AUDIT REPORT

TOWN OF WAPANUCKA, OKLAHOMA

JUNE 30, 2013

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF WAPANUCKA, OKLAHOMA
JUNE 30, 2013

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TOWN OF WAPANUCKA, OKLAHOMA
JUNE 30, 2013

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* 28-29

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Wapanucka, 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 Wapanucka, 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

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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 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 Wapanucka, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2014, on our consideration of the Town of Wapanucka'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

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reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Wapanucka'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

April 24, 2014

EXHIBIT A

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

	Governmental Activities	Business-Type Activities	2013 Total
ASSETS			
Current Assets:			
Cash in Bank - Unrestricted	$ 41,636	$ 16,665	$ 58,301
Cash in Bank - Restricted	-	7,281	7,281
Total Current Assets	41,636	23,947	65,582
Capital Assets:			
Capital Assets, Net of Accum. Depr.	-	-	-
Total Capital Assets	-	-	-
TOTAL ASSETS	$ 41,636	$ 23,947	$ 65,582
LIABILITIES			
Current Liabilities:			
Customer Deposits	$ -	$ 5,902	$ 5,902
Notes Payable - Current Portion	-	-	-
Total Current Liabilities	-	5,902	5,902
Long-Term Liabilities:			
Notes Payable	-	-	-
Less: Current Maturities	-	-	-
Total Long-Term Liabilities	-	-	-
TOTAL LIABILITIES	-	5,902	5,902
NET POSITION			
Net investment in capital assets	-	-	-
Restricted for:			-
Debt Service	-	7,281	7,281
Other Purposes	-	-	-
Unrestricted	41,636	10,764	52,399
TOTAL NET POSITION	41,636	18,045	59,680
TOTAL LIABILITIES & NET POSITION	$ 41,636	$ 23,947	$ 65,582

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

EXHIBIT B

TOWN OF WAPANUCKA, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses)/ Revenue
Governmental activities:					
General Government	$ 39,753	$ -	$ 4,484	$ -	$ (35,269)
Public Safety	15,450	610	-	-	(14,840)
Highways & Streets	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Capital Outlay	4,000	-	-	-	(4,000)
Total Governmental Activities	59,203	610	4,484	-	(54,108)
Business-type activities:					
Water, Sewer & Sanitation	228,056	146,934	-	99,999	18,878
Total Business-type Activities	228,056	146,934	-	99,999	18,878
Total	$ 287,258	$ 147,544	$ 4,484	$ 99,999	$ (35,231)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	$ (54,108)	$ 18,878	$ (35,231)
General revenues:			
Taxes:			
Sales Tax	23,507	-	23,507
Cigar Tax	323	-	323
Use Tax	2,233	-	2,233
Intergovernmental:			
Alcoholic Beverage Tax	5,597	-	5,597
Motor Vehicle Tax	3,068	-	3,068
Gasoline Excise Tax	820	-	820
Franchise Taxes	5,780	-	5,780
Rental Income	4,875	-	4,875
Miscellaneous Income	17,145	9,398	26,543
Interest Income	7	166	173
Transfers - Internal Activity	(1,463)	1,463	-
Total general revenues & transfers	61,892	11,028	72,919
Changes in Net Position	7,783	29,905	37,689
Net Position - beginning	33,852	(11,860)	21,992
Net Position - prior year adjustment	-	-	-
Net Position - ending	$ 41,636	$ 18,045	$ 59,681

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

EXHIBIT C

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

	General Fund	Cemetery Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 31,779	$ 9,857	$ 41,636
TOTAL ASSETS	$ 31,779	$ 9,857	$ 41,636
LIABILITIES & FUND EQUITY			
LIABILITIES:			
Accounts Payable	$ -	$ -	$ -
Payroll Taxes Payable	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Restricted	-	9,857	9,857
Assigned	-	-	-
Unassigned	31,779	-	31,779
TOTAL FUND BALANCES	31,779	9,857	41,636
TOTAL LIABILITIES AND FUND BALANCES	$ 31,779	$ 9,857	$ 41,636

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	$ 41,636

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

EXHIBIT D

TOWN OF WAPANUCKA, 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	Cemetery Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Sales Tax	$ 23,507	$ -	$ 23,507
Cigar Tax	323	-	323
Use Tax	2,233	-	2,233
Intergovernmental:			
Alcoholic Beverage Tax	5,597	-	5,597
Motor Vehicle Tax	3,068	-	3,068
Gasoline Excise Tax	820	-	820
Grants	4,484	-	4,484
Franchise Taxes	5,780	-	5,780
Fire Runs	200	-	200
Fines & Forfeitures	410	-	410
Rental Income	4,875	-	4,875
Donations	7,628	7,433	15,062
Miscellaneous Income	1,814	270	2,084
Interest Income	4	4	7
TOTAL REVENUES	60,742	7,707	68,449
EXPENDITURES:			
Current:			
General Government:			
Personal Services	7,739	2,060	9,798
Maintenance & Operations	25,368	4,587	29,955
Public Safety:			
Personal Services	-	-	-
Maintenance & Operations	15,450	-	15,450
Debt Service	-	-	-
Capital Outlay	4,000	-	4,000
TOTAL EXPENDITURES	52,556	6,647	59,203
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	8,187	1,060	9,247
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	52	-	52
Operating Transfers Out	(1,515)	-	(1,515)
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,463)	-	(1,463)
NET CHANGES IN FUND BALANCES	6,723	1,060	7,783
FUND BALANCE - BEGINNING OF YEAR	25,055	8,797	33,852
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	$ 31,779	$ 9,857	41,636

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

EXHIBIT D (CONTINUED)

TOWN OF WAPANUCKA, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Reconciliation to Statement of Activities:		
Net change in fund balances - total governmental funds	**$**	**7,783**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Capital debt obligation principal payments		**-**
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:		
Capital Debt Proceeds		**-**
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		**-**
Depreciation expense		**-**
Change in Net Position of Governmental Activities	**$**	**7,783**

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

EXHIBIT E

TOWN OF WAPANUCKA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2013

	Wapanucka Public Works Authority Enterprise Fund June 30, 2013
ASSETS:	
Current Assets:	
Cash in Bank - Unrestricted	$ 16,665
Cash in Bank - Restricted	7,281
Total Current Assets	23,947
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	-
Total Noncurrent Assets	-
TOTAL ASSETS	$ 23,947
LIABILITIES:	
Current Liabilities:	
Customer Deposits	$ 5,902
Notes Payable - Current Maturities	-
Total Current Liabilities	5,902
Noncurrent Liabilities:	
Notes Payable	-
Less: Current Maturities	-
Total Noncurrent Liabilities	-
TOTAL LIABILITIES	5,902
NET POSITION:	
Net investment in capital assets	-
Restricted for debt service	7,281
Unrestricted	10,764
TOTAL NET POSITION	18,045
TOTAL LIABILITIES & NET POSITION	$ 23,947

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

EXHIBIT F

TOWN OF WAPANUCKA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Wapanucka Public Works Authority Enterprise Fund June 30, 2013
OPERATING REVENUES:	
Charges for Services:	
Water and Sewer Income	$ 111,632
Miscellaneous Income	35,302
TOTAL OPERATING REVENUES	146,934
OPERATING EXPENSES:	
Payroll and related costs	21,932
Contracted services	36,336
Utilities and telephone	5,597
Insurance and bonds	7,469
Repairs and maintenance	25,721
Chemicals	1,198
Testing and lab fees	12,676
Office supplies and expense	683
Trash service	-
Legal fees	3,151
TOTAL OPERATING EXPENSES	114,765
NET OPERATING INCOME (LOSS)	32,169
NON-OPERATING REVENUES (EXPENSES)	
Grant Revenues	99,999
Insurance recoveries	9,398
Capital Outlay	(110,981)
Interest Income	166
Interest Expense	(2,310)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,727)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	28,442
Transfers in	1,515
Transfers out	(52)
CHANGE IN NET POSITION	29,905
TOTAL NET POSITION - BEGINNING	(11,860)
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	-
TOTAL NET POSITION - ENDING	$ 18,045

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

EXHIBIT G

TOWN OF WAPANUCKA, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	June 30, 2013
Cash Flows from Operating Activities:	
Cash Receipts from Customers	$ 146,934
Payments to Suppliers and Laborers for Goods & Services	(114,765)
Receipts of Customer Utility Deposits, Net of Refunds	2,132
Net Cash Provided (Used) by Operating Activities	34,302
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(52)
Transfers from other funds	1,515
Net Cash Provided (Used) by Non-Capital Financing Activities	1,463
Cash Flows from Capital & Related Financing Activities:	
Capital grants	99,999
Additions to Capital Assets	(110,981)
Insurance Proceeds	9,398
Loan Proceeds received	-
Principal paid on Notes Payable	(25,522)
Interest paid	(2,310)
Net Cash Provided (Used) by Capital & Related Financing Activities	(29,415)
Cash Flows from Investing Activities:	
Interest Income	166
Net Cash Provided (Used) by Investing Activities	166
Net Increase (Decrease) in Cash and Cash Equivalents	6,516
Cash & Cash Equivalents, Beginning of Year	17,431
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	$ 23,947
Reconciliation of operating income (loss) to net cash provided operating activities:	
Operating Income (Loss)	$ 32,169
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Water Deposits	2,132
Net Cash Provided (Used) by Operating Activities	$ 34,302

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

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. The Reporting Entity

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

Primary Government:	Town of Wapanucka
Blended Component Units:	Wapanucka Public Works Authority (WPWA)

PRIMARY GOVERNMENT

The Town of Wapanucka, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, sanitation, water, public improvements, and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2013, the Town had only one component unit, the Wapanucka Public Works Authority.

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 City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component

unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Wapanucka Public Works Authority. The City board of trustees and the PWA board of directors are the same.

B. Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental funds types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2013, the Town had governmental funds of general fund and cemetery care. The proprietary funds consisted of the Wapanucka Public Works Authority.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

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

Governmental Fund Types

The General Fund is the general operating fund of the Town.

Proprietary Fund Types

The Public Works Authority Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. The Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when received and expenses are recorded when paid. All proprietary fund fixed assets have been expensed and are not capitalized.

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 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 buy 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. Budget and Budgetary Procedures

The Town’s annual operating budget represents appropriations as authorized by the Town Council 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.

E. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Restricted cash consists of monies held in conjunction with the Wapanucka Public Works Authority customer deposits.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2013.

G. Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not required.

H. Inventories

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

I. Property & Equipment

Public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges, are not capitalized. Property, plant and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost. The Town of Wapanucka does not maintain detailed asset records. The town has not established a capitalization threshold because it does not maintain capital asset records

J. Equity Classification

Net Position is classified and displayed in three components:

1. Net investment in capital assets — Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets 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.

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

Major Special Revenue Fund	Revenue Source
Cemetery Fund	Donations

K. Revenues, expenditures and expenses

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.

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.

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

1. For the first time the financial statement should include:

   a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.

   b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).

2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

M. Risk Management

Significant losses are covered by commercial insurance for all Town operations.

N. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

The annual budget was has not been prepared or filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are fund balance and retained earnings deficits for the Town for this fiscal year. This is due in part to the fact that the Town does not report Capital Assets in its financial statements. The Long-term Debt related to these assets is included in the financial statements and therefore creates negative fund balances.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2013, the Town held deposits of approximately $65,582 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. The Town of Wapanucka is considered a separate entity from the Wapanucka Public Works Authority for FDIC deposit insurance.

Investment Interest Rate Risk

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

Investment Credit Risk

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

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

d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds. Restricted cash consisted of the following:

Customer Deposits	$ 5,902
REAP Grant Account	1,379
Total Restricted Cash	$ 7,281

NOTE 5 - CAPITAL ASSETS

The Town does not maintain capital assets records.

NOTE 6 - LONG-TERM DEBT

Wapanucka Public Works Authority:

On May 28, 2004, the Authority received a loan of $140,454.39 from Community Resource Group, Inc. for system improvements. The loan was scheduled for repayment over a term of 120 months (10 years) at 4.9% interest per annum, maturing May 28, 2014. Amortized monthly installments of principal and interest will be required with the first installment due 30 days from the date of the note. Monthly installments were to be in the amount of $1,583.66. Payments are to be made by automatic draft of the Authority's account.

On August 24, 2009, the Authority refinanced its loan with Landmark Bank and received additional loan proceeds of $8,480 to pay operating expenses. The loan was scheduled for repayment of $864.83 per month at 6.75% interest per annum.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Note Payable - CRG, Inc.	$ 15,517	$ -	$ (15,517)	$ -
Note Payable - Landmark Bank	$ 10,005	$ -	$ (10,005)	$ -
Total Long-Term Debt	$ 25,522	$ -	$ (25,522)	$ -

Debt Services Requirements to Maturity

There are no debt service requirements because both loans were paid in full during the current year.

NOTE 7 - 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 Town's restricted net position are described in Note 4 above.

Governmental Fund Balances

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

	General Fund	Cemetery Fund	Total Governmental Funds
FUND BALANCES:			
Restricted for:			
Cemetery Fund	$ -	$ 9,857	$ 9,857
Unassigned	31,779	-	31,779
Total	$ 31,779	$ 9,857	$ 41,636

NOTE 8 - COMMITMENTS & CONTINGENCIES

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.

The attorney advised of the following three claims or threatened litigation for the WPWA:

1. Claim in the amount of $2,536.95 by Volvo Rents for the rental of an excavator rented in January 2013 by an independent contractor for WPWA. Said contractor was to supply all tools and materials to repair the lines. Advised Volvo Rents in August 2013 to seek reimbursement from the contractor. Nothing further received or done in this matter.
2. Claim by Canyon Welding Service for payment for services rendered in January 2013 in the amount of $7,302.15. On July 9, 2013, we responded to their demand letter stating that the Town does not own the public utilities. That Canyon Welding Services was contacted by the independent contractor who did not have the authority to order the work, and that the Trustees nor the engineers authorized any further works since the grant money for the repair works did not include the re-piping work done by Canyon Welding Services. WPWA acknowledges they did the work, but cannot pay this at this time. The matter was to be brought up at the next meeting as to what could be done.
3. Pending administrative proceedings with the Oklahoma Department of Environmental Quality (DEQ) for the unauthorized use of raw water. The two violators had been notified that they were using their raw water lines (intended for livestock/pasture usage) for personal consumption. On October 22, 2013, the violators were advised that the lines would be disconnected. WPWA Trustees held a meeting with the Chickasaw Nation and the Mehlburger Brawley Engineering Firm as to how to correct this problem.
   Currently, the deadline to obtain grants from the Chickasaw Nation has passed, and WPWA would have to wait until the next funding cycle which is in May of each year. On December 3, 2013, a letter was sent to DEQ requesting a five extension to complete the project to supply safe water to these households (this would allow time to apply for the grant, and the building of the lines). No response at this time.

Federally Assisted Programs

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

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

NOTE 9 - OPERATING TRANSFERS

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

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Cemetery Fund	$ -	$ -
Wapanucka Public Works Authority	51.90	1,515.00
Total General Fund	$ 51.90	$ 1,515.00
SPECIAL REVENUE FUNDS:		
Cemetery Fund:		
General Fund	$ -	$ -
Wapanucka Public Works Authority	-	-
Total Special Revenue Funds	$ -	$ -
ENTERPRISE FUNDS		
Wapanucka Public Works Authority		
General Fund	$ 1,515.00	$ 51.90
Cemetery Fund	-	-
Total Enterprise Funds	$ 1,515.00	$ 51.90
	$ 1,566.90	$ 1,566.90

NOTE 10 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through April 24, 2014, 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.

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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 Wapanucka, 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 Wapanucka, 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 Wapanucka, Oklahoma's basic financial statements, and have issued our report thereon dated April 24, 2014, 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 Wapanucka'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 Wapanucka's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Wapanucka'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

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to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses 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 Wapanucka'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 instances of noncompliance that are required to be reported under Government Auditing Standards, which are included in the Schedule of Findings as Item 13-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

Town of Wapanucka's Response to Findings

Town of Wapanucka's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Wapanucka'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

April 24, 2014

Internal Control Findings:

Item 13-01: Segregation of Duties

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

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

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

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

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

Item 13-02: Meter Deposits

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

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

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

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

Response: The Authority is aware of the problem, however, some of the much older records were several years ago, and reconstruction of the ledger is not feasible.

Item 13-03: Bank Deposits

Criteria: Daily bank deposits reduce the risk of lost or stolen cash on hand.

Condition: Receipts are not being deposited on a daily basis. During the current audit, it was noted that deposits of revenues continue to be held in some cases for extended periods. Some tax receipts from early in the fiscal year that were confirmed with outside entities have still not been deposited at yearend.

Cause: The cost of fuel for going to the bank to make daily deposits is such that the Town is not cost effectively able to make daily deposits.

Effect: These conditions result in weakened control over cash receipts and could result in excess cash being maintained on-hand during the month or checks being misplaced or lost.

Recommendation: All receipts should be deposited daily and not retained on-site.

Response: At this time the Town is not able to cost effectively make such deposits.

COMPLIANCE FINDINGS;

Item 13-04: Payroll Reporting and Compliance

Criteria: The Town is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, 940, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for previous & current years for the Town and PWA were not paid in a timely manner and are still past due. The payroll tax forms for those time period were not file either.

Cause/Effect: The past due taxes have left the Town subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The Town needs to get into compliance with the filing requirements and pay the past due balances.

Response: Payroll tax forms that were not previously filed have been prepared and filed. The Town is trying to get caught up on past due amounts and has monthly payments plans with the taxing agencies to get caught up.