AUDIT REPORT

TOWN OF BOKCHITO, OKLAHOMA

JUNE 30, 2014

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF BOKCHITO, OKLAHOMA
JUNE 30, 2014

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TOWN OF BOKCHITO, OKLAHOMA
BOARD MEMBERS AND OFFICIALS
JUNE 30, 2014

BOARD MEMBERS & OFFICIALS

NAME	POSITION
CATHEY KEIRSEY	MAYOR
PATRICIA MAYS	MAYOR PRO-TEM
MARK GREEN	TRUSTEE
JOHNNY ASHBY	TRUSTEE
DAVID WOODS	TRUSTEE
MELISSA SCOTT	CLERK/TREASURER, EMS DIRECTOR & FIRE CHIEF
MIKE ERWIN	POLICE CHIEF
WAYNE MINYARD	UTILITY DIRECTOR

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Bokchito, 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 Bokchito, Oklahoma, as of and for the fiscal year ended June 30, 2014, 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 Bokchito, Oklahoma, as of June 30, 2014, 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 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

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statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2014, on our consideration of the Town of Bokchito'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 Bokchito'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 18, 2014

EXHIBIT A

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	2014 Total	Memo Only 2013 Total
ASSETS				
Current Assets:				
Cash and cash equivalents	$ (2,124)	$ 3,315	$ 1,191	$ 32,742
Certificates of Deposit	8,171	-	8,171	8,148
Accounts Receivable	-	-	-	-
Total Current Assets	6,047	3,315	9,362	40,890
Restricted Assets:				
Cash - Customer Deposits	-	25,410	25,410	25,175
Cash - Debt Reserves	-	27,280	27,280	40,756
Total Restricted Assets	-	52,690	52,690	65,931
Capital Assets:				
Equipment	168,184	-	168,184	168,184
Sewer Improvements	-	2,115,011	2,115,011	1,862,197
Less: Accumulated Depreciation	(141,420)	(1,162,467)	(1,303,887)	(1,258,039)
Total Capital Assets	26,764	952,544	979,308	772,342
TOTAL ASSETS	32,811	1,008,550	1,041,360	879,162
LIABILITIES				
Current Liabilities:				
Accounts Payable	-	-	-	-
Current Portion of Long-Term Debt	-	8,258	8,258	7,856
Total Current Liabilities	-	8,258	8,258	7,856
Long-Term Liabilities:				
Due to Depositors	-	25,887	25,887	25,577
Note Payable - RD	-	183,234	183,234	191,089
Notes Payable - First United Bank	18,261	-	18,261	21,859
Less: Current Portion of Long-Term Debt	-	(8,258)	(8,258)	(7,856)
Total Long-Term Liabilities	18,261	200,863	219,124	230,669
TOTAL LIABILITIES	18,261	209,121	227,382	238,525
NET POSITION				
Net investment in capital assets	8,503	769,310	777,813	559,395
Restricted for:				
Debt Service	-	52,690	52,690	65,931
Other Purposes	-	-	-	-
Unrestricted	6,047	(22,572)	(16,525)	15,312
TOTAL NET POSITION	$ 14,550	$ 799,429	$ 813,979	$ 640,637

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

EXHIBIT B

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses)/ Revenue
Governmental activities:					
General Government	$ 116,416	$ -	$ -	$ -	$ (116,416)
Public Safety	339,086	140,569	5,094	-	(193,424)
Streets & Highways	21,986	-	-	-	(21,986)
Total Governmental Activities	477,488	140,569	5,094	-	(331,826)
Business-type activities:					
Water, Sewer & Sanitation	344,508	312,422	-	230,671	198,585
Total Business-type Activities	344,508	312,422	-	230,671	198,585
Total	$ 821,997	$ 452,991	$ 5,094	$ 230,671	$ (133,241)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	$ (331,826)	$ 198,585	$ (133,241)
General revenues:			
Taxes:			
Sales & Use Tax	145,051	-	145,051
Cigar Tax	1,762	-	1,762
Franchise Tax	23,187	-	23,187
Intergovernmental:			
Alcoholic Beverage Tax	4,328	-	4,328
Vehicle Taxes	4,928	-	4,928
Gasoline Taxes	1,163	-	1,163
Permits & Fees	148	-	148
Ambulance Subsidy	66,228	-	66,228
Donations & Fundraisers	125	-	125
Investment Income	29	73	101
Miscellaneous	59,364	-	59,364
Transfers - Internal Activity	6,000	(6,000)	(0)
Total general revenues & transfers	312,313	(5,927)	306,386
Changes in net position	(19,513)	192,657	173,144
Net position - beginning	34,240	606,397	640,637
Net position - prior year adjustment	(178)	374	197
Net position - ending	$ 14,550	$ 799,429	$ 813,979

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

EXHIBIT C

TOWN OF BOKCHITO, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Municipal Court Fund	Ambulance Service Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	$ 2,550	$ (6,145)	$ (2,065)	$ 3,598	$ (62)	$ (2,124)
Certificates of Deposit	8,171	-	-	-	-	8,171
Accounts Receivable	-	-	-	-	-	-
TOTAL ASSETS	$ 10,721	$ (6,145)	$ (2,065)	$ 3,598	$ (62)	$ 6,047
LIABILITIES & FUND EQUITY						
LIABILITIES:						
Payroll Taxes Payable	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL LIABILITIES	-	-	-	-	-	-
FUND BALANCES:						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	3,598	-	3,598
Committed	-	-	-	-	-	-
Assigned	-	(6,145)	(2,065)	-	(62)	(8,272)
Unassigned	10,721	-	-	-	-	10,721
TOTAL FUND BALANCES	10,721	(6,145)	(2,065)	3,598	(62)	6,047
TOTAL LIABILITIES AND FUND BALANCES	$ 10,721	$ (6,145)	$ (2,065)	$ 3,598	$ (62)	

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 $168,184, net of accumulated depreciation of $141,420, are not financial resources and, therefore, are not reported in the funds.	26,764
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	(18,261)
Net Position of Governmental Activities	$ 14,550

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

EXHIBIT D

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Municipal Court Fund	Ambulance Service Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Sales & Use Tax	$ 145,051	$ -	$ -	$ -	$ -	$ 145,051
Cigar Tax	1,762	-	-	-	-	1,762
Franchise Tax	23,187	-	-	-	-	23,187
Alcoholic Beverage Tax	4,328	-	-	-	-	4,328
Vehicle Taxes	-	-	-	4,928	-	4,928
Gasoline Taxes	-	-	-	1,163	-	1,163
Police Fines & Bonds	-	66,915	-	-	-	66,915
Permits & Fees	148	-	-	-	-	148
Charges for Services	-	-	73,653	-	-	73,653
Ambulance Subsidy	-	-	66,228	-	-	66,228
Grant Revenue	-	-	-	-	5,094	5,094
Donations & Fundraisers	-	-	-	-	125	125
Interest Income	25	-	1	2	0	29
Miscellaneous Income	37,069	21,272	-	-	1,023	59,364
TOTAL REVENUES	211,570	88,188	139,883	6,093	6,242	451,976
EXPENDITURES:						
Current:						
Personal Services	18,070	83,569	91,944	-	-	193,583
Maintenance & Operations	98,346	84,789	59,658	20,461	6,503	269,758
Capital Outlay	-	-	-	1,525	-	1,525
Debt Service - Principal & Interest	-	4,624	-	-	-	4,624
TOTAL EXPENDITURES	116,416	172,981	151,602	21,986	6,503	469,489
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	95,154	(84,794)	(11,720)	(15,893)	(261)	(17,514)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	-	78,000	8,760	14,400	45	101,205
Operating Transfers Out	(95,205)	-	-	-	-	(95,205)
Capital Debt Proceeds	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(95,205)	78,000	8,760	14,400	45	6,000
NET CHANGES IN FUND BALANCES	(50)	(6,794)	(2,960)	(1,493)	(216)	(11,514)
FUND BALANCE - BEGINNING OF YEAI	10,767	1,066	660	5,091	155	17,739
FUND BALANCE - PRIOR YEAR ADJUSTMENT	5	(417)	234	-	-	(178)
FUND BALANCE - END OF YEAR	$ 10,721	$ (6,145)	$ (2,065)	$ 3,598	$ (62)	6,047

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

EXHIBIT D (CONTINUED)

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation to Statement of Activities:	
Net change in fund balances - total governmental funds	**$ (11,514)**
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	**3,597**
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	**-**
In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost basis of the asset sold:	
Cost basis in capital asset sold	**-**
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	**(11,597)**
Change in Net Position of Governmental Activities	**$ (19,513)**

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

EXHIBIT E

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

	Bokchito Public Utilities Authority Enterprise Fund June 30, 2014	Memo Only June 30, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,315	$ 23,151
Certificates of Deposit	-	-
Accounts Receivable	-	-
Total Current Assets	3,315	23,151
Noncurrent Assets:		
Restricted Assets:		
Cash - Customer Deposits	25,410	25,175
Cash - Debt Reserves	27,280	40,756
Capital assets, net of accumulated depreciation	952,544	733,982
Total Noncurrent Assets	1,005,235	799,912
TOTAL ASSETS	$ 1,008,550	$ 823,063
LIABILITIES & NET POSITION		
Current Liabilities:		
Current Portion of Long-Term Debt	$ 8,258	$ 7,856
Total Current Liabilities	8,258	7,856
Noncurrent Liabilities:		
Due to Depositors	25,887	25,577
Notes Payable - Long-Term	183,234	191,089
Less: Current Portion of Long-Term Debt	(8,258)	(7,856)
Total Noncurrent Liabilities	200,863	208,810
TOTAL LIABILITIES	209,121	216,666
NET POSITION:		
Net investment in capital assets	769,310	542,892
Restricted for debt service	52,690	65,931
Unrestricted	(22,572)	(2,426)
TOTAL NET POSITION	799,429	606,397
TOTAL LIABILITIES & NET POSITION	$ 1,008,550	$ 823,063

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

EXHIBIT F

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Bokchito Public Utilities Authority Enterprise Fund June 30, 2014	Memo Only June 30, 2013
OPERATING REVENUES:		
Charges for services:		
Water	$ 159,830	$ 168,515
Sewer	93,912	91,160
Sanitation	58,679	54,505
Other Revenue	-	1,125
TOTAL OPERATING REVENUES	312,422	315,305
OPERATING EXPENSES:		
Personal Services	108,189	118,110
Landfill Contract	57,122	55,218
Water - Maintenance & Operations	96,157	93,663
Sewer - Maintenance & Operations	39,412	-
Depreciation	34,252	33,526
TOTAL OPERATING EXPENSES	335,132	300,518
NET OPERATING INCOME (LOSS)	(22,709)	14,788
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	73	141
Interest Expense	(9,377)	(9,759)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(9,304)	(9,618)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(32,014)	5,169
Capital Contributions	230,671	-
Transfers in	-	9,252
Transfers out	(6,000)	-
CHANGE IN NET POSITION	192,657	14,421
TOTAL NET POSITION - BEGINNING	606,397	589,742
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	374	2,234
TOTAL NET POSITION - ENDING	$ 799,429	$ 606,397

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

EXHIBIT G

TOWN OF BOKCHITO, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	June 30, 2014	Memo Only June 30, 2013
Cash Flows from Operating Activities:		
Cash Receipts from Customers	$ 312,422	$ 314,180
Receipts from Others	-	1,125
Payments to Suppliers for Goods & Services	(192,691)	(148,881)
Payments to Employees & Laborers	(108,189)	(118,110)
Customer Deposits Received, Less Refunded	310	1,204
Net Cash Provided (Used) by Operating Activities	11,852	49,518
Cash Flows from Non-Capital Financing Activities:		
Transfers to other funds	(6,000)	-
Transfers from other funds	-	9,252
Net Cash Provided (Used) by Non-Capital Financing Activities	(6,000)	9,252
Cash Flows from Capital & Related Financing Activities:		
Additions to Capital Assets	(252,814)	(7,797)
Grant Income	230,671	-
Principal paid	(7,855)	(7,473)
Interest paid	(9,377)	(9,759)
Net Cash Provided (Used) by Capital & Related Financing Activities	(39,375)	(25,029)
Cash Flows from Investing Activities:		
Interest Income	73	141
Net Cash Provided (Used) by Investing Activities	73	141
Net Increase (Decrease) in Cash and Cash Equivalents	(33,450)	33,881
Cash & Cash Equivalents, Beginning of Year	89,082	52,967
Cash & Cash Equivalents, Prior Year Adjustment	374	2,234
Cash & Cash Equivalents, End of Year	$ 56,006	$ 89,082
Reconciliation of operating income (loss) to net cash provided operating activities:		
Operating Income (Loss)	$ (22,709)	$ 14,788
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	34,252	33,526
(Increase)Decrease in Accounts Receivable	-	-
Increase(Decrease) in Due to Depositors	310	1,204
Increase(Decrease) in Accounts Payable	-	-
Net Cash Provided (Used) by Operating Activities	$ 11,852	$ 49,518

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. FINANCIAL REPORTING ENTITY

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

Primary Government:	Town of Bokchito
Blended Component Units:	Bokchito Public Utility Authority (BPUA)

PRIMARY GOVERNMENT

The Town of Bokchito, Oklahoma is an incorporated town under the provisions of the State of Oklahoma. The Town provides the following services: public safety (police, fire & ambulance), streets, and general administrative services. Other services include water, sewer, and garbage utility operations.

The Town, for financial purposes, includes all of the funds relevant to the operations of the Town of Bokchito. The financial statements presented herein do not include agencies, which have been formed under applicable state laws or separate and district units of government apart from the Town of Bokchito.

The Town's financial statements were prepared upon the standards established by GASB-34, which provides for two levels of financial statements: fund financial statements and government-wide financial statements.

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 of the Town 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: Bokchito Public Utility Authority. The Town board of trustees and PUA board of directors are the same.

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. 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.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A funds is considered major if it is the primary operating fund of the Town or meets the following criteria:

a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that

individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund - The General Fund is used to account for all of the general revenues of the Town not specifically levied or collected for other Town funds, and for expenditures primarily related to the rendering of the general services to the Town.

Special Revenue Funds - Special Revenue Funds are established to account for revenues derived from specific taxes or other earmarked revenues. The Street and Alley Fund is reported as a special revenue fund.

Proprietary Funds

Enterprise Fund - Enterprise Funds are used to account for operations that are financed and operated in manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Bokchito Public Utility Authority Enterprise Fund is a Proprietary Fund Type.

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. BUDGETARY DATA

The budgetary data reflected in the accompanying financial statements reflect the Town's legally adopted budget. The Town's general fund budget is adopted at the beginning of each fiscal year and published in the local or regional newspaper.

E. FINANCIAL POSITION

CASH & CASH EQUIVALENTS

Cash and cash equivalents for cash flow presentation purposes include the entity's petty cash, cash in bank, restricted assets, and certificates of deposits. Investments held in trust are considered cash equivalents since their maturities are less than three months.

CAPITAL ASSETS

Property and equipment for the proprietary fund type are recorded at their historical cost; these assets are depreciated over the estimated useful life of the related asset. The Town does not maintain adequate records for property and equipment of the governmental fund types; therefore Capital Assets are not reported as required by the modified cash basis of accounting.

Estimated useful lives are as follows:

Water and Sewer System	30 years
Equipment	5 years

Capitalization Policy

Purchases of capital items in excess of $5,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest in reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

NET POSITION/FUND BALANCE CLASSIFICATIONS

Government-Wide Statements

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

Major Special Revenue Fund	Revenue Source
Municipal Court Fund	Fine & Forfeitures
Ambulance Service Fund	Charges for Services
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax Grant Income

F. REVENUES, EXPENDITURES & EXPENSES

Property Tax

For the year ended June 30, 2014, 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.

G. 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.

H. USE OF ESTIMATES

The preparation of financial statements in conformity 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 these estimates.

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

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

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

By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As described in these Notes, the Town was in compliance with the reserve requirement of the Rural Development loan agreement.

Deficit Fund Balance or Retained Earnings

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

NOTE 4 - CASH & EQUIVALENTS AND RESTRICTED ASSETS

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately $65,053 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

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

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

Restricted Assets

Restricted cash in the proprietary fund type consists of $25,410 restricted for customer deposits and which are offset by a related liability account.

The Authority has established the Rural Development debt reserve account with a $17,929 balance as of June 30, 2014; this debt reserve account can only be used for payment of principal and interest on the mortgage payable. In addition, the Authority has established a Sewer Reserve account with a $9,351 balance as of June 30, 2014; this account was established to fund future emergency sewer improvements, serve as match for grant funded sewer improvements; and as a debt reserve account for the note payable to Community Resources Group, Inc.

NOTE 5 - CAPITAL ASSETS

Governmental Funds

Capital asset activity for the Governmental Funds, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2014, was as follows:

Governmental-type Activities:

	Balance 7/1/13	Additions	Deductions	Balance 6/30/14
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Police Cars	142,304	-	-	142,304
Ambulances	25,880	-	-	25,880
Total depreciable capital assets	168,184	-	-	168,184
Less: Accum. Depreciation for:				
Police Cars	103,943	11,597	-	115,540
Ambulances	25,880	-	-	25,880
Total Accumulated Depreciation	129,823	11,597	-	141,420
Business-Type Activities Capital Assets, Net	$ 38,361	$ (11,597)	$ -	$ 26,764

Depreciation expense for the year ended June 30, 2014, aggregating $11,597, has been computed on assets with a cost basis totaling $168,184.

Proprietary Fund

Capital asset activity for the Public Utilities Authority, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2014, was as follows:

Business-type Activities:

	Balance 7/1/13	Additions	Deductions	Balance 6/30/14
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Water & Sewer System	1,190,591	-	-	1,190,591
System Improvements	542,810	252,814	-	795,624
Equipment	128,796	-	-	128,796
Total depreciable capital assets	1,862,197	252,814	-	2,115,011
Less: Accum. Depreciation for:				
Water & Sewer System	910,181	14,599		924,780
System Improvements	96,255	18,094	-	114,349
Equipment	121,779	1,559	-	123,339
Total Accumulated Depreciation	1,128,215	34,252	-	1,162,467
Business-Type Activities Capital Assets, Net	$ 733,982	$ 218,563	$ -	$ 952,544

Depreciation expense for the year ended June 30, 2014, aggregating $34,252, has been computed on assets with a cost basis totaling $2,115,011.

NOTE 6 - OUTSTANDING LONG-TERM DEBT

Government Fund Debt

The Police Department currently has a Lease-Purchase Agreement dated May 15, 2013 with Vision Bank for the purchase of a 2013 Jeep Wrangler, which was renewed May 15, 2014. The agreement is for a term of one year at 5.00% interest with monthly payments of $385.34 due on the 15th of each month and a balloon payment of $15,183.09 due 5/15/2015.

Changes in Government Fund Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Notes Payable:	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Note Payable	$ 21,858.66	$ -	$ (3,597.24)	$ 18,261.42
Total Govt Fund Long-Term Debt	$ 21,858.66	$ -	$ (3,597.24)	$ 18,261.42

Debt Service Requirements to Maturity for Government Fund Long-Term Debt

Note Payable:

FYE June 30,	Principal	Interest	Total
2015	$ 18,261.42	$ 775.07	$ 19,036.49
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
	$ 18,261.42	$ 775.07	$ 19,036.49

Bokchito Public Utilities Authority Debt

On March 22, 1993, the Bokchito Public Utilities Authority entered into a loan agreement with Rural Development (USDA). The maximum loan amount is $294,800 with a 40-year term, maturing March 22, 2033. Repayment provisions call for interest at 5.0% with only interest payments the first year, and monthly payments of principal and interest of $1,436 thereafter. This note is secured by a mortgage on the land, equipment, and revenues of the water system, and is subject to the liens on the bonds above except for certain other mortgages described in the agreement.

Changes in BPUA Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Notes Payable:	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
USDA - Rural Development	$ 191,089.20	$ -	$(7,855.25)	$ 183,233.95
Total BPUA Long-Term Debt	$ 191,089.20	$ -	$ (7,855.25)	$ 183,233.95

Debt Service Requirements to Maturity for BPUA Long-Term Debt

USDA - Rural Development:

FYE June 30,	Principal	Interest	Total
2015	$ 8,257.88	$ 8,974.12	$ 17,232.00
2016	8,680.36	8,551.64	17,232.00
2017	9,124.47	8,107.53	17,232.00
2018	9,591.30	7,640.70	17,232.00
2019	10,082.02	7,149.98	17,232.00
2020-2024	58,695.71	27,464.29	86,160.00
2025-2029	75,327.67	10,832.33	86,160.00
2030	3,474.54	24.90	3,499.44
	$ 183,233.95	$ 78,745.49	$ 261,979.44

NOTE 7 - GOVERNMENTAL FUND BALANCES

Town of Bokchito
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2014

	General Fund	Municipal Court Fund	Ambulance Service Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:						
Restricted for:						
Road Maintenance	$ -	$ -	$ -	$ 3,598	$ -	$ 3,598
Assigned to:						
Fire Department	-	-	-	-	(62)	(62)
Police Department	-	(6,145)	-	-	-	(6,145)
EBCAS	-	-	(2,065)	-	-	(2,065)
Other purposes	-	-	-	-	-	-
Unassigned	10,721	-	-	-	-	10,721
Total	$ 10,721	$ (6,145)	$ (2,065)	$ 3,598	$ (62)	$ 6,047

NOTE 8 - VOLUNTEER FIREMEN PENSION

The Town participates in the Oklahoma Firefighters Pension and Retirement System (the Plan) on behalf of its volunteer firefighters. The Town contributes $60/year for each volunteer firefighter as set by Oklahoma Statutes; voluntary firefighters do not contribute to the Plan. The Plan provides retirement, death, and disability benefits to plan members and beneficiaries. The Plan is an agent multiple-employer, or municipality, contributory defined benefit pension plan. The authority to amend and establish benefit provisions of the Plan rests with the Board of Trustees of the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report as well as actuarial assumptions and funding information may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System c/o

Oklahoma State Firefighters Association, 4545 N. Lincoln Blvd., Oklahoma City, OK 73105-3414.

NOTE 9 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases commercial insurance to reduce their risk of loss. These insurance policies have deductibles ranging from zero to $1,000.

NOTE 10 - COMMITMENTS & CONTINGENCIES

Ambulance Service - The Eastern Bryan County Ambulance Service is operated by the Town via a contract with the Bryan County Ambulance Authority, a Bryan County Public Trust. As part of the contract, the Bryan County Ambulance Authority provides the Town with some funding and equipment to maintain the local ambulance service. This contract is renewable annually; should the contract not be renewed, then the Town would have to return all the equipment, furnished by the Bryan County Ambulance Authority.

Grant Programs - In the normal course of operations, the Town participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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

NOTE 11 - OPERATING TRANSFERS

Interfund operating transfers for the year ended June 30, 2014, were as follows:

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Muncipal Court Fund	$ -	$ 72,000
Ambulance Service Fund	$ -	$ 8,760
Volunteer Firefighters Fund	$ -	$ 45
Street & Alley Fund	$ -	$ 14,400
Sidewalk Fund	$ -	$ -
Bokchito Public Utilities Authority	$ -	$ -
Total General Fund	$ -	$ 95,205
SPECIAL REVENUE FUNDS:		
Municipal Court Fund:		
General Fund	$ 72,000	$ -
Bokchito Public Utilities Authority	$ 6,000	$ -
Ambulance Service Fund:		
General Fund	$ 8,760	$ -
Volunteer Firefighters Fund:		
General Fund	$ 45	$ -
Street & Alley Fund:		
General Fund	$ 14,400	$ -
Bokchito Public Utilities Authority	$ -	$ -
Sidewalk Fund:		
General Fund	$ -	$ -
Total Special Revenue Funds	$ 101,205	$ -
ENTERPRISE FUNDS		
Bokchito Public Utilities Authority		
General Fund	$ -	$ -
Municipal Court Fund	$ -	$ 6,000
Street & Alley Fund	$ -	$ -
Total Enterprise Funds	$ -	$ 6,000
	$ 101,205	$ 101,205

NOTE 12 - PRIOR YEAR ADJUSTMENT

Miscellaneous immaterial adjustments were made to void old outstanding deposits and checks.

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 18, 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, 2014.

EXHIBIT H

TOWN OF BOKCHITO, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance:	$ 10,767	$ 10,767	$ 10,767	$ 0
Resources (Inflows):				
Sales & Use Tax	101,846	101,846	145,051	43,206
Cigar Tax	1,297	1,297	1,762	465
Franchise Tax	19,765	19,765	23,187	3,422
Alcoholic Beverage Tax	3,745	3,745	4,328	583
Police Fines & Bonds	-	-	-	-
Permits & Fees	36	36	148	112
Donations & Fundraisers	-	-	-	-
Interest Income	36	36	25	(10)
Miscellaneous Income	32,075	32,075	37,069	4,994
Transfers In	-	-	-	-
Amounts available for appropriation	169,567	169,567	222,337	52,771
Charges to Appropriations (Outflows):				
Personal Services	15,200	15,200	18,070	(2,870)
Maintenance & Operations	87,000	87,000	98,346	(11,346)
Capital Outlay	-	-	-	-
Debt Service	-	-	-	-
Transfers Out	67,367	67,367	95,205	(27,838)
Total Charges to Appropriations	169,567	169,567	211,620	(42,054)
Prior Year Adjustments to Fund Balance	-	-	5	5
Ending Budgetary Fund Balance	-	-	10,721	10,721

Unaudited

TOWN OF BOKCHITO, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2014

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

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

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

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

To the Board of Trustees
Town of Bokchito, 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 Bokchito, Oklahoma, as of and for the year ended June 30, 2014, 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 Bokchito, Oklahoma's basic financial statements, and have issued our report thereon dated December 18, 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 Bokchito'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 Bokchito's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Bokchito'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

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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 14-01 and 14-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bokchito'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 Items 14-03 and 14-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

Town of Bokchito's Response to Findings

Town of Bokchito's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Bokchito'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 18, 2014

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 14-01: 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. The segregation of duties is important to have adequate control over financial assets.

Condition: The Town has the same employees performing work normally segregated between two or more employees, including recording cash receipts and disbursements, maintaining the general ledger and payroll. 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 organization.

Item 14-02: Overdrawn Accounts

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: Several bank accounts were overdrawn during the current year and incurred overdraft charges.

Cause/Effect: Overdrawing the accounts is costing the Town additional money in fees.

Recommendation: Checks should not be written that overdraw the bank accounts.

Response: The Town is aware of the problem due to a significant lack of funding during the current year, however, the Town has seen an increase in Sales Tax income due to a new store opening in Town.

SIGNIFICANT DEFICIENCIES OF COMPLIANCE

Item 14-03: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority has been separating a few of the accounts but was not previously aware of this requirement.

Item 14-04: Payroll Reporting and Compliance

Criteria: The Town and Authority are 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, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current and past year were not paid in a timely manner and are still past due.

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 in compliance with the federal and state payroll tax requirements.

Response: During the current and past year, the Town did not have the money necessary to make the payments. However, several of the last year payments were made during the current year.

EXHIBIT I

TOWN OF BOKCHITO, OKLAHOMA
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS	Total Nonmajor Governmental Funds
	Volunteer Firefighters Fund	
ASSETS		
Cash and cash equivalents	$ (62)	$ (62)
Certificates of Deposit	-	-
Accounts Receivable	-	-
TOTAL ASSETS	$ (62)	$ (62)
LIABILITIES & FUND EQUITY		
LIABILITIES:		
Accounts Payable	$ -	$ -
TOTAL LIABILITIES	-	-
FUND BALANCES:		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	(62)	(62)
Unassigned	-	-
TOTAL FUND BALANCES	(62)	(62)
TOTAL LIABILITIES AND FUND BALANCES	$ (62)	$ (62)

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

EXHIBIT J

TOWN OF BOKCHITO, OKLAHOMA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS	Total
	VOLUNTEER FIREFIGHTERS FUND	Nonmajor Governmental Funds
REVENUES:		
Vehicle Taxes	$ -	$ -
Gasoline Taxes	-	-
Charges for Services	-	-
Ambulance Subsidy	-	-
Grant Revenue	5,094	5,094
FEMA	-	-
Donations & Fundraisers	125	125
Interest Income	0	0
Miscellaneous Income	1,023	1,023
TOTAL REVENUES	6,242	6,242
EXPENDITURES:		
Current:		
Personal Services	-	-
Maintenance & Operations	6,503	6,503
Capital Outlay	-	-
Debt Service - Principal & Interest	-	-
TOTAL EXPENDITURES	6,503	6,503
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(261)	(261)
OTHER FINANCING SOURCES (USES):		
Operating Transfers In	45	45
Operating Transfers Out	-	-
Capital Debt Proceeds	-	-
TOTAL OTHER FINANCING SOURCES (USES)	45	45
NET CHANGES IN FUND BALANCES	(216)	(216)
FUND BALANCE - BEGINNING OF YEAR	155	155
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-
FUND BALANCE - END OF YEAR	$ (62)	$ (62)

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