

AUDIT REPORT  
TOWN OF ROCK ISLAND, OKLAHOMA  
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF ROCK ISLAND HILL, OKLAHOMA  
LIST OF COUNCIL MEMBERS  
JUNE 30, 2012

TOWN COUNCIL

<u>NAME</u>	<u>POSITION</u>
Nathan Robison	Mayor/Trustee
Linda Sweeten	Vice Mayor/Trustee
James White	Treasurer/Trustee
Melissa Hays	Town Clerk/Trustee
Jackie Edwards	Trustee

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Rock Island, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Rock Island, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town of Rock Island, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Rock Island, 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. The amount by which this departure would affect the assets, net assets, and expenses of the Town 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

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fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Rock Island, 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 May 17, 2013, on our consideration of the Town of Rock Island, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Town of Rock Island 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 and 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 Rock Island's basic financial statements. The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is 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

May 17, 2013

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

	Governmental Activities	2012 Total
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and cash equivalents	\$ 34,527	\$ 34,527
Total Current Assets	34,527	34,527
<b>TOTAL ASSETS</b>	<b>34,527</b>	<b>34,527</b>
 <b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Current Portion of Long-Term Debt	-	-
Total Current Liabilities	-	-
 <b><u>Long-Term Liabilities:</u></b>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
Total Long-Term Liabilities	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>
 <b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	-	-
Restricted for:		
Debt Service	-	-
Other Purposes	-	-
Unrestricted	34,527	34,527
<b>TOTAL NET ASSETS</b>	<b>\$ 34,527</b>	<b>\$ 34,527</b>

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

TOWN OF ROCK ISLAND, 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	
<b>Governmental activities:</b>					
General Government	\$ 77,417	\$ -	\$ -	\$ -	\$ (77,417)
Public Safety	45,175	60,668	-	16,633	32,126
<b>Total Governmental Activities</b>	<b>122,592</b>	<b>60,668</b>	<b>-</b>	<b>16,633</b>	<b>(45,291)</b>
<b>Total</b>	<b>\$ 122,592</b>	<b>\$ 60,668</b>	<b>\$ -</b>	<b>\$ 16,633</b>	<b>\$ (45,291)</b>

## Changes in Net Assets:

	Governmental Activities	Total
Net (expense)/revenue	\$ (45,291)	\$ (45,291)
<b>General revenues:</b>		
<b>Taxes:</b>		
Sales Tax	18,096	18,096
Use Tax	438	438
Cigar Tax	275	275
<b>Intergovernmental:</b>		
Alcoholic Beverage Tax	4,797	4,797
Gasoline Excise Tax	1,221	1,221
Motor Vehicle Tax	4,446	4,446
Miscellaneous Income	668	668
Interest Income	39	39
<b>Total general revenues &amp; transfers</b>	<b>29,981</b>	<b>29,981</b>
Changes in net assets	(15,310)	(15,310)
Net assets - beginning	49,838	49,838
Net assets - prior year adjustment	-	-
Net assets - ending	<b>\$ 34,527</b>	<b>\$ 34,527</b>

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

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

	General Fund	Police Department Fund	Park Fund	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 29,497	\$ 3,899	\$ 1,132	\$ 34,527
<b>TOTAL ASSETS</b>	<b>\$ 29,497</b>	<b>\$ 3,899</b>	<b>\$ 1,132</b>	<b>\$ 34,527</b>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	3,899	1,132	5,031
Unassigned	29,497	-	-	29,497
<b>TOTAL FUND BALANCES</b>	<b>29,497</b>	<b>3,899</b>	<b>1,132</b>	<b>34,527</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 29,497</b>	<b>\$ 3,899</b>	<b>\$ 1,132</b>	<b>\$ 34,527</b>

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of \$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.	-
<b>Net Assets of Governmental Activities</b>	<b>\$ 34,527</b>

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

**TOWN OF ROCK ISLAND, 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	Police Department Fund	Park Fund	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Sales Tax	\$ 18,096	\$ -	\$ -	\$ 18,096
Use Tax	438	-	-	438
Cigar Tax	275	-	-	275
Intergovernmental:				
Alcoholic Beverage Tax	4,797	-	-	4,797
Gasoline Excise Tax	1,221	-	-	1,221
Motor Vehicle Tax	4,446	-	-	4,446
Grants	16,633	-	-	16,633
Fines & Forfeitures	-	60,668	-	60,668
Miscellaneous Income	40	-	628	668
Interest Income	19	20	-	39
<b>TOTAL REVENUES</b>	<b>45,966</b>	<b>60,688</b>	<b>628</b>	<b>107,282</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	77,417	-	-	77,417
Public Safety	12,929	12,584	-	25,513
Capital Outlay	19,662	-	-	19,662
<b>TOTAL EXPENDITURES</b>	<b>110,008</b>	<b>12,584</b>	<b>-</b>	<b>122,592</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(64,043)</b>	<b>48,104</b>	<b>628</b>	<b>(15,310)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	54,179	-	-	54,179
Operating Transfers Out	-	(54,179)	-	(54,179)
Capital Debt Proceeds	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>54,179</b>	<b>(54,179)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(9,864)</b>	<b>(6,075)</b>	<b>628</b>	<b>(15,310)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>39,360</b>	<b>9,973</b>	<b>504</b>	<b>49,838</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 29,497</b>	<b>\$ 3,899</b>	<b>\$ 1,132</b>	<b>34,527</b>

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

**TOWN OF ROCK ISLAND, 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 \$ (15,310)

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 \$ (15,310)

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

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Town of Rock Island, Oklahoma was incorporated under the provisions of the State of Oklahoma. The Town operates under the statutory town form of government and provides the following services: police, parks and general administrative services. The more significant of the government's accounting policies are described below.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services. The Town currently has no Business-type Activities.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the general operating fund of the Town. The Police Department Fund administers revenues from police fines. The Park Fund includes miscellaneous sources of revenue.

Proprietary Fund Types

The Town currently has no Proprietary Funds.

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

Total Columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

D. Basis of Accounting

The Town of Rock Island prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Governmental Fund types recognize revenues, expenditures, and liabilities when received or paid. Grant income is recognized when received.

E. Budget and Budgetary Procedures

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

F. Cash and Cash Equivalents

Cash is comprised of deposits in demand accounts.

G. 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.

H. Capital Assets

The Town does not maintain records for capital assets of the governmental fund types; therefore Capital Assets are not reported as required by the modified cash basis.

I. Equity Classification

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

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

J. Revenues, expenditures and expenses

Property Tax

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

Expenditures/Expenses

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

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

- K. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:
1. For the first time the financial statement should include:
    - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town’s overall financial position and results

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

of operations. However, the Town has chosen not to present the required MD&A for the current year.

- b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

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

L. 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

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

government through formal action of the highest level of decision making authority and does not lapse at year-end.

- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Police Department Fund	Fines & Forfeitures Interest Income
Park Fund	Donation Income

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Deficit Fund Balance or Retained Earnings

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

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the Town held deposits of approximately \$34,527 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school 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 - CAPITAL ASSETS

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

TOWN OF ROCK ISLAND, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

NOTE 5 - LONG-TERM DEBT

The Town of Rock Island has no long-term debt.

NOTE 6 - 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 Town does not have any restricted net assets.

Governmental Fund Balances

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

	General Fund	Police Department Fund	Park Fund	Total Governmental Funds
FUND BALANCES:				
Assigned to:				
Police Department	\$ -	\$ 3,899	\$ -	\$ 3,899
Park Fund	-	-	1,132	1,132
Unassigned	29,497	-	-	29,497
Total	\$ 29,497	\$ 3,899	\$ 1,132	\$ 34,527

NOTE 7 - COMMITMENTS & CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2012, which would have a material effect on the financial statements.

Federally Assisted Programs

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

TOWN OF ROCK ISLAND, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Compensated Absences - Compensated absences have not been determined because the Town prepares its financial statements on the modified cash basis of accounting. According to generally accepted accounting principles the liability for compensated absences should be accrued.

NOTE 8 - SUBSEQUENT EVENTS

As of the date of this audit report, the Town was the subject of a Petition Audit by the Oklahoma State Auditor & Inspector

The Town did not have any other subsequent events through 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 Board of Trustees  
Town of Rock Island, Oklahoma

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining funds of the Town of Rock Island, 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 May 17, 2013, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping. The Town of Rock Island 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 Rock Island is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Rock Island'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 Rock Island's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Rock Island'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.

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

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

This report is intended solely for the information and use of management, the board of trustees, others within the entity, the Oklahoma Department of Commerce and the Oklahoma State Auditor and Inspector's office and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

May 17, 2013

TOWN OF ROCK ISLAND, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Segregation of Duties

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

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

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

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

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

Item 12-02: Expense Classifications

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 expenses of the Town have not been categorized in a manner consist with the requirements of governmental fund types. The expenses are classified based on expense categories of a private business.

Cause/Effect: Due to a weak internal control system, the expenses for the year were not properly divided into categories.

TOWN OF ROCK ISLAND, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2012

Recommendation: The Town needs to prepare financial statements consistent with the requirements of governmental fund type activities.

Response: The Town is aware of the problem.