AUDIT REPORT

TOWN OF BRAGGS, OKLAHOMA

JUNE 30, 2014

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF BRAGGS, OKLAHOMA
JUNE 30, 2014

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TOWN OF BRAGGS, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2014

ELECTED OFFICIALS

NAME	POSITION
RUDY WILSON	MAYOR
ERIC HUTCHINS	TRUSTEE
CYNTHIA TUOHY	TRUSTEE

TOWN CLERK/TREASURER

REBECCA SMITH

BPWA CLERK

JESSICA JOHNSTON

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Braggs, 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 Braggs, 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 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

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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 Braggs, 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 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 January 8, 2015, on our consideration of the Town of Braggs'

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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 Braggs' 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

January 8, 2015

EXHIBIT A

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

	Governmental Activities	Business-Type Activities	2014 Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 61,982	$ 135,298	$ 197,281
Due from Other Funds	-	-	-
Total Current Assets	61,982	135,298	197,281
Other Assets:			
Restricted Cash and cash equivalents	-	21,023	21,023
Restricted Investments	-	72,799	72,799
Total Other Assets	-	93,823	93,823
Capital Assets:			
Capital Assets, net of Accum. Depreciation	62,234	940,192	1,002,426
Total Capital Assets	62,234	940,192	1,002,426
TOTAL ASSETS	124,216	1,169,313	1,293,529
LIABILITIES			
Current Liabilities:			
Notes Payable - Current Portion	4,624	17,410	22,034
Refundable Customer Deposits	-	32,668	32,668
Total Current Liabilities	4,624	50,078	54,702
Long-Term Liabilities:			
Notes Payable - Long-Term	5,334	102,143	107,477
Total Long-Term Liabilities	5,334	102,143	107,477
TOTAL LIABILITIES	9,958	152,220	162,179
NET POSITION			
Net investment in capital assets	52,276	820,639	872,915
Restricted for:			-
Debt Service	-	31,023	31,023
Other Purposes	-	-	-
Unrestricted	61,983	165,429	227,412
TOTAL NET POSITION	$ 114,259	$ 1,017,092	$ 1,131,350

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

EXHIBIT B

TOWN OF BRAGGS, 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:					
Current:					
General Government	$ 100,505	$ -	$ -	$ 1,055	$ (99,449)
PWA	-	-	-	-	-
Public Safety	47,148	39,527	-	3,870	(3,750)
Depreciation Expense	7,532	-	-	-	(7,532)
Total Governmental Activities	155,184	39,527	-	4,926	(110,731)
Business-type activities:					
Water	122,926	148,987	-	169,447	195,508
Sewer	50,678	20,045	-	-	(30,633)
Sanitation	31,416	32,915	-	-	1,499
Other Business-type Activities	73,130	8,885	-	-	(64,245)
Total Business-type Activities	278,150	210,832	-	169,447	102,129
Total	$ 433,334	$ 250,359	$ -	$ 174,373	$ (8,602)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	$ (110,731)	$ 102,129	$ (8,602)
General revenues:			
Taxes:			
Sales Tax	82,714	-	82,714
Tobacco Tax	943	-	943
Franchise Tax	8,004	-	8,004
Intergovernmental:			
Alcoholic Beverage Tax	999	-	999
Gasoline Excise Tax	466	-	466
Motor Vehicle Tax	1,976	-	1,976
Licenses and Permits	434	-	434
Miscellaneous Income	20,555	14,407	34,962
Interest Income	64	261	325
Transfers - Internal Activity	15,201	(14,385)	816
Total general revenues & transfers	131,357	283	131,639
Changes in net position	20,626	102,412	123,037
Net position - beginning	93,633	915,583	1,009,216
Net position - prior year adjustment	-	(903)	(903)
Net position - ending	$ 114,259	$ 1,017,092	$ 1,131,350

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

EXHIBIT C

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

	General Fund	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, including time deposits	$ 36,553	$ 25,430	$ -	$ 61,982
Due from other funds	-	-	-	-
TOTAL ASSETS	$ 36,553	$ 25,430	$ -	$ 61,982
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Funds	$ -	$ -	$ -	$ -
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	25,430	-	25,430
Unassigned	36,553	-	-	36,553
TOTAL FUND BALANCES	36,553	25,430	-	61,983
TOTAL LIABILITIES AND FUND BALANCES	$ 36,553	$ 25,430	$ -	

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 $222,938, net of accumulated depreciation of $160,703, are not financial resources and, therefore, are not reported in the funds.	62,234
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	(9,958)
Net Position of Governmental Activities	$ 114,259

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

EXHIBIT D

TOWN OF BRAGGS, 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	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	$ 82,714	$ -	$ -	$ 82,714
Tobacco Tax	943	-	-	943
Franchise Tax	8,004	-	-	8,004
Intergovernmental:				
Alcoholic Beverage Tax	999	-	-	999
Gasoline Excise Tax	466	-	-	466
Motor Vehicle Tax	1,976	-	-	1,976
Grants	4,926	-	-	4,926
Fines & Forfeitures	39,527	-	-	39,527
Donations	-	3,527	-	3,527
Licenses and permits	434	-	-	434
Miscellaneous Income	10,881	6,147	-	17,028
Interest Income	35	29	-	64
TOTAL REVENUES	150,905	9,703	-	160,608
EXPENDITURES:				
Current:				
General Government	100,505	-	-	100,505
PWA	-	-	-	-
Public Safety:				
Police	24,761	-	-	24,761
Fire	-	20,949	-	20,949
Debt Service	5,100	-	-	5,100
Capital Outlay	-	690	-	690
TOTAL EXPENDITURES	130,365	21,639	-	152,004
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	20,540	(11,936)	-	8,603
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	15,201	-	15,201
Operating Transfers Out	-	-	-	-
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	15,201	-	15,201
NET CHANGES IN FUND BALANCES	20,540	3,265	-	23,805
FUND BALANCE - BEGINNING OF YEAR	16,013	22,165	-	38,178
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	$ 36,553	$ 25,430	$ -	61,983

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

EXHIBIT D (CONTINUED)

TOWN OF BRAGGS, 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	**$**	**23,805**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Capital debt obligation principal payments		**4,352**
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:		
Capital Debt Proceeds		**-**
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		**-**
Depreciation expense		**(7,532)**
Basis in Assets Sold		**-**
Change in Net Position of Governmental Activities	**$**	**20,626**

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

EXHIBIT E

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

	Braggs Public Works Authority Enterprise Fund June 30, 2014
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 135,298
Due from Other Funds	-
Total Current Assets	135,298
Noncurrent Assets:	
Restricted cash and cash equivalents	21,023
Restricted investments	72,799
Capital assets, net of accumulated depreciation	940,192
Total Noncurrent Assets	1,034,014
TOTAL ASSETS	1,169,313
LIABILITIES & FUND EQUITY	
Current Liabilities:	
Refundable Customer Deposits	32,668
Current portion of Notes Payable	17,410
Total Current Liabilities	50,078
Noncurrent Liabilities:	
Notes Payable - USDA Rural Development	119,553
Less: Current Portion	(17,410)
Total Noncurrent Liabilities	102,143
TOTAL LIABILITIES	152,220
NET POSITION:	
Net investment in capital assets	820,639
Restricted for debt service	31,023
Unrestricted	165,429
TOTAL NET POSITION	$ 1,017,092

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

EXHIBIT F

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

	Braggs Public Works Authority Enterprise Fund
	June 30, 2014
OPERATING REVENUES:	
Water Revenue	$ 148,987
Sewer Charges	20,045
Trash Collections Fees	32,915
Grant Income	169,447
Penalty Income	5,490
Reconnect Fees	1,845
Miscellaneous	1,550
TOTAL OPERATING REVENUES	380,279
OPERATING EXPENSES:	
Current:	
Water	122,926
Sewer	50,678
Trash	31,416
Depreciation	66,699
Miscellaneous	-
TOTAL OPERATING EXPENSES	271,720
NET OPERATING INCOME (LOSS)	108,559
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	261
Interest Expense	(6,431)
SHDA - Fire	14,407
TOTAL NON-OPERATING REVENUES (EXPENSES)	8,237
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	116,797
Transfers in	-
Transfers out	(14,385)
CHANGE IN NET POSITION	102,412
TOTAL NET POSITION - BEGINNING	915,583
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	(903)
TOTAL NET POSITION - ENDING	$ 1,017,092

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

EXHIBIT G

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

	June 30, 2014
Cash Flows from Operating Activities:	
Cash Receipts from Customers	$ 210,832
Other Cash Receipts	169,447
Payments to Suppliers, Employees & Laborers	(205,020)
Receipts of Customer Utility Deposits, Net of Refunds	2,517
Net Cash Provided (Used) by Operating Activities	177,776
Cash Flows from Non-Capital Financing Activities:	
SHDA - Fire	14,407
Operating Transfers in	-
Operating Transfers Out	(14,385)
Net Cash Provided (Used) by Non-Capital Financing Activities	22
Cash Flows from Capital & Related Financing Activities:	
Additions to Capital Assets	(184,645)
Loan Proceeds received	-
Principal paid	(16,561)
Interest paid	(6,431)
Net Cash Provided (Used) by Capital & Related Financing Activities	(207,637)
Cash Flows from Investing Activities:	
(Increase) Decrease in Investments	(190)
Interest Earned	261
Net Cash Provided (Used) by Investing Activities	70
Net Increase (Decrease) in Cash and Cash Equivalents	(29,769)
Cash & Cash Equivalents, Beginning of Year	186,994
Cash & Cash Equivalents, Prior Year Adjustment	(903)
Cash & Cash Equivalents, End of Year	$ 156,322
Reconciliation of operating income (loss) to net cash provided operating activities:	
Net Operating Income (Loss)	$ 108,559
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation Expense	66,699
(Increase)Decrease in Due from Other Funds	-
Increase(Decrease) in Payroll Taxes Payable	-
Increase(Decrease) in Due to Other Funds	-
Customer Deposits	2,517
Net Cash Provided (Used) by Operating Activities	$ 177,776

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 Braggs
Blended Component Units:	Braggs Public Works Authority (BPWA)

PRIMARY GOVERNMENT

The Town of Braggs, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a three member board of trustees. The trustees elect a mayor from their own body. The Town provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (water, sewer, and trash), judicial, public improvements, and planning and zoning for the geographical area organized as the Town of Braggs, Oklahoma.

These financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government.

BLENDED COMPONENT UNITS

The Braggs Public Works Authority (PWA) was created pursuant to a Trust Indenture to acquire, construct, lease and operate the water and sewer facilities for the benefit of the Town of Braggs,

Oklahoma. The PWA is empowered to incur debt for the purposes stated above. The water and sewer systems owned by the Town have been leased to the PWA. The PWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by the board consisting of three trustees identical with the Town Council. The PWA is exempt from State and Federal Income Taxes and is reported as an enterprise fund.

B. Basis of Presentation

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

Government-Wide Financial Statements

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

The Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of government and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. There was on non-major fund to present.

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal

and contractual provisions. There are two categories of funds: governmental a proprietary.

Governmental Fund Types

Governmental Fund Types are used to account for the Town's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

The following are the Town's major governmental funds:

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

Special Revenue Funds account for revenue sources that are either legally restricted to expenditures for specific purposes or designated to finance particular functions of the Town. The reporting entity includes the following special revenue funds.

Fund	Brief Description
Volunteer Fire Department	Accounts for the fire dues and runs and Operational grants charged to residents

Proprietary Fund Types

The PWA 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, water and trash, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues and expenses are recorded when they result from cash transactions. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are 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. Financial Position

Deposits and Investments

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

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

Restricted Cash

The restricted cash is the result of financial requirements of promissory notes between the Braggs Public Works Authority and the USDA Rural Development which consist of funds held in a Debt Service Reserve Account.

Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, and certain liabilities. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Statement of Net Assets. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Receivables and Payables

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

Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund-type and proprietary fund inventories are recorded as expenditures when purchased rather than when consumed.

Capital Assets

Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following ranges of estimated useful lives:

Buildings	40 Years
Improvements, other than buildings	10 Years
Machinery, furniture and equipment	5-10 Years

Utility property and improvements	40 Years

The Town has not maintained accurate capital asset records to support historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost is not readily available. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental Activities is not readily determinable.

The capitalization threshold has been set at $2,500.00.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time and part-time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial 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 purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
Fire Department Fund	Grants Donations

E. Revenues, Expenditures and 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 generally 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)
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.

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town prepares its annual budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

a. Prior to June 1, the Mayor submits to the Town Trustees a proposed operating budget for the fiscal year commencing the following July 1.
b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Trustees.
d. The adopted budget is filed with the Office of State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as the minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Interfund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Trustee approval. The Mayor may transfer appropriations between object categories within a department without Town Trustees approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately $291,103 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 District or by its agent in the Town's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Town of Braggs:

As described above the Town does not keep detailed capital asset information. However, the following information is included in the financial statements.

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Other Capital Assets:				
Buildings	$ 92,483	$ -	$ -	$ 92,483
Infrastructure	-	-	-	-
Vehicles	110,642	-	-	110,642
Machinery & Equipment	19,813	-	-	19,813
Subtotal	222,938	-	-	222,938
Less: Accum. Depr.	(153,171)	(7,532)	-	(160,703)
Total Capital Assets (Net of Depreciation)	$ 69,766	$ (7,532)	$ -	$ 62,234

There were no current year additions or deductions.

Braggs Public Works Authority:

Activity of capital assets consists of the following:

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Land	$ -	$ -	$ -	$ -
Property, plant & equipment	1,888,363	184,645	-	2,073,008
Construction in progress	-	-	-	-
Subtotal	1,888,363	184,645	-	2,073,008
Less: Accum. Depr.	(1,066,117)	(66,699)	-	(1,132,817)
Total Capital Assets (Net of Depreciation)	$ 822,246	$ 117,946	$ -	$ 940,192

The current year additions included water and sewer upgrades and a CDBG project expense.

NOTE 7 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

NOTE PAYABLE:

Terms and Collateral	Outstanding Debt June 30, 2014
Kansas State Bank of Manhattan in the amount of $21,952.20 with a fixed interest rate of 6.06% with 60 monthly payments of principal and interest of $425 starting September 2011 and due August 2016. The note was used to purchase a 2011 Chevrolet Tahoe for the Police Department.	$ 9,958
Total Note Payable Outstanding	$ 9,958

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
Note Payable (PD) - KSB	$ 14,311	$ -	$ (4,352)	$ 9,958
	$ 14,311	$ -	$ (4,352)	$ 9,958

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

Year Ending	Notes Payable - Police Department Debt		
June 30,	Principal	Interest	Total
2015	$ 4,624	$ 476	$ 5,100
2016	4,912	188	5,100
2017	423	2	425
2018	-	-	-
2019	-	-	-
Total	$ 9,958	$ 667	$ 10,625

BRAGGS PUBLIC WORKS AUTHORITY

NOTE PAYABLE:

Terms and Collateral	Outstanding Debt June 30, 2014
Note #91-01 due to Rural Development in the amount of $320,000 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of $1,572 starting November 1981 and due October 2021. The note was for the purpose of providing loan funds for a portion of the cost of constructing and improving the water and sewer systems	$ 100,039.98
Note #91-03 due to Rural Development in the amount of $70,000 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of $344 starting November 1981 and due October 2021. The note was for the purpose of providing loan funds for a portion of the cost of constructing and improving the water and sewer systems	19,512.63
Total Notes Payable Outstanding	$ 119,552.61

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
Note Payable - RD #91-01	$ 113,533	$ -	$ (13,493)	$ 100,040
Note Payable - RD #91-03	22,581	-	(3,068)	19,513
	$ 136,114	$ -	$ (16,561)	$ 119,553

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

Year Ending	Notes Payable - RD #91-01		
June 30,	Principal	Interest	Total
2015	$ 14,184	$ 4,680	$ 18,864
2016	14,910	3,954	18,864
2017	15,673	3,191	18,864
2018	16,475	2,389	18,864
2019	17,318	1,546	18,864
2020-2021	21,480	677	22,157
Total	$ 100,040	$ 16,437	$ 116,477

Year Ending June 30,	Notes Payable - RD #91-03 Principal	Interest	Total
2015	$ 3,226	$ 902	$ 4,128
2016	3,391	737	4,128
2017	3,564	564	4,128
2018	3,747	381	4,128
2019	3,938	190	4,128
2020	1,648	18	1,666
Total	$ 19,513	$ 2,793	$ 22,306

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grant Programs

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

Litigation

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

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Description of the Plan

Only the Town's volunteer firemen are covered by a pension plan. This noncontributory plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). The Oklahoma Firefighters Pension and Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-800-525-7461.

Funding Policy

The Town is required to make annual contributions of $60.00 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and appropriation by the State of Oklahoma.

The Town's contribution to OFPRS was $960.00 for 2014.

NOTE 10 - CENA FUND

Effective July 1, 2007, control of the CENA Fund for the benefit of the community center has been transferred to a group of local churches. The Town is no longer responsible for this fund. Therefore, financial data for this fund is no longer being included in the financial statements.

NOTE 12 - GOVERNMENTAL FUND BALANCES

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

	General Fund	Volunteer Fire Dept. Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Assigned	$ -	$ 25,430	$ -	$ 25,430
Unassigned	36,553	-	-	36,553
Total	$ 36,553	$ 25,430	$ -	$ 61,983

NOTE 13 - GRANT INCOME

The PWA received and expended $169,447.40 from the Oklahoma Department of Commerce for Contract Number 15064 CDBG 11.

NOTE 14 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through January 8, 2015, 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.

NOTE 15- PRIOR YEAR ADJUSTMENT

A prior year adjustment of $903 was made to the PWA account to remove old outstanding checks and deposits.

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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 Braggs, 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 Braggs, 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 Braggs, Oklahoma's basic financial statements, and have issued our report thereon dated January 8, 2015, 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 Braggs' 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 Braggs' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Braggs' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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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, 14-02 and 14-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Braggs' financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Town of Braggs' Response to Findings

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

January 8, 2015

INTERNAL CONTROL FINDINGS:

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.

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

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

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

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

Item 14-02: Meter Deposits

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

Condition: The Town began keeping a ledger regarding the balance of customer meter deposits. However, the balance does not reconcile to the liability balance.

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 Town is aware of the problem and has already taken steps to correct the situation.

Item 14-03 - Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: Periodic physical inventories required for good internal control should be conducted.

Response: The Town is aware of the problem and has already taken steps to correct the situation.