

AUDIT REPORT

**TOWN OF BOKOSHE, OKLAHOMA
&
BOKOSHE PUBLIC WORKS AUTHORITY**

JUNE 30, 2016

KERSHAW CPA & ASSOCIATES, PC

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TOWN OF BOKOSHE, OKLAHOMA
JUNE 30, 2016

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TOWN OF BOKOSHE, OKLAHOMA
JUNE 30, 2016

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33-34
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TOWN OF BOKOSHE, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2016

ELECTED OFFICIALS

<u>NAME</u>	<u>POSITION</u>
GERALD CONWAY	MAYOR
DALE WHITECOTTON	MEMBER
JAMES TACKETT	MEMBER
RANDY COLLINS	MEMBER
BRUCE CALDWELL	MEMBER
JACQUELINE CAMEL	CLERK/TREASURER

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Bokoshe, 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 Bokoshe, Oklahoma, as of and for the fiscal year ended June 30, 2016, 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

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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 Bokoshe, Oklahoma, as of June 30, 2016, 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 October 17, 2016, on our consideration of the Town of Bokoshe'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

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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 Bokoshe'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

October 17, 2016

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2016 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 71,308	\$ 54,003	\$ 125,311
Accounts Receivable	-	-	-
Total Current Assets	71,308	54,003	125,311
<u>Restricted Assets:</u>			
Cash and cash equivalents	-	16,188	16,188
Total Restricted Assets	-	16,188	16,188
<u>Capital Assets:</u>			
Construction in Progress	-	-	-
Construction costs and improvements	-	1,505,143	1,505,143
Machinery, Equipment & Vehicles	-	37,360	37,360
Less: Accumulated Depreciation	-	(1,006,615)	(1,006,615)
Total Capital Assets	-	535,888	535,888
TOTAL ASSETS	71,308	606,080	677,388
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Payroll Taxes Payable	-	-	-
Current Portion of Long-Term Debt	-	11,399	11,399
Total Current Liabilities	-	11,399	11,399
<u>Long-Term Liabilities:</u>			
Due to Depositors	-	21,719	21,719
Note Payable - RD	-	217,993	217,993
Less: Current Portion of Long-Term Debt	-	(11,399)	(11,399)
Total Long-Term Liabilities	-	228,313	228,313
TOTAL LIABILITIES	-	239,712	239,712
<u>NET POSITION</u>			
Net investment in capital assets	-	317,896	317,895
Restricted for:			
Debt Service	-	10,007	10,007
Other Purposes	-	-	-
Unrestricted	71,308	38,465	109,773
TOTAL NET POSITION	\$ 71,308	\$ 366,368	\$ 437,676

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

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 17,478	\$ -	\$ -	\$ -	\$ (17,478)
Police Department	54,039	33,345	-	-	(20,694)
Fire Department	7,935	4,676	4,290	-	1,030
Emergency Management	-	-	1,150	-	1,150
Highways & Streets	11,820	-	-	-	(11,820)
Capital Outlay	8,000	-	-	-	(8,000)
Total Governmental Activities	<u>99,272</u>	<u>38,020</u>	<u>5,440</u>	<u>-</u>	<u>(55,812)</u>
Business-type activities:					
Water	71,762	73,031	-	-	1,269
Sewer	40,182	61,973	-	-	21,791
Administration	48,763	5,830	-	6,884	(36,049)
Total Business-type Activities	<u>160,707</u>	<u>140,834</u>	<u>-</u>	<u>6,884</u>	<u>(12,989)</u>
Total	<u>\$ 259,979</u>	<u>\$ 178,854</u>	<u>\$ 5,440</u>	<u>\$ 6,884</u>	<u>\$ (68,801)</u>

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (55,812)	\$ (12,989)	\$ (68,801)
General revenues:			
Taxes:			
Sales Tax	37,904	-	37,904
Use Tax	2,705	-	2,705
Cigar Tax	460	-	460
Franchise Tax	12,244	-	12,244
Intergovernmental:			
Alcoholic Beverage Tax	4,186	-	4,186
Commercial Vehicle Tax	3,696	-	3,696
Gasoline Excise Tax	936	-	936
Investment Income	72	33	106
Miscellaneous	268	-	268
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	<u>62,472</u>	<u>33</u>	<u>62,505</u>
Changes in net position	6,660	(12,955)	(6,295)
Net position - beginning	64,648	361,734	426,382
Net position - prior year adjustment	-	17,589	17,589
Net position - ending	<u>\$ 71,308</u>	<u>\$ 366,368</u>	<u>\$ 437,676</u>

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

**TOWN OF BOKOSHE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Capital Improvement Fund	Street & Alley Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 62,666	\$ -	\$ 8,642	\$ 71,308
Investments	-	-	-	-
Accounts Receivable	-	-	-	-
TOTAL ASSETS	<u>\$ 62,666</u>	<u>\$ -</u>	<u>\$ 8,642</u>	<u>\$ 71,308</u>
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	8,642	8,642
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	62,666	-	-	62,666
TOTAL FUND BALANCES	<u>62,666</u>	<u>-</u>	<u>8,642</u>	<u>71,308</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 62,666</u>	<u>\$ -</u>	<u>\$ 8,642</u>	<u>\$ 71,308</u>

Reconciliation to Statement of Net Position:

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

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. -

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

Net Position of Governmental Activities **\$ 71,308**

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

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Capital Improvement Fund	Street & Alley Fund	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 37,904	\$ -	\$ -	\$ 37,904
Use Tax	2,705	-	-	2,705
Cigar Tax	460	-	-	460
Franchise Tax	12,244	-	-	12,244
Intergovernmental:				
Alcoholic Beverage Tax	4,186	-	-	4,186
Commercial Vehicle Tax	3,696	-	-	3,696
Gasoline Excise Tax	-	-	936	936
Grants	5,440	-	-	5,440
Fines & Forfeitures	33,345	-	-	33,345
Fire Department Income	4,676	-	-	4,676
Miscellaneous Income	268	-	-	268
Interest Income	61	-	11	72
TOTAL REVENUES	104,985	-	947	105,932
<u>EXPENDITURES:</u>				
Current:				
General Government	17,478	-	-	17,478
Police Department	54,039	-	-	54,039
Fire Department	7,935	-	-	7,935
Emergency Management	-	-	-	-
Highways & Streets	11,820	-	-	11,820
Capital Outlay	8,000	-	-	8,000
TOTAL EXPENDITURES	99,272	-	-	99,272
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,713	-	947	6,660
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGES IN FUND BALANCES	5,713	-	947	6,660
FUND BALANCE - BEGINNING OF YEAR	56,953	-	7,695	64,648
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 62,666	\$ -	\$ 8,642	71,308

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

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2016

	<u>Bokoshe Public Works Authority Enterprise Fund June 30, 2016</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 54,003
Total Current Assets	<u>54,003</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	16,188
Construction in Progress	-
Other capital assets, net of accumulated depreciation	<u>535,888</u>
Total Noncurrent Assets	<u>552,076</u>
TOTAL ASSETS	<u>606,080</u>
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Payroll Taxes Payable	-
Current Portion of Long-Term Debt	<u>11,399</u>
Total Current Liabilities	<u>11,399</u>
Noncurrent Liabilities:	
Due to Depositors	21,719
Note Payable - RD	217,993
Less: Current Portion of Long-Term Debt	<u>(11,399)</u>
Total Noncurrent Liabilities	<u>228,313</u>
TOTAL LIABILITIES	<u>239,712</u>
NET POSITION:	
Net investment in capital assets	317,895
Restricted for debt service	10,007
Unrestricted	<u>38,465</u>
TOTAL NET POSITION	<u>\$ 366,368</u>

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

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Bokoshe Public Works Authority Enterprise Fund June 30, 2016</u>
<u>OPERATING REVENUES:</u>	
Charges for Services	
Water	\$ 73,031
Sewer	61,973
Miscellaneous Income	<u>5,830</u>
TOTAL OPERATING REVENUES	<u>140,834</u>
<u>OPERATING EXPENSES:</u>	
Water:	
Personal Services	23,372
Maintenance & Operations	25,623
Water Purchases	22,767
Sewer:	
Personal Services	23,372
Maintenance & Operations	16,810
Depreciation	<u>38,575</u>
TOTAL OPERATING EXPENSES	<u>150,519</u>
NET OPERATING INCOME (LOSS)	<u>(9,685)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	33
Interest Expense	<u>(10,188)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(10,154)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(19,839)
Capital Contributions - KEDDO	6,884
Capital Contributions - Choctaw Nation	-
Transfers in	-
Transfers out	<u>-</u>
CHANGE IN NET POSITION	(12,955)
TOTAL NET POSITION - BEGINNING	361,734
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	<u>17,589</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 366,368</u></u>

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

TOWN OF BOKOSHE, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 140,834
Other Cash Receipts	-
Payments to Suppliers for Goods & Services	(111,944)
Payments to Employees & Laborers	-
Receipts of Customer Utility Deposits, Net of Refunds	485
Net Cash Provided (Used) by Operating Activities	29,375
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	-
Transfers from other funds	-
Net Cash Provided (Used) by Non-Capital Financing Activities	-
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for capital assets	6,884
Additions to Capital Assets	-
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(20,969)
Interest paid	(10,188)
Net Cash Provided (Used) by Capital & Related Financing Activities	(24,273)
<u>Cash Flows from Investing Activities:</u>	
Interest Income	33
Net Cash Provided (Used) by Investing Activities	33
Net Increase (Decrease) in Cash and Cash Equivalents	5,136
Cash & Cash Equivalents, Beginning of Year	65,056
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 70,192
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ (9,685)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	38,575
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Payroll Taxes Payable	-
Increase(Decrease) in Due to Depositors	485
Net Cash Provided (Used) by Operating Activities	\$ 29,375

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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

PRIMARY GOVERNMENT

The Town of Bocoshe, Oklahoma is a municipality with a five-member Board of Trustees comprised of the Mayor and four at large members. The Town provides the following services: public safety streets and highways, public improvements, and general administrative services. The Bocoshe Public Works Authority (Enterprise Fund) provides water and sewer services. The Bocoshe Public Works Authority is a public trust created under authority of Title 60 Oklahoma Statutes.

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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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: Bokoshe Public Works Authority. The Town board of trustees and PWA 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:

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

Capital Improvement Funds - Capital improvement funds are used to account for and report financial resources restricted, committed, or assigned for capital outlays, including the acquisition or construction of the specific capital facilities or other capital items.

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 Bokoshe Public Works 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:

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

- 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 but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Town considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

ACCRUED COMPENSATED ABSENCES

Employee's vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence; therefore, no accruals for compensated absences have been reflected in the accompanying financial statements.

CAPITAL ASSETS

Expenditures for capital assets within the General and Special Revenue funds are not capitalized. They are recorded as expenditures when paid for. In addition, the Town does not maintain general fixed asset account detail.

Property, plant and equipment in the proprietary fund of the Town are recorded at cost. Property, plant and equipment donated to the proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Capital outlays of the Proprietary Fund are recorded as capital assets and depreciated using the straight-line method with the following estimated useful lives:

	<u>YEARS</u>
Construction costs and improvements	25
Automobiles	3
Equipment	5-10

Purchases of capital items in excess of \$2,500.00 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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

- 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:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax Grant Income

E. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

Property Tax

For the year ended June 30, 2016, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types -	By Character:	Current
	(further classified by	(further classified by
	activity) Capital Outlay	activity) Capital Outlay
Proprietary Fund Types -	By Operating and Non-	By Operating and Non-
	Operating	Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

F. BUDGETARY BASIS

The Town utilizes the modified cash basis of accounting in the preparation of its budget. The budget data reflected in this report was taken from the budget formally enacted by the Town Council.

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

G. 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 - 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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 indicated in Note 4, The Town was in compliance with the reserve requirement of the Rural Development loan agreement.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2016, the Town held deposits of approximately \$141,499 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

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Federal Housing Administrator, and in obligations of the National Mortgage Association.

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS - CASH

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds received in payment of customer meter deposits and meeting the reserve requirements of the USDA Rural Development loans. The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of the annual installment (\$9,108), after which deposits may be suspended, except to replace withdrawals. The new loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$109.30 each month until there is accumulated in that account the sum of the annual installment (\$13,116), after which deposits may be suspended, except to replace withdrawals. As of June 30, 2016, the total reserve requirement for both Rural Development loans is \$22,224. The reserve account currently has a balance of \$5,912.09, which does not meet the reserve requirement.

NOTE 5 - CAPITAL ASSETS

Town of Bokoshe:

As described above the Town does not keep detailed capital asset information.

Bokoshe Public Works Authority:

Capital asset activity for the Proprietary Fund Type, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2016, was as follows:

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Business-type Activities:

	Balance 7/1/15	Additions	Deductions	Balance 6/30/16
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Construction costs & improvements	1,505,143	-	-	1,505,143
Machinery & Equipment	32,360	-	-	32,360
Automobiles	5,000	-	-	5,000
Total depreciable capital assets	1,542,503	-	-	1,542,503
Less: Accum. Depreciation for:				
Construction costs & improvements	948,269	38,575	(17,589)	969,255
Machinery & Equipment	32,360	-	-	32,360
Automobiles	5,000	-	-	5,000
Total Accumulated Depreciation	985,629	38,575	(17,589)	1,006,615
Business-Type Activities Capital Assets, Net	\$ 556,874	\$ (38,575)	\$ 17,589	\$ 535,888

NOTE 6 - LONG-TERM DEBT

The following shows the balances of the Bokoshe Public Works Authority's long-term notes payable:

	6/30/16	6/30/15
Rural Development-original balance of \$245,000 bearing 4.375% interest payable over a 40-year term at \$1,096 per month. Matures April 2044. Secured by system.	\$210,576	\$214,388
Rural Development-original balance of \$194,400 bearing 5% interest payable over a 40-year term at \$759 per month. Matures January 1, 2021. Secured by real estate.	7,416	24,573
Total	217,993	238,961
Less Current Maturities	11,399	14,255
Long-Term Debt	\$206,594	\$224,706

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Rural Development Note #1	\$ 15,920.80	\$ -	\$ (8,504.74)	\$ 7,416.06
Rural Development Note #2	8,652.28	-	(8,652.28)	-
Rural Development Note #3	214,388.35	-	(3,811.90)	210,576.45
Total Long-Term Debt	\$ 238,961.43	\$ -	\$ (20,968.92)	\$ 217,992.51

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2016, are as follows:

Rural Development Note #1			
Year Ended June 30,	Principal	Interest	Total
2017	\$ 7,416	\$ 171	\$ 7,587
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
Total	\$ 7,416	\$ 171	\$ 7,587

Rural Development Note #3			
Year Ended June 30,	Principal	Interest	Total
2017	\$ 3,983	\$ 9,134	\$ 13,116
2018	4,160	8,956	13,116
2019	4,346	8,770	13,116
2020	4,540	8,576	13,116
2021	4,743	8,373	13,116
2022-2026	27,084	38,496	65,580
2027-2031	33,693	31,887	65,580
2032-2036	41,915	23,665	65,580
2037-2041	52,144	13,436	65,580
2041-2044	33,968	2,149	36,117
Total	\$ 210,576	\$ 153,441	\$ 364,017

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Town and Bokoshe Public Works Authority to credit risk consist primarily of the accounts receivable of Bokoshe Public Works Authority. Bokoshe Public Works Authority sells primarily to members in and around Bokoshe, Oklahoma.

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 - ACCRUED COMPENSATED ABSENCES

Employee's vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence; therefore, no accruals for compensated absences have been reflected in the accompanying financial statements

NOTE 9 - INTERFUND TRANSACTIONS

Current year interfund transactions were not reconciled. Not all transfers are shown below.

Interfund operating transfers for the year ended June 30, 2016, were as follows:

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Street & Alley Fund	\$ -	\$ -
Bokoshe Public Works Authority	-	-
Total General Fund	\$ -	\$ -
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	\$ -	\$ -
Bokoshe Public Works Authority	-	-
Total Special Revenue Funds	\$ -	\$ -
ENTERPRISE FUNDS		
Bokoshe Public Works Authority:		
General Fund	\$ -	\$ -
Street & Alley Fund	-	-
Total Enterprise Funds	\$ -	\$ -
	\$ -	\$ -

NOTE 10 - FUND EQUITY

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

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

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

**TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Governmental Fund Balances

Town of Bokoshe				
Disclosure of Fund Balances Reported on Balance Sheet				
For Fiscal Year Ending June 30, 2016				
		Capital		Total
	General	Improvement	Street &	Governmental
	Fund	Fund	Alley Fund	Funds
FUND BALANCES:				
Restricted for:				
Road Maintenance	-	-	8,642	8,642
Unassigned	62,666	-	-	62,666
Total	<u>\$ 62,666</u>	<u>\$ -</u>	<u>\$ 8,642</u>	<u>\$ 71,308</u>

NOTE 11 - 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 and is also available online at www.ok.gov/fprs.

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.

Contributions for the 2016 fiscal year totaled \$120.00.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available, currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2016.

TOWN OF BOKOSHE, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 56,953	\$ 56,953	\$ 56,953	\$ (0)
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	37,344	37,344	37,904	560
Use Tax	430	430	2,705	2,275
Cigar Tax	436	436	460	24
Franchise Tax	11,180	11,180	12,244	1,064
Intergovernmental:				
Alcoholic Beverage Tax	3,821	3,821	4,186	365
Commercial Vehicle Tax	3,480	3,480	3,696	216
Gasoline Excise Tax	-	-	-	-
Grants	4,036	4,036	5,440	1,404
Fines & Forfeitures	37,925	37,925	33,345	(4,581)
Fire Department	3,879	3,879	4,676	797
Miscellaneous Income	10,862	10,862	268	(10,595)
Transfers In	207	207	-	(207)
Interest Income	47	47	61	14
	<u>170,602</u>	<u>170,602</u>	<u>161,938</u>	<u>(8,664)</u>
<u>Charges to Appropriations (Outflows):</u>				
General Government	60,000	60,000	17,478	42,522
Police Department	85,602	85,602	54,039	31,563
Fire Department	9,000	9,000	7,935	1,065
Emergency Management	-	-	-	-
Highways & Streets	9,000	9,000	11,820	(2,820)
Capital Outlay	-	-	8,000	(8,000)
Transfers	7,000	7,000	-	7,000
	<u>170,602</u>	<u>170,602</u>	<u>99,272</u>	<u>71,330</u>
Prior Year Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u>-</u>	<u>-</u>	<u>62,666</u>	<u>62,666</u>

TOWN OF BOKOSHE, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2016

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 Town Council
Town of Bokoshe, 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 Bokoshe, Oklahoma, as of and for the year ended June 30, 2016, 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 Bokoshe, Oklahoma's basic financial statements, and have issued our report thereon dated October 17, 2016, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Bokoshe'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 Bokoshe's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Bokoshe's internal control.

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

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

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control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 16-01, 16-02 and 16-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bokoshe'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 one instance of noncompliance that is required to be reported under Government Auditing Standards, which is included in the Schedule of Findings as Item 16-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Town of Bokoshe's Response to Findings

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

The purpose of this report is 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

October 17, 2016

TOWN OF BOKOSHE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2016

INTERNAL CONTROL FINDINGS:

Item 16-01: 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 16-02: Meter Deposits

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

Condition: The Meter Deposit Liability has not been accurately posted with all transactions. The Authority has a meter deposit ledger that can be kept in its water program. The report has to be printed monthly and was not printed for any of the twelve months included in the current fiscal year.

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. Also, the amounts in the meter deposit bank accounts are not sufficient to cover the meter deposit liability.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: The Town hopes to improve this for future years.

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Item 16-03: 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 currently does not have the resources to correct this problem.

COMPLIANCE FINDINGS:

Item 16-04: Reserve Requirements

Criteria: The Authority's loan agreement with the USDA Rural Development requires the Authority to maintain reserve accounts. The reserve requirement for the existing loan was \$9,108.00. For the new loan, the Authority is required to set aside into a Reserve Account the sum of 10% of the monthly installment or \$109.30 each month until there is accumulated in that account the sum of the annual installment (\$13,116.00), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2016, the Authority was required to have at least \$22,224 set aside in the reserve account.

Condition: The Authority cashed in the certificate of deposit during a previous fiscal year for unknown purposes leaving a reserve balance of zero. The newly established account currently has a balance of \$5,912.09. Also, during the current year the Authority used money from the account to pay off the 3rd Rural Development loan.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement.

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Recommendation: The Authority needs to bring the account into compliance.

Response: Current management was not in charge during the time when the money was withdrawn. Monthly deposits are being made to bring the account into compliance. Now that the 3rd loan has been paid off that additional money is being deposited to the reserve account each month