Municipal Authority	\$ 9,350	\$ 4,937
Total General	<u>9,350</u>	<u>4,937</u>

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

ENTERPRISE FUNDS:

McCurtain Municipal Authority:

General Fund	4,937	9,350
Total Enterprise Funds	4,937	9,350
GRAND TOTALS	\$14,287	\$14,287

NOTE 10 - FUND EQUITY

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

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

The restricted net assets include assets related to Note 5 above.

Fund Balances

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

	General Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:			
Restricted for:			
Police Fees	\$ -	\$ 150	\$ 150
Unassigned	262	-	262
Total	\$ 262	\$ 150	\$ 411

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

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

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

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

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. The Town's usage of the modified cash basis of accounting results in this commitment not being accrued in the financial statements.

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 10, 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.

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Beginning Budgetary Fund Balance:	\$ 2,139	\$ 2,139	\$ 2,139	\$ (0)
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	30,678	30,678	35,875	5,197
Tobacco Tax	451	451	492	40
Franchise Tax	7,066	7,066	7,708	641
Intergovernmental:				
Alcoholic Beverage Tax	6,341	6,341	7,839	1,498
Gasoline Excise Tax	797	797	976	179
Motor Vehicle Tax	3,002	3,002	3,491	489
Grants	-	-	29,090	29,090
Fines & Forfeitures	85,204	85,204	45,764	(39,439)
Royalty Income	1,797	1,797	6,541	4,744
Rental Income	360	360	150	(210)
Miscellaneous Income	1,641	1,641	12,476	10,835
Interest Income	5	5	4	(1)
Transfers In	-	-	9,350	9,350
Amounts available for appropriation	<u>139,481</u>	<u>139,481</u>	<u>161,893</u>	<u>22,412</u>
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	66,000	66,000	63,849	2,151
Maintenance & Operations	69,500	69,500	92,819	(23,319)
Capital Outlay	-	-	-	-
Debt Service	-	-	-	-
Transfers	3,981	3,981	4,937	(956)
Total Charges to Appropriations	<u>139,481</u>	<u>139,481</u>	<u>161,605</u>	<u>(22,124)</u>
Prior Year Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>(27)</u>	<u>(27)</u>
Ending Budgetary Fund Balance	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>262</u></u>	<u><u>262</u></u>

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

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

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

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

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

To the Town Council
Town of McCurtain, 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 McCurtain, 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 10, 2012, which was qualified for the effect on the basic financial statements of the omission of capital assets. The Town of McCurtain was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, 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 McCurtain is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of McCurtain'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 McCurtain's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of McCurtain'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 Items 12-01, 12-02 and 12-03.

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

The Town of McCurtain's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Town of McCurtain'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 McCurtain, 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 10, 2012

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

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 12-01: 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 funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town has expressed interest in developing and maintaining detail general fixed asset records.

Item 12-02: 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.

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

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

Item 12-03: Meter Deposits

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

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

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

SIGNIFICANT DEFICIENCIES OF COMPLIANCE

None.

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

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 28	\$ 122	\$ 150
Investments	-	-	-
Due from General Fund	-	-	-
Due from other governments	-	-	-
TOTAL ASSETS	<u>\$ 28</u>	<u>\$ 122</u>	<u>\$ 150</u>
<u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Due to Other Governments	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:			
Restricted	<u>28</u>	<u>122</u>	<u>150</u>
TOTAL FUND BALANCES	<u>28</u>	<u>122</u>	<u>150</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 28</u>	<u>\$ 122</u>	<u>\$ 150</u>

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

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

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	-	-	-
Grants	-	-	-
Fines & Forfeitures	1,424	1,586	3,010
Miscellaneous Income	-	-	-
Interest Income	-	-	-
TOTAL REVENUES	1,424	1,586	3,010
<u>EXPENDITURES:</u>			
Current:			
Personal Services	-	-	-
Maintenance & Operations	1,652	1,785	3,437
Capital Outlay	-	-	-
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	1,652	1,785	3,437
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(228)	(199)	(427)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGES IN FUND BALANCES	(228)	(199)	(427)
FUND BALANCE - BEGINNING OF YEAR	256	321	577
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 28	\$ 122	\$ 150

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