

AUDIT REPORT
TOWN OF MCCURTAIN, OKLAHOMA
&
MCCURTAIN MUNICIPAL AUTHORITY

JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2013

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TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2013

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TOWN OF MCCURTAIN, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
HARVEY WAY	CHAIRMAN	4/2017
DAVID FOX	VICE CHAIRMAN	4/2015
DAWNA FOX	TRUSTEE	4/2017
JOYCE ADAMS	TRUSTEE	4/2015
BRYAN BURSON	TRUSTEE	4/2017

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of McCurtain, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

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policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

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 Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and 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 or provide an assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented

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for purposes of additional analysis and is not a required part of the financial statements of the Town of McCurtain, Oklahoma.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2013, on our consideration of the Town of McCurtain'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* in considering Town of McCurtain's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 17, 2013

TOWN OF MCCURTAIN, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	2013 Total	Memo Only 2012 Total
ASSETS				
Current Assets:				
Cash, Including Time Deposits	\$ 2,211	\$ 32,407	\$ 34,618	\$ 28,983
Total Current Assets	2,211	32,407	34,618	28,983
Restricted Assets:				
Cash, Including Time Deposits	-	108,162	108,162	15,253
Total Restricted Assets	-	108,162	108,162	15,253
Capital Assets:				
Water & Sewer System Improvements	-	2,736,886	2,736,886	2,048,603
Equipment	-	57,887	57,887	57,887
Less: Accumulated Depreciation	-	(525,783)	(525,783)	(478,142)
Total Capital Assets	-	2,268,990	2,268,990	1,628,348
TOTAL ASSETS	2,211	2,409,560	2,411,771	1,672,584
LIABILITIES				
Current Liabilities:				
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
Notes Payable - Current Portion	-	9,491	9,491	7,657
Total Current Liabilities	-	9,491	9,491	7,657
Long-Term Liabilities:				
Due to Depositors	-	47,070	47,070	40,619
Note Payable - RD	-	1,307,700	1,307,700	444,897
Notes Payable - CRG, Inc.	-	14,058	14,058	142,111
Less: Notes Payable - Current Portion	-	(9,491)	(9,491)	(7,657)
Total Long-Term Liabilities	-	1,359,337	1,359,337	619,971
TOTAL LIABILITIES	-	1,368,828	1,368,828	627,628
NET POSITION				
Net investment in capital assets	-	947,232	947,232	1,041,339
Restricted for:				
Debt Service	-	108,162	108,162	15,253
Other Purposes	-	-	-	-
Unrestricted	2,211	(14,663)	(12,452)	(11,637)
TOTAL NET POSITION	\$ 2,211	\$ 1,040,732	\$ 1,042,942	\$ 1,044,955

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, 2013

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	\$ 46,379	\$ -	\$ -	\$ -	\$ (46,379)
Public Safety	74,410	53,411	-	-	(20,999)
Parks & Recreation	3,202	-	-	-	(3,202)
Streets & Highways	124,544	-	-	121,356	(3,189)
Total Governmental Activities	248,534	53,411	-	121,356	(73,768)
Business-type activities:					
Water	116,279	144,381	-	-	28,102
Sewer	38,151	40,433	-	-	2,282
Sanitation	40,030	45,364	-	-	5,335
Miscellaneous	47,641	8,182	-	-	(39,459)
Total Business-type Activities	242,101	238,360	-	-	(3,741)
Total	\$ 490,635	\$ 291,771	\$ -	\$ 121,356	\$ (77,509)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (73,768)	\$ (3,741)	\$ (77,509)
General revenues:			
Taxes:			
Sales Tax	34,004	-	34,004
Tobacco Tax	468	-	468
Franchise Tax	6,668	-	6,668
Intergovernmental:			
Alcoholic Beverage Tax	8,245	-	8,245
Gasoline Excise Tax	954	-	954
Motor Vehicle Tax	3,660	-	3,660
Royalty Income	5,267	-	5,267
Rental Income	425	-	425
Investment Income	2	17	19
Miscellaneous	15,785	-	15,785
Transfers - Internal Activity	88	(88)	-
Total general revenues & transfers	75,567	(71)	75,495
Changes in net position	1,799	(3,812)	(2,013)
Net position - beginning	411	1,044,544	1,044,955
Net position - prior year adjustment	-	-	-
Net position - ending	\$ 2,211	\$ 1,040,732	\$ 1,042,942

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

**TOWN OF MCCURTAIN, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,143	\$ -	\$ 67	\$ 2,211
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	<u>\$ 2,143</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 2,211</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	-	-	67	67
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	2,143	-	-	2,143
TOTAL FUND BALANCES	<u>2,143</u>	<u>-</u>	<u>67</u>	<u>2,211</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,143</u>	<u>\$ -</u>	<u>\$ 67</u>	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position 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 Position of Governmental Activities **\$ 2,211**

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, 2013

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 34,004	\$ -	\$ -	34,004
Tobacco Tax	468	-	-	468
Franchise Tax	6,668	-	-	6,668
Intergovernmental:				
Alcoholic Beverage Tax	8,245	-	-	8,245
Gasoline Excise Tax	954	-	-	954
Motor Vehicle Tax	3,660	-	-	3,660
Grants	-	121,356	-	121,356
Fines & Forfeitures	48,901	-	4,510	53,411
Royalty Income	5,267	-	-	5,267
Rental Income	425	-	-	425
Miscellaneous Income	10,163	5,622	-	15,785
Interest Income	2	-	-	2
TOTAL REVENUES	118,758	126,978	4,510	250,246
<u>EXPENDITURES:</u>				
Fire Department:				
Maintenance & Operations	7,119	-	-	7,119
Debt Service	-	-	-	-
Parks & Recreation:				
Maintenance & Operations	1,168	2,033	-	3,202
Police Department:				
Personal Services	45,444	-	-	45,444
Maintenance & Operations	17,254	-	4,592	21,847
Street & Alley:				
Maintenance & Operations	3,802	-	-	3,802
General Government:				
Personal Services	16,148	-	-	16,148
Maintenance & Operations	26,028	4,202	-	30,230
Capital Outlay	-	120,742	-	120,742
TOTAL EXPENDITURES	116,964	126,978	4,592	248,534
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	1,794	-	(82)	1,711
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	5,000	-	-	5,000
Operating Transfers Out	(4,912)	-	-	(4,912)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	88	-	-	88
NET CHANGES IN FUND BALANCES	1,882	-	(82)	1,799
FUND BALANCE - BEGINNING OF YEAR	262	-	150	411
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 2,143	\$ -	\$ 67	2,211

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, 2013**

	<u>McCurtain Municipal Authority Enterprise Fund June 30, 2013</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 32,407
Restricted cash and cash equivalents	108,162
Due from other governments	-
Total Current Assets	<u>140,570</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	-
Land and construction-in-progress	-
Other capital assets, net of accumulated depreciation	2,268,990
Total Noncurrent Assets	<u>2,268,990</u>
TOTAL ASSETS	<u>2,409,560</u>
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Due to Other Governments	-
Payroll Taxes Payable	-
Notes Payable - Current Portion	9,491
Total Current Liabilities	<u>9,491</u>
Noncurrent Liabilities:	
Due to Depositors	47,070
Notes Payable - RD	1,307,700
Notes Payable - CRG, Inc.	14,058
Less: Notes Payable - Current Portion	(9,491)
Total Noncurrent Liabilities	<u>1,359,337</u>
TOTAL LIABILITIES	<u>1,368,828</u>
NET POSITION:	
Net investment in capital assets	947,232
Restricted for debt service	108,162
Unrestricted	(14,663)
TOTAL NET POSITION	<u>\$ 1,040,732</u>

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, 2013

	McCurtain Municipal Authority Enterprise Fund June 30, 2013
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 144,381
Sanitation Fees	45,364
Sewer Fees	40,433
Taps	-
Service Fees	1,190
Miscellaneous Income	6,992
TOTAL OPERATING REVENUES	238,360
<u>OPERATING EXPENSES:</u>	
Water	116,279
Sanitation	40,030
Sewer	6,600
Miscellaneous	-
Depreciation	47,641
TOTAL OPERATING EXPENSES	210,550
NET OPERATING INCOME (LOSS)	27,810
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	17
Interest Expense	(31,551)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(31,534)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(3,724)
Capital Contributions	-
Transfers in	4,912
Transfers out	(5,000)
CHANGE IN NET POSITION	(3,812)
TOTAL NET POSITION - BEGINNING	1,044,544
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	-
TOTAL NET POSITION - ENDING	\$ 1,040,732

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, 2013**

	June 30, 2013
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 238,360
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(162,909)
Receipts of Customer Utility Deposits, Net of Refunds	6,450
Net Cash Provided (Used) by Operating Activities	81,901
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	(5,000)
Transfers from other funds	4,912
Net Cash Provided (Used) by Non-Capital Financing Activities	(88)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	-
Additions to Capital Assets	(688,284)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	897,682
Principal paid on Notes Payable	(162,933)
Principal paid on Lease Purchase Obligations	-
Interest paid	(31,551)
Net Cash Provided (Used) by Capital & Related Financing Activities	14,915
<u>Cash Flows from Investing Activities:</u>	
Interest Income	17
Net Cash Provided (Used) by Investing Activities	17
Net Increase (Decrease) in Cash and Cash Equivalents	96,745
Cash & Cash Equivalents, Beginning of Year	43,825
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 140,570
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ 27,810
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	47,641
Increase(Decrease) in Due to Depositors	6,450
Increase(Decrease) in Payroll Taxes Payable	-
Net Cash Provided (Used) by Operating Activities	\$ 81,901

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

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. REPORTING ENTITY

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

Primary Government:	Town of McCurtain
Blended Component Units:	McCurtain Municipal Authority (MMA)

PRIMARY GOVERNMENT

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.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

of the Town by appropriate fund type to constitute the primary government presentation. The Town's blended component unit is presented subsequently:

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.

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.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. 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.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 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.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

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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TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

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, or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

DUE FROM OTHER FUNDS OR GOVERNMENTS

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements a modification to the cash basis of accounting.

CAPITAL ASSETS

Expenditures for property and equipment of governmental funds and expendable trust funds are recorded as fund expenditures; however, no detail capital asset records are maintained for such assets still in service. Therefore, capital assets of the Governmental Activities required by the modified cash basis are not presented.

Capital 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 capital 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.

EQUITY CLASSIFICATION

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

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- 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 Town does not have any Major Special Revenue Funds.

E. 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, 2013, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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.

USE OF ESTIMATES

The preparation of financial statements inconformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Finance-related Legal & Contractual Provisions

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

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2013, the Town held deposits of approximately \$142,780 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.

TOWN OF MCCURTAIN, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

- 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	\$ 2,211
Enterprise	32,407
Restricted Cash: Enterprise Fund	<u>108,162</u>
Total Carrying Value	\$ 142,780

NOTE 4- RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$27,540), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. The new loan agreement with the USDA requires the Authority to set aside into a Reserve Account the sum of 10% of the monthly installment of \$478.60 each month until there is accumulated in that account the sum of the annual installment (\$57,432), after which deposits may be suspended, except to replace withdrawals.

The Authority continued to make the required monthly deposits of \$229.50 into the reserve account for the old loan and began making the deposits of \$478.60 and will continue those deposits until the required balance is accumulated. As of June 30, 2013, the account balance for the reserve account was \$11,918.78.

Components of Restricted Assets:

Meter Deposits	\$ 15,896
RD Construction	80,347
Debt Reserve	<u>11,919</u>
	<u>\$108,162</u>

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2013, was as follows:

	6/30/12			6/30/13
	Balance	Additions	Deductions	Balance
Water & Sewer System Improvement	\$ 2,048,603	\$ 688,284	\$ -	\$ 2,736,886
Equipment	57,887	-	-	57,887
	2,106,490	688,284	-	2,794,773
Less: Accum. Depreciation	(478,142)	(47,641)	-	(525,783)
	<u>\$ 1,628,348</u>	<u>\$ 640,643</u>	<u>\$ -</u>	<u>\$ 2,268,990</u>

Depreciation expense for the year ended June 30, 2013, aggregating \$47,641, has been computed on assets with a cost basis totaling \$2,794,773.

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, 2013

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.

\$ 437,221

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.

14,058

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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. Paid off in current fiscal year. -0-

Promissory Note 10237 to the CRG, Inc. in the amount of \$83,400 with an interest rate of 4.0%. Payment is to 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. Paid off in current fiscal year. -0-

Promissory Note to the USDA Rural Development in the Amount \$1,391,000 with an interest rate of 2.75%. The note is being retired through monthly payment of \$4,786 including principal and interest beginning December 13, 2012 until the note matures on December 13, 2052. The note is for the purpose of financing the water distribution system improvements. Loan proceeds of \$895,443.06 have been received as of June 30, 2013. 870,479

Total Notes Payable Outstanding \$1,321,758

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2013:

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
N/P - USDA RD #1	\$ 444,897	\$ -	\$ (7,676)	\$ 437,221
N/P - CRG 10220	15,456	-	(1,399)	14,058
N/P - CRG 10236	43,255	2,239	(45,494)	-
N/P - CRG 10237	83,400	-	(83,400)	-
N/P - USDA RD #2	-	895,443	(24,964)	870,479
	<u>\$ 587,008</u>	<u>\$ 897,682</u>	<u>\$ (162,933)</u>	<u>\$ 1,321,758</u>

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

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Year Ending June 30,	Note Payable - RD		Total
	Principal	Interest	
2014	\$ 8,029	\$ 19,511	\$ 27,540
2015	8,398	19,142	27,540
2016	8,784	18,756	27,540
2017	9,188	18,352	27,540
2018	9,610	17,930	27,540
2019-2023	55,090	82,610	137,700
2024-2028	68,961	68,739	137,700
2029-2033	86,325	51,375	137,700
2034-2038	108,062	29,638	137,700
2039-2041	74,775	5,128	79,903
Total	<u>\$ 437,221</u>	<u>\$ 331,182</u>	<u>\$ 768,403</u>

Year Ending June 30,	Note Payable - CRG 10220		Total
	Principal	Interest	
2014	\$ 1,462	\$ 603	\$ 2,064
2015	1,529	536	2,064
2016	1,599	465	2,064
2017	1,673	392	2,064
2018	1,748	316	2,064
2019-2023	6,046	449	6,495
Total	<u>\$ 14,057</u>	<u>\$ 2,761</u>	<u>\$ 16,817</u>

Once all loan proceeds are received for the second Rural Development loan, an amortization schedule will be available.

NOTE 9 - 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 2012/2013 was \$1,380 and covered 23 volunteers.

TOWN OF MCCURTAIN, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 10 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2013, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
McCurtain Municipal Authority	\$ 5,000	\$ 4,912
Total General	<u>5,000</u>	<u>4,912</u>
ENTERPRISE FUNDS:		
McCurtain Municipal Authority:		
General Fund	<u>4,912</u>	<u>5,000</u>
Total Enterprise Funds	<u>4,912</u>	<u>5,000</u>
GRAND TOTALS	<u>\$ 9,912</u>	<u>\$ 9,912</u>

NOTE 11 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position include amounts related to Note 4 above.

Fund Balances

Town of McCurtain
 Disclosure of Fund Balances Reported on Balance Sheet
 For Fiscal Year Ending June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>FUND BALANCES:</u>			
Restricted for:			
Police Fees	\$ -	\$ 67	\$ 67
Unassigned	2,143	-	2,143
Total	<u>\$ 2,143</u>	<u>\$ 67</u>	<u>\$ 2,211</u>

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 12 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

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

LITIGATION

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

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting 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, 2013, 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.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 17, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

TOWN OF MCCURTAIN, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 262	\$ 262	\$ 262	\$ -
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	32,287	32,287	34,004	1,717
Tobacco Tax	443	443	468	25
Franchise Tax	6,937	6,937	6,668	(269)
Intergovernmental:				
Alcoholic Beverage Tax	7,055	7,055	8,245	1,190
Gasoline Excise Tax	878	878	954	76
Motor Vehicle Tax	3,142	3,142	3,660	518
Grants	26,181	26,181	-	(26,181)
Fines & Forfeitures	41,188	41,188	48,901	7,713
Royalty Income	5,887	5,887	5,267	(620)
Rental Income	135	135	425	290
Miscellaneous Income	11,228	11,228	10,163	(1,065)
Interest Income	4	4	2	(2)
Transfers In	8,415	8,415	5,000	(3,415)
Amounts available for appropriation	<u>144,041</u>	<u>144,041</u>	<u>124,019</u>	<u>(20,021)</u>
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	66,000	66,000	61,592	4,408
Maintenance & Operations	78,041	78,041	55,372	22,669
Capital Outlay	-	-	-	-
Debt Service	-	-	-	-
Transfers	-	-	4,912	(4,912)
Total Charges to Appropriations	<u>144,041</u>	<u>144,041</u>	<u>121,876</u>	<u>22,164</u>
Prior Year Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,143</u></u>	<u><u>2,143</u></u>

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

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.

**TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
USDA Rural Development:			
Loan:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,391,000	\$ 895,443
Total		<u>\$ 1,391,000</u>	<u>\$ 895,443</u>

**TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Town of McCurtain, Oklahoma (the "Town").

The Town's reporting entity is defined in Note 1 to the Town's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the Town's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the Town's basic financial statements as follows:

		<u>Federal Sources</u>
General		\$ 895,443
Total		<u>\$ 895,443</u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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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, in accordance with the 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, the modified cash basis 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 year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of McCurtain, Oklahoma's basic financial statements, and have issued our report thereon dated December 17, 2013, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of McCurtain's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Town of McCurtain's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses

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or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01, 13-02 and 13-03.

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.

Town of McCurtain's Response to Findings

Town of McCurtain's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of McCurtain's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 17, 2013

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Council
Town of McCurtain, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Town of McCurtain, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of McCurtain, Oklahoma's major federal programs for the year ended June 30, 2013. The Town of McCurtain, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of McCurtain, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of McCurtain, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of McCurtain, Oklahoma's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Town of McCurtain, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Town of McCurtain, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of McCurtain, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of McCurtain, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance

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and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

December 17, 2013

TOWN OF MCCURTAIN, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

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.

TOWN OF MCCURTAIN, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

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

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

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

Current Status: All three findings still exist in the current year.

TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 capital asset records.

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

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

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

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

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

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TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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.

COMPLIANCE FINDINGS:

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TOWN OF MCCURTAIN, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 17	\$ 50	\$ 67
Investments	-	-	-
Due from General Fund	-	-	-
Due from other governments	-	-	-
TOTAL ASSETS	<u>\$ 17</u>	<u>\$ 50</u>	<u>\$ 67</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>17</u>	<u>50</u>	<u>67</u>
TOTAL FUND BALANCES	<u>17</u>	<u>50</u>	<u>67</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17</u>	<u>\$ 50</u>	<u>\$ 67</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, 2013

	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	2,136	2,374	4,510
Miscellaneous Income	-	-	-
Interest Income	-	-	-
TOTAL REVENUES	2,136	2,374	4,510
<u>EXPENDITURES:</u>			
Current:			
Personal Services	-	-	-
Maintenance & Operations	2,147	2,445	4,592
Capital Outlay	-	-	-
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	2,147	2,445	4,592
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11)	(71)	(82)
<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	(11)	(71)	(82)
FUND BALANCE - BEGINNING OF YEAR	28	122	150
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 17	\$ 50	\$ 67

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