

**Town of Bowlegs, Oklahoma**

Annual Financial Statements and Accompanying  
Independent Auditor's Report

June 30, 2012

Audited by

**Samuel S Alexander, CPA**

**Wagoner, Oklahoma**

**Town of Bowlegs, Oklahoma**  
June 30, 2012

**Board of Trustees**

Chairman

Chris Bryan

Vice Chairman

Carol Palmer

Trustees

Ella O'Dell

Billy Deck

Tommy Monks

Clerk / Treasurer

Cathy Werner

**Town of Bowlegs, Oklahoma**  
June 30, 2012

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**Town of Bowlegs, Oklahoma**  
June 30, 2012

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SAMUEL S ALEXANDER  
Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Bowlegs, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Town of Bowlegs, Oklahoma (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express opinions on the financial statements based on my audit.

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

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. Accounting principles generally accepted in the United States of America require capital assets be recorded at historical cost, net of accumulated depreciation. The amount by which these departures would affect the assets, net assets and expenses of the Governmental and Business-Type Activities is not readily determinable.

In my opinion, except for the effects, if any, on the financial statements of inadequate capital assets record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Town of Bowlegs, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows,

where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Town has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 13, 2012, on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my 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 compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

October 13, 2012  
Wagoner, Oklahoma

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF NET ASSETS  
June 30, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and cash investments	\$ 70,043	35,474	105,517
Accounts receivable	4,571	2,700	7,271
<b>CAPITAL ASSETS</b>			
Depreciable buildings, property and equipment, net of depreciation	22,666	54,654	77,320
<b>TOTAL NET ASSETS</b>	<b>97,280</b>	<b>92,828</b>	<b>190,108</b>
<b>LIABILITIES</b>			
Notes payable	15,293	34,398	49,691
<b>NET ASSETS</b>			
Fund balances			
Invested in capital assets, net of related debt	7,373	20,256	27,629
Reserved	-	8,757	8,757
Unreserved	74,614	29,417	104,031
<b>TOTAL NET ASSETS</b>	<b>\$ 81,987</b>	<b>58,430</b>	<b>140,417</b>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
General government					
Personnel services	\$ 21,151	-	-	-	(21,151)
Maintenance and operations	23,180	-	5,627	-	(17,553)
Depreciation	2,388				(2,388)
Total Governmental Activities	<u>46,719</u>	<u>-</u>	<u>5,627</u>	<u>-</u>	<u>(41,092)</u>
Business-Type Activities:					
Water and sewer services	16,085	32,825			16,740
Interest on debt	1,767		-	-	(1,767)
Unallocated depreciation	2,400	-	-	-	(2,400)
Total Business-Type Activities	<u>20,252</u>	<u>32,825</u>	<u>-</u>	<u>-</u>	<u>12,573</u>
Totals	<u>\$ 66,971</u>	<u>32,825</u>	<u>5,627</u>	<u>-</u>	<u>(28,519)</u>

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (Expenses) Revenue	\$ (41,092)	12,573	(28,519)
General Revenues:			
Taxes	19,994	-	19,994
Intergovernmental	13,112	-	13,112
Miscellaneous	401	274	675
Total general revenues and special items	<u>33,507</u>	<u>274</u>	<u>33,781</u>
Changes in net assets	(7,585)	12,847	5,262
Net assets, beginning of period	<u>89,572</u>	<u>45,583</u>	<u>135,155</u>
Net assets, end of period	<u>\$ 81,987</u>	<u>58,430</u>	<u>140,417</u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	GENERAL FUND
<b>ASSETS</b>	
Cash and investments	
Cash and cash investments	\$ 70,043
Receivables	
Accounts receivable	4,571
Fixed assets	22,666
<b>TOTAL ASSETS</b>	<b>\$ 97,280</b>
 <b>LIABILITIES</b>	
Notes payable	\$ 15,293
 <b>FUND EQUITY</b>	
Fund Balances	
Invested in capital assets, net of related debt	7,373
Unreserved	74,614
Total Fund Equity	81,987
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 97,280</b>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENTS OF NET ASSETS  
June 30, 2012

Total Fund Balances - Total Governmental Funds \$ 74,614

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Depreciable buildings, property and equipment, net of depreciation and related debt 7,243

Net Assets of Governmental Activities \$ 81,857

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	<u>GENERAL FUND</u>
REVENUES	
Taxes:	
Sales	13,506
Motor vehicle	2,997
Alcohol beverage	2,543
Gasoline	751
Cigarette and tobacco products	197
	<u>19,994</u>
Franchise fees	13,112
Intergovernmental programs-Fire department grant and income	5,627
Interest and other income	401
	<u>401</u>
Total revenues	<u>39,134</u>
EXPENDITURES	
Current	
General government	
Personnel services	21,151
Maintenance and operations	23,180
Depreciation	2,388
	<u>2,388</u>
Total expenditures	<u>46,719</u>
Net changes in fund balance	(7,585)
Fund balance, beginning of year	<u>89,572</u>
Fund balance, end of year	<u><u>\$ 81,987</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-  
WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (7,585)</u>
No adjustments	
Change in Net Assets of Governmental Activities	<u><u>\$ (7,585)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	<u>BUSINESS-TYPE  ACTIVITIES  ENTERPRISE FUNDS</u> PUBLIC WORKS AUTHORITY
<b>ASSETS</b>	
Cash and investments	
Cash	\$ 26,717
Reserve account	8,757
Receivables	
Accounts receivable	2,700
<b>CAPITAL ASSETS</b>	
Depreciable property and equipment, net of depreciation	<u>54,654</u>
<b>TOTAL ASSETS</b>	<u><u>92,828</u></u>
<b>LIABILITIES</b>	
Note payable	<u>34,398</u>
<b>RETAINED EARNINGS</b>	
Retained earnings:	
Invested in capital assets, net of related debt	20,256
Restricted	8,757
Unrestricted	<u>29,417</u>
	<u>58,430</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<u><u>\$ 92,828</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
For the Year Ended June 30, 2012

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	PUBLIC WORKS AUTHORITY
REVENUES	
Water & sewer revenue	\$ 32,825
UTILITY OPERATIONS EXPENSE	
Water & sewer service	16,085
Depreciation	2,400
Interest expense	1,767
Total operations expense	20,252
INCOME BEFORE NON-OPERATING REVENUES, EXPENSES AND TRANSFERS	12,573
NON OPERATING REVENUES (EXPENSE)	
Interest and other	274
NET INCOME	12,847
Retained earnings, beginning of year	45,583
Retained earnings, end of year	\$ 58,430

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2012

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUNDS <hr style="border: 0.5px solid black;"/> PUBLIC WORKS AUTHORITY
Cash flows from operating activities:	
Cash received from customers and service users	\$ 32,950
Cash payments for goods, services and employees	(17,852)
Net cash provided by operating activities	<u>15,098</u>
Cash flows from capital and related financing activities:	
Debt principal paid	(5,373)
Interest received	274
	<u>(5,099)</u>
Net increase (decrease) in cash	9,999
Cash balance, beginning of period	<u>25,475</u>
Cash balance, end of period	<u><u>\$ 35,474</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 12,573
Adjustments to reconcile operating income to net cash provided:	
Changes in assets and liabilities:	
Depreciation	2,400
Increase in receivables	125
Total adjustments	<u>2,525</u>
Net cash provided by operating activities	<u><u>\$ 15,098</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**NOTES TO BASIC FINANCIAL STATEMENTS**

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

**Note 1-Summary of Significant Accounting Policies**

The Town of Bowlegs, Oklahoma (the “Town”) complies with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied to the extent they are applicable to the basis of accounting used, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Town will only report infrastructure acquired after June 30, 2003.

**A. Reporting Entity**

The Town is organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a five-member Board of Trustees. The trustees elect a chairman from their own body. The Town provides the following services as authorized by its charter: General government, public safety (fire), streets, public works (water, sewer & refuse) and public improvements.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the Town and its component units and trusts, entities for which the Town is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the Town’s operations and so data from these units are combined with the data of the primary government.

**Blended Component Units/Trusts:**

The Bowlegs Public Works Authority (BPWA) was created pursuant to a trust indenture for the benefit of the Town. BPWA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remove water and sewer facilities for the Town. The water, sanitary sewer and solid waste disposal systems owned by the Town have been leased to BPWA until such date that all indebtedness of the Authority is retired or provided for. BPWA is a public entity and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 2001, Section 176 et seq., and is governed by a board consisting of five trustees identical with the Town Council. BPWA is exempt from Federal and state income taxes, and is reported as an enterprise fund.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The Town’s basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**Government-Wide Financial Statements** – The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, excluding fiduciary funds. The statements distinguish between those activities of the Town that are governmental and those considered business activities.

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

**Fund Financial Statements** – Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria.

**Fund Accounting** – The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: Governmental, proprietary and fiduciary.

**Governmental Funds** – Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are generally recorded when the related fund liability is incurred, with exceptions for unmatured interest on general long-term debt recognized when due, and certain compensated absences and claims and judgments recognized when the obligations are expected to be liquidated with expendable available financial resources.

Gasoline excise and motor vehicle taxes collected and held by the state and county at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise fees, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

B. Measurement Focus, Basis of Accounting and Basis of Presentation-Fund Accounting (Continued)

General Fund - is the general operating fund of the Town. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Proprietary Funds** – Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20, the town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds – are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Town. Agency funds are generally used to account for assets that the Town holds on behalf of others as their agent.

C. Assets, Liabilities and Equity

Deposits and Investments

Oklahoma Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States.

For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered investments.

Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, investments and accounts receivable. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

C. Assets, Liabilities and Equity (Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/due to other funds”

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary accounts. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statements of net assets and in the respective funds.

All reported capital assets in the proprietary fund are depreciated except construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town’s historical records of necessary improvements and replacements. Land has not been included which is a variance from accounting principles generally accepted in the United States of America.

The financial statements of Bowlegs Public Works Authority include property and equipment. Depreciation was not charged until the 2009-2010 year, which included prior period depreciation.

Depreciation is computed using the straight-line method over the following estimated useful lives in years:

Description	<u>Estimated useful lives</u>	
	Governmental	Business-type
Buildings	40-100	40-100
Furniture, fixtures & equipment	10-100	10-100
Land improvements	10-100	10-100
Vehicles	5-40	5-40
Infrastructure	40-100	40-100

The Town and the Bowlegs Public Works Authority have not maintained accurate capital assets records to support the historical cost of past capital asset purchases.

Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation time. Full time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure. The expense and related liability for vested vacation benefits and compensatory time is not recorded in the respective funds of the Town or its component unit.

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

C. Assets, Liabilities and Equity (Continued)

Long-Term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending “financial flow” measurement focus. This means only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spending resources”. Governmental fund operating statements present increases (revenues and other financial resources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of “available spending resources” during a period.

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Net Assets

Reservations of fund balance represent amounts that are legally restricted for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans subject to change. The proprietary funds contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or funds.

**Note 2 – Stewardship, Compliance and Accountability**

Budgetary Information

The Town is required by state law to prepare an annual budget. Under current Oklahoma Statutes, a formal Estimate of Needs (Budget) is required for the general fund and special revenue funds. Budgets are presented for the general fund that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. The Town had no special revenue funds at June 30, 2012.

The annual Estimate of Needs, when approved by the Town Council and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, are made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund - vs. utilized in all governmental funds of the Town. Purchase orders or contracts document encumbrances for goods and purchased services. Unencumbered appropriations lapse at year end under Oklahoma law.

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

**Note 3 – Funds Detail**

Deposits and Investments

The Town's cash deposits, including interest bearing certificates of deposit, are entirely covered by Federal Deposit Insurance Corporation or direct obligations of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Capital Assets

Capital assets consist of the following.

	Balance at <u>7/1/2011</u>	<u>Additions</u>	Balance at <u>6/30/2012</u>
Governmental Activities			
Buildings	\$ 26,512		26,512
Less accumulated depreciation	<u>-1,458</u>	<u>- 2,388</u>	<u>-3,846</u>
	<u>25,054</u>	<u>- 2,388</u>	<u>22,666</u>
Proprietary Activities			
Lagoon system	120,000		120,000
Less accumulated depreciation	<u>-62,946</u>	<u>-2,400</u>	<u>-65,346</u>
	<u>\$ 57,054</u>	<u>-2,400</u>	<u>54,654</u>

Long Term Debt

The Town of Bowlegs has one note payable at 4.99% with monthly payments of \$269.87. The principal balance at June 30, 2012 is \$ 15,293.

The Bowlegs Public Works Authority has one note payable at 5%, with monthly payments of \$590. The principal balance at June 30, 2012 is \$34,398. Both loans are collateralized by equipment purchased with loan proceeds.

The estimated principal and interest payments are detailed as follows.

Year Ended	Principal	Interest	Totals
6/30/13	\$ 8,151	2,169	10,320
6/30/14	8,565	1,755	10,320
6/30/15	9,005	1,315	10,320
6/30/16	9,462	858	10,320
6/30/17	10,578	387	10,965
Thereafter	<u>3,930</u>	<u>68</u>	<u>3,998</u>
	<u>\$ 49,691</u>	<u>6,552</u>	<u>56,243</u>

TOWN OF BOWLEGS, OKLAHOMA  
Notes to Financial Statements  
June 30, 2012

**Note 4 – Authorities**

Bowlegs Public Works Authority (a Blended Component Unit)

**UTILITY OPERATIONS**

The operations of the utility departments of the Town (water, sewer and refuse) were transferred to the Bowlegs Public Works Authority. The Public Works Authority provides utility services for its customers including the Town of Bowlegs and its related departments.

**Note 5 – Subsequent Events**

Subsequent events have been evaluated through the financial statement issuance date of October 13, 2012, with no items noted for reporting.

TOWN OF BOWLEGS, OKLAHOMA  
REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2012

TOWN OF BOWLEGS, OKLAHOMA  
 REQUIRED SUPPLEMENTAL INFORMATION  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET VS. ACTUAL-GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2012

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
	BUDGET	BUDGET		
<b>Revenues</b>				
Taxes	\$ 25,000	25,000	19,994	(5,006)
Intergovernmental	20,000	20,000	13,112	(6,888)
Miscellaneous	1,000	1,000	6,028	5,028
Total revenues	<u>46,000</u>	<u>46,000</u>	<u>39,134</u>	<u>(6,866)</u>
<b>Expenditures</b>				
Current				
General government				
Personnel	10,000	10,000	21,151	(11,151)
Maintenance	125,572	125,572	23,180	102,392
Depreciation	-	-	2,388	(2,388)
Total expenditures	<u>135,572</u>	<u>135,572</u>	<u>46,719</u>	<u>88,853</u>
Excess of revenues over (under) expenditures	(89,572)	(89,572)	(7,585)	81,987
Fund balance, beginning of year	<u>89,572</u>	<u>89,572</u>	<u>89,572</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>81,987</u>	<u>81,987</u>

The accompanying notes to the financial statements are an integral part of this statement.

TOWN OF BOWLEGS, OKLAHOMA  
REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*  
JUNE 30, 2012

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

Members of the Board of Trustees  
Town of Bowlegs, Oklahoma

I have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Bowlegs, Oklahoma (the "Town"), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued my report dated October 13, 2012. My report included an explanatory paragraph stating that the financial statements presented only the financial information of the Town. My report also included an explanatory paragraph related to the required supplementary information. I conducted my audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Town's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, I noted a certain matter involving internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of findings as item 10-01. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses including the reportable condition described above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of its 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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***

This report is intended for the information and use of management and members of the Board of Trustees of the Town of Bowlegs, Oklahoma, and is not intended to be and should not be used by anyone other than these specified parties.

October 13, 2012

Town of Bowlegs, Oklahoma  
Schedule of Findings  
Period ended June 30, 2012

**Reportable Conditions of Internal Control**

10-01 Segregation of Duties

**Criteria:** The segregation of incompatible financial duties is important to adequately protect the Town's assets and ensure accurate financial reporting.

**Condition:** Presently the same individual receiving cash receipts also posts payments and adjustments to subsidiary ledgers. Additionally the same individual prepares cash disbursements and reconciles the bank accounts. The same individual enters cash transactions into the general ledger and maintains the accounting system.

**Cause:** The Town's limited resources result in its inability to provide sufficient staffing to fully segregate incompatible duties.

**Effect:** Without proper segregation of duties, the risk increases that errors and fraud related to the collection and expenditure activities could occur and not detected within a timely basis.

**Recommendation:** Efficient segregation of duties in a small governmental environment is often difficult. However, the governing body and Town management should be aware of this risk associated with the lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of independent bank account reconciliation reviews, revenue posting report reviews, payment posting report reviews and adjusting entry reviews.

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As of June 30, 2012, Segregation of Duties continues to be an issue. At some point in the near future, the responsible parties should avail themselves of training on these kinds of detail.