

AUDIT REPORT
TOWN OF LAHOMA, OKLAHOMA
JUNE 30, 2018



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF LAHOMA, OKLAHOMA
JUNE 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
LIST OF BOARD MEMBERS	4
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	5-7
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	9
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	11-12
EXHIBIT E STATEMENT OF NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	13
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	14
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	15
NOTES TO THE FINANCIAL STATEMENTS	16-29
INDEPENDENT AUDITOR'S 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>	30-31

TOWN OF LAHOMA, OKLAHOMA
JUNE 30, 2018

SCHEDULE OF FINDINGS 32

OTHER SUPPLEMENTARY INFORMATION:

EXHIBIT H COMBINING BALANCE SHEET - NONMAJOR
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS 33

EXHIBIT I COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
- NONMAJOR GOVERNMENTAL FUNDS - MODIFIED
CASH BASIS 34

TOWN OF LAHOMA, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2018

LIST OF BOARD MEMBERS

<u>NAME</u>	<u>POSITION</u>
Gary Naugle Jr.	Chairman
Theresa Sharp	Vice Chairman
Milt David	Trustee
Greg Ingle	Trustee
Kenneth Hansen	Trustee
Shannon Lee	Town Clerk
Kay Davidson	Treasurer

Unaudited

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Lahoma, 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 Lahoma, Oklahoma, as of and for the fiscal year ended June 30, 2018, 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. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the business-type activities.

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Business-Type Activities

The Lahoma Public Works Authority (the Business-Type Activities) did not maintain proper accounting records of adjustments to utility billing accounts. As a result, we were unable to determine what adjustments were made and if the adjustments made were properly authorized. Therefore, we were unable to determine whether any adjustments to the amounts reported in the financial statements were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion on the Business-Type Activities" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the basic financial statements of the business-type activities of the Town of Lahoma, Oklahoma. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lahoma, Oklahoma, as of June 30, 2018, 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.

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, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 August 7, 2018, on our consideration of the Town of Lahoma'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 solely 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 effectiveness of Town of Lahoma's 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 Lahoma's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

August 7, 2018

TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	2018 Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 86,991	\$ 11,015	\$ 98,006
Certificates of Deposit	35,000	-	35,000
Due from other funds	-	-	-
Total Current Assets	<u>121,991</u>	<u>11,015</u>	<u>133,006</u>
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	<u>237,300</u>	<u>362,075</u>	<u>599,375</u>
Total Capital Assets	<u>237,300</u>	<u>362,075</u>	<u>599,375</u>
TOTAL ASSETS	<u>359,291</u>	<u>373,090</u>	<u>732,381</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Due to other funds	-	-	-
Current Portion of Long-Term Debt	3,363	-	3,363
Meter Deposits	-	8,156	8,156
Total Current Liabilities	<u>3,363</u>	<u>8,156</u>	<u>11,519</u>
<u>Long-Term Liabilities:</u>			
Capital Lease Obligations	10,513	-	10,513
Less: Current Portion of Long-Term Debt	<u>(3,363)</u>	<u>-</u>	<u>(3,363)</u>
Total Long-Term Liabilities	<u>7,150</u>	<u>-</u>	<u>7,150</u>
TOTAL LIABILITIES	<u>10,513</u>	<u>8,156</u>	<u>18,669</u>
<u>NET POSITION</u>			
Net investment in capital assets	226,787	362,075	588,861
Restricted for:			
Debt Service	-	-	-
Other Purposes	76,046	-	-
Unrestricted	<u>45,945</u>	<u>2,860</u>	<u>48,805</u>
TOTAL NET POSITION	<u>\$ 348,778</u>	<u>\$ 364,934</u>	<u>\$ 713,712</u>

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

TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 87,387	\$ -	\$ -	\$ -	\$ (87,387)
Public Safety	118,902	89,520	4,224	-	(25,158)
Street & Alley	14,507	-	-	-	(14,507)
Parks & Recreation	2,457	-	-	-	(2,457)
Total Governmental Activities	223,252	89,520	4,224	-	(129,508)
Business-type activities:					
Water	95,750	77,611	-	-	(18,139)
Sanitation	47,875	53,473	-	-	5,598
Sewer	11,082	28,097	-	-	17,015
Depreciation	20,548	-	-	-	(20,548)
Total Business-type Activities	175,255	159,181	-	-	(16,075)
Total	\$ 398,508	\$ 248,701	\$ 4,224	\$ -	\$ (145,583)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (129,508)	\$ (16,075)	\$ (145,583)
General revenues:			
Taxes:			
Sales Tax	93,508	-	93,508
Franchise Tax	18,433	-	18,433
Use Tax	10,903	-	10,903
Tobacco Tax	1,118	-	1,118
Intergovernmental:			
Alcoholic Beverage Tax	2,374	-	2,374
Motor Vehicle Tax	4,397	-	4,397
Gasoline Excise Tax	1,205	-	1,205
Rental Income	995	-	995
Miscellaneous Income	4,305	200	4,505
Interest Income	374	13	387
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	137,612	213	137,825
Changes in net position	8,104	(15,862)	(7,758)
Net position - beginning	340,052	380,796	720,848
Net position - prior year adjustment	622	-	622
Net position - ending	\$ 348,778	\$ 364,934	\$ 713,712

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

**TOWN OF LAHOMA, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Municipal Court Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 76,902	\$ 7,064	\$ 3,026	\$ 86,991
Certificate of Deposit	35,000	-	-	35,000
Due from other funds	-	-	-	-
TOTAL ASSETS	<u>\$ 111,902</u>	<u>\$ 7,064</u>	<u>\$ 3,026</u>	<u>\$ 121,991</u>
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	76,046	-	-	76,046
Committed	-	-	-	-
Assigned	-	7,064	3,026	10,090
Unassigned	35,856	-	-	35,856
TOTAL FUND BALANCES	<u>111,902</u>	<u>7,064</u>	<u>3,026</u>	<u>121,991</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 111,902</u>	<u>\$ 7,064</u>	<u>\$ 3,026</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 \$897,995, net of accumulated depreciation of \$660,695, are not financial resources and, therefore, are not reported in the funds. 237,300

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. (10,513)

Net Position of Governmental Activities **\$ 348,778**

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

TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Municipal Court Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 93,508	\$ -	\$ -	\$ 93,508
Franchise Tax	18,433	-	-	18,433
Use Tax	10,903	-	-	10,903
Tobacco Tax	1,118	-	-	1,118
Intergovernmental:				
Alcoholic Beverage Tax	2,374	-	-	2,374
Motor Vehicle Tax	4,397	-	-	4,397
Gasoline Excise Tax	1,205	-	-	1,205
Grant Income	-	-	4,224	4,224
Police Fines	-	89,520	-	89,520
Rental Income	995	-	-	995
Miscellaneous Income	4,305	-	-	4,305
Interest Income	373	-	1	374
TOTAL REVENUES	137,611	89,520	4,225	231,356
<u>EXPENDITURES:</u>				
Current:				
General Government	85,388	-	-	85,388
Public Safety - Police	88,410	8,585	-	96,994
Public Safety - Fire	3,557	-	6,602	10,159
Street & Alley	9,693	-	-	9,693
Parks & Recreation	325	-	-	325
Debt Service	2,583	-	-	2,583
Capital Outlay	12,759	-	-	12,759
TOTAL EXPENDITURES	202,715	8,585	6,602	217,901
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(65,104)	80,935	(2,377)	13,455
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	76,037	-	278	76,315
Operating Transfers Out	(278)	(76,037)	-	(76,315)
Capital Debt Proceeds	12,144	-	-	12,144
TOTAL OTHER FINANCING SOURCES (USES)	87,903	(76,037)	278	12,144
NET CHANGES IN FUND BALANCES	22,799	4,898	(2,099)	25,599
FUND BALANCE - BEGINNING OF YEAR	88,481	2,166	5,124	95,771
FUND BALANCE - PRIOR YEAR ADJUSTMENT	622	-	-	622
FUND BALANCE - END OF YEAR	\$ 111,902	\$ 7,064	\$ 3,026	121,991

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

**TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	25,599
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		1,631
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of assets. Thus the change in net position differs from the change in fund balance by the basis of the asset sold.		
		-
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		(12,144)
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		12,759
Depreciation expense		(19,741)
		8,104
Change in Net Position of Governmental Activities	\$	8,104

TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2018

	<u>Lahoma Public Works Authority Enterprise Fund June 30, 2018</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 11,015
Total Current Assets	<u>11,015</u>
Noncurrent Assets:	
Other capital assets, net of accumulated depreciation	<u>362,075</u>
Total Noncurrent Assets	<u>362,075</u>
TOTAL ASSETS	<u>373,090</u>
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Current Portion of Long-Term Debt	-
Meter Deposits	<u>8,156</u>
Total Current Liabilities	<u>8,156</u>
Noncurrent Liabilities:	
Long-Term Debt	-
Less: Current Portion of Long-Term Debt	<u>-</u>
Total Noncurrent Liabilities	<u>-</u>
TOTAL LIABILITIES	<u>8,156</u>
NET POSITION:	
Net investment in capital assets	362,075
Restricted for debt service	-
Unrestricted	<u>2,860</u>
TOTAL NET POSITION	<u><u>\$ 364,934</u></u>

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

TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Lahoma Public Works Authority Enterprise Fund June 30, 2018</u>
<u>OPERATING REVENUES:</u>	
Water Income	\$ 77,611
Sanitation Income	53,473
Sewer Income	28,097
Other Income	200
TOTAL OPERATING REVENUES	<u>159,381</u>
<u>OPERATING EXPENSES:</u>	
Water	95,750
Sanitation	47,875
Sewer	11,082
Depreciation Expense	20,548
TOTAL OPERATING EXPENSES	<u>175,255</u>
NET OPERATING INCOME (LOSS)	<u>(15,875)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	13
Interest Expense	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>13</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(15,862)
Capital Contributions	-
Transfers in	-
Transfers out	-
CHANGE IN NET POSITION	(15,862)
TOTAL NET POSITION - BEGINNING	380,796
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	<u>-</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 364,934</u></u>

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

**TOWN OF LAHOMA, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 159,381
Payments to Suppliers, Employees & Laborers	(154,707)
Receipts of Customer Utility Deposits, Net of Refunds	<u>(110)</u>
Net Cash Provided (Used) by Operating Activities	<u>4,564</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers in	-
Operating Transfers Out	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Loan Proceeds	-
Principal paid on Long-Term Debt	-
Interest Expense	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	<u>13</u>
Net Cash Provided (Used) by Investing Activities	<u>13</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,577
Cash & Cash Equivalents, Beginning of Year	6,399
Cash & Cash Equivalents, Prior Year Adjustment	39
Cash & Cash Equivalents, End of Year	<u>\$ 11,015</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ (15,875)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation Expense	20,548
Increase(Decrease) in Meter Deposits	<u>(110)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,564</u>

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

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 Lahoma
Blended Component Units:	Lahoma Public Authority (LPWA)

PRIMARY GOVERNMENT

The Town operates under the "Town Board of Trustees" form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, sewer, water, parks and recreation and general administrative services. The following is a summary of the more significant accounting policies of the Town.

BLENDED COMPONENT UNITS

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

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Lahoma Public Works Authority

The Lahoma Public Works Authority (LPWA) is a public trust created under authority of and pursuant to Oklahoma Statutes. The Trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water, sewage, garbage, trash disposal recreation and industrial facilities, or other forms or types of public and municipal services within the boundaries of the Lahoma Public Works Authority.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund types as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted in another fund.

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Special Revenue Funds

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

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Lahoma Public Works Authority is accounted for as the Town's Enterprise Fund.

Lahoma Public Works Authority	Accounts for the activities of the public trust in providing water and sewer services to the public.
-------------------------------	--

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.

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS:

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of 3 months or less.

INVESTMENTS:

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS:

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimates useful lives by type of asset is as follows:

TOWN OF LAHOMA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

<u>Asset</u>	<u>Years</u>
Buildings	50
Machinery, furniture, and equipment	7-30
Utility property and improvements	15-50

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

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

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

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 Financial Statements

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

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

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Municipal Court Fund	Police Fines

The financial statements do not include all financial activity of the Municipal Court Fund.

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 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.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2018, the Town held deposits of approximately \$133,006 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.

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 Town 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 Town.
- 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.).

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS

Governmental activities:

	Balance 7/1/17	Additions	Deductions	Balance 6/30/18
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Buildings	146,709	-	-	146,709
Other improvements	259,785	-	-	259,785
Machinery & Equipment	124,989	12,759	-	137,748
Infrastructure	353,752	-	-	353,752
Total depreciable capital assets	885,236	12,759	-	897,995
Less: Accum. Depreciation for:				
Buildings	67,143	3,062	-	70,205
Other improvements	218,806	1,000	-	219,806
Machinery & Equipment	69,274	10,866	-	80,140
Infrastructure	285,731	4,813	-	290,545
Total Accumulated Depreciation	640,954	19,741	-	660,695
Governmental Activities Capital Assets, Net	\$ 244,282	\$ (6,982)	\$ -	\$ 237,300

Business-type Activities:

	Balance 7/1/17	Additions	Deductions	Balance 6/30/18
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Buildings	14,000	-	-	14,000
Water System	478,120	-	-	478,120
Sewer System	420,950	-	-	420,950
Machinery & Equipment	96,404	-	-	96,404
Total depreciable capital assets	1,009,474	-	-	1,009,474
Less: Accum. Depreciation for:				
Buildings	7,000	280	-	7,280
Water System	260,260	8,826	-	269,086
Sewer System	302,939	7,657	-	310,596
Machinery & Equipment	56,652	3,785	-	60,437
Total Accumulated Depreciation	626,851	20,548	-	647,400
Business-Type Activities Capital Assets, Net	\$ 382,623	\$ (20,548)	\$ -	\$ 362,075

TOWN OF LAHOMA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 5 - LONG-TERM DEBT

The Town of Lahoma entered into a Lease Purchase Agreement with First Government Lease Co. through 3-C-INS., LLC. For the purchase of a 2008 Ford Crown Vic police cruiser for \$12,144.00. The lease is payable in 36 monthly payments of \$430.56, with the first payment due February 1, 2018.

Changes in Long-Term Debt

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2017:

	Balance 6/30/2017	Additions	Deductions	Balance 6/30/2018
Lease Purchase	\$ -	\$ 12,144	\$ (1,631)	\$ 10,513
	\$ -	\$ 12,144	\$ (1,631)	\$ 10,513

Debt Service Requirements to Maturity

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

Year Ending June 30,	Lease Purchase - 3-C-INS., LLC		
	Principal	Interest	Total
2019	\$ 3,363	\$ 1,374	4,736
2020	4,297	870	5,167
2021	2,854	160	3,014
2022	-	-	-
2023	-	-	-
Total	\$ 10,513	\$ 2,404	\$ 12,917

The PWA currently has no long-term debt obligations.

NOTE 6 - PENSION PLAN PARTICIPATION

OKLAHOMA MUNICIPAL RETIREMENT FUND:

The Town provides a defined contribution plan and trust known as the Town of Lahoma Plan (the "OMRF Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available to all full-time employees. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is mandatory to all full-time employees who are not already participating in another plan. The employee contributes to the Plan an amount of 3% of their gross wages. The Town as employer, contributes a match of 3%. If any employee

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

terminates before becoming fully vested (vested after seven years), the employer's contributions that are forfeited may be used to reduce the Town's current-period contribution requirements.

The OMRF contributions for 2018, 2017 and 2016, respectively, for the Town and employees, were \$7,275, \$4,025, and \$2,760.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

OKLAHOMA FIREFIGHTER'S PENSION AND RETIREMENT SYSTEM (OFPRS):

Description of the Plan

The Town participates in the Oklahoma Firefighter's Pension and Retirement System (OFPRS), a statewide cost-sharing, multiple-employer, defined benefit plan, on behalf of volunteer firefighters. Participation in the System is open to all full-time or volunteer firefighters of a participating municipality hired before age 45. Contribution rates for full-time and volunteer firefighters are set by state statute. The System is supported by employee contributions, municipal contributions, and state appropriations.

Benefits under the System are vested after 10 years of credited service. Volunteers may receive benefits after obtaining 20 years of credited service. Benefits are determined at the rate of \$5.46 per month per year of credited service, with a maximum of 30 years considered. The Oklahoma Firefighter's 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. That report is also available at www.ok.gov/fprs under the "GASB" tab labeled "2014-GASB 68 Accounting Supplement".

Funding Policy

OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The Town is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriation, as necessary.

The OFPRS contributions for 2018, 2017 and 2016, respectively, were \$1,020.00, \$900.00, and \$900.00.

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - FUND EQUITY

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

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

Fund Balances

Town of Lahoma, Oklahoma
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2018

	General Fund	Municipal Court Fund	Other Governmental Funds	Total Governmental Funds
<u>FUND BALANCES:</u>				
Restricted to:				
Street/Sewer Sales Tax	\$ 76,046	\$ -	\$ -	\$ 76,046
Assigned to:				
Municipal Court Fund	-	7,064	-	7,064
Public Safety/Town Improvement Fund	-	-	3,026	3,026
Grant Fund	-	-	-	-
Unassigned	35,856	-	-	35,856
Total	<u>\$ 111,902</u>	<u>\$ 7,064</u>	<u>\$ 3,026</u>	<u>\$ 121,991</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

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

LITIGATION

The Town may be party to various legal proceedings that normally occur in the course of governmental operations. As a result of the Town's use of the modified cash basis of accounting, the financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a Town "Sinking Fund" for

TOWN OF LAHOMA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

the payment of any court-assessed judgment rendered against the Town. Although the outcome of the previously noted proceedings cannot be predicted due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

NOTE 9 - OPERATING TRANSFERS

Interfund operating transfers for the year ended June 30, 2018, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Municipal Court Fund	\$ 76,037.03	\$ -
Public Safety/Town Improvement Fund	-	277.99
Grant Fund	-	-
Lahoma Public Works Authority	-	-
Total General Fund	<u>\$ 76,037.03</u>	<u>\$ 277.99</u>
SPECIAL REVENUE FUNDS:		
Municipal Court Fund:		
General Fund	\$ -	\$ 76,037.03
Public Safety/Town Improvement Fund:		
General Fund	277.99	-
Grant Fund:		
General Fund	-	-
Total Special Revenue Funds	<u>\$ 277.99</u>	<u>\$ 76,037.03</u>
ENTERPRISE FUNDS		
Lahoma Public Works Authority:		
General Fund	\$ -	\$ -
Total Enterprise Funds	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 76,315.02</u>	<u>\$ 76,315.02</u>

NOTE 10 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through August 7, 2018, 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, 2018.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

To the Board of Trustees
Town of Lahoma, 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 Lahoma, Oklahoma, as of and for the year ended June 30, 2018, 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 Lahoma, Oklahoma's basic financial statements, and have issued our report thereon dated August 7, 2018, which was a Disclaimer of Opinion on the Business-Type Activities.

Internal Control Over Financial Reporting

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 18-01 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Town of Lahoma's Response to Findings

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

August 7, 2018

TOWN OF LAHOMA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2018

INTERNAL CONTROL FINDINGS:

Item 18-01: Segregation of Duties

Criteria: The segregation of duties is important to have adequate control over financial assets.

Condition: The Town of Lahoma has the same employees performing work normally segregated between two or more employees.

Cause/Effect: The Town of Lahoma's small size limits the amount of staffing needed to properly segregate accounting functions. The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation: The lack of segregation of duties is a common deficiency in Town's the size of Lahoma. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

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

COMPLIANCE FINDINGS:

None

TOWN OF LAHOMA, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	Public Safety/ Town Improvement Fund	Grant Fund	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 697	\$ 2,329	\$ 3,026
Investments	-	-	-
TOTAL ASSETS	<u>\$ 697</u>	<u>\$ 2,329</u>	<u>\$ 3,026</u>
<u>LIABILITIES & FUND EQUITY</u>			
<u>LIABILITIES:</u>			
Payroll Taxes Payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	697	2,329	3,026
Unassigned	-	-	-
TOTAL FUND BALANCES	<u>697</u>	<u>2,329</u>	<u>3,026</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 697</u>	<u>\$ 2,329</u>	<u>\$ 3,026</u>

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

TOWN OF LAHOMA, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	Public Safety/ Town Improvement Fund	Grant Fund	
<u>REVENUES:</u>			
Grant Income	\$ -	\$ 4,224	\$ 4,224
Miscellaneous Income	-	-	-
Interest Income	1	-	1
TOTAL REVENUES	1	4,224	4,225
<u>EXPENDITURES:</u>			
General Government	-	-	-
Public Safety - Fire	-	6,602	6,602
Capital Outlay	-	-	-
TOTAL EXPENDITURES	-	6,602	6,602
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1	(2,378)	(2,377)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	278	-	278
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	278	-	278
NET CHANGES IN FUND BALANCES	279	(2,378)	(2,099)
FUND BALANCE - BEGINNING OF YEAR	418	4,706	5,124
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 697	\$ 2,329	\$ 3,026

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