

Town of Billings
Billings, Oklahoma

Audit Report
June 30, 2012

Contents

	Page
Independent Auditor's Report	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	6
Statement of Activities and Changes in Net Assets	7
Fund Financial Statements	
Balance Sheet - Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Statement of Net Assets - Proprietary Funds	12
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	13
Statement of Cash Flows - Proprietary Funds	14
Notes to the Basic Financial Statements	15
Required Supplemental Information	
Budget and Actual (with Variance) – General Fund	25
Supplemental Information	
Schedule of Expenditures of Federal Awards	27
Report Required by <i>Government Auditing Standards</i>	
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>	29
Schedule of Findings & Responses	31

Independent Auditor's Report

Board of Town Council
Town of Billings
PO Box 216
Billings, Oklahoma 74630

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Billings, State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Billings, State of Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, major fund and the aggregate remaining fund information of the Town of Billings, State of Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated June 16, 2014, on my consideration of the Town of Billings, State of Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's budgetary comparison information on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town of Billings, State of Oklahoma, has not presented a Management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Billings, State of Oklahoma's financial statements as a whole. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Linda S Woodruff CPA, PC
June 16, 2014

Town of Billings
Billings, Oklahoma

Basic Financial Statements
June 30, 2012

Town of Billings
Statement of Net Assets
June 30, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 82,234	\$ 200,254	\$ 282,488
Investments	228,957	-	228,957
Receivables	32,993	243,504	276,497
Internal Balances	-	-	-
Due from Other Governmental Agencies	-	-	-
Inventories	-	-	-
Other assets	-	-	-
Capital Assets			
Land, improvements, and construction in progress	-	-	-
Infrastructure and infrastructure in progress	-	1,339,324	1,339,324
Buildings	-	144,208	144,208
Equipment and Furniture	302,720	439,481	742,201
Other Capital Assets	-	-	-
Less: Accumulated Depreciation	(10,544)	(651,376)	(661,920)
Total Capital Assets	<u>292,176</u>	<u>1,271,637</u>	<u>1,563,813</u>
Total Assets	<u><u>636,360</u></u>	<u><u>1,715,395</u></u>	<u><u>2,351,755</u></u>
LIABILITIES			
Accounts payable and accrued expenses	-	3,133	3,133
Due to other governmental agencies	-	-	-
Deferred Revenues	-	-	-
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	-	-	-
Accrued interest	-	-	-
Compensated Absences	-	-	-
Claims and judgments	-	-	-
Due in more than one year			
Bonds, capital leases and contracts	-	-	-
Accrued interest	-	-	-
Compensated absences	-	-	-
Meter deposit payable	-	24,175	24,175
Total liabilities	<u>-</u>	<u>27,308</u>	<u>27,308</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	1,271,637	1,271,637
Restricted for:			
Capital projects	-	-	-
Debt Service	-	-	-
Other projects	-	24,175	24,175
Unrestricted	636,360	392,275	1,028,635
Total net assets	<u><u>\$ 636,360</u></u>	<u><u>\$ 1,688,087</u></u>	<u><u>\$ 2,324,447</u></u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Activities and Changes in Net Assets
for the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenue</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government							
Governmental Activities							
General Government	\$ 91,613	\$ 17,571	\$ -	\$ -	\$ (74,042)	\$ -	\$ (74,042)
Public Safety	118,507	400	-	-	(118,107)	-	(118,107)
Street and Alley	46,401	4,485	-	-	(41,916)	-	(41,916)
Health, Welfare and Sanitation	-	-	-	-	-	-	-
Culture and Recreation	22,335	5,110	-	-	(17,225)	-	(17,225)
Education	-	-	-	-	-	-	-
Interest on Long-term debt	-	-	-	-	-	-	-
Total governmental activities	<u>278,856</u>	<u>27,566</u>	<u>-</u>	<u>-</u>	<u>(251,290)</u>	<u>-</u>	<u>(251,290)</u>
Business-type activities:							
Public Works Authority	413,325	353,524	-	-	-	(59,801)	(59,801)
Industrial Development	2,096	-	-	-	-	(2,096)	(2,096)
Total business-type activities	<u>415,421</u>	<u>353,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,897)</u>	<u>(61,897)</u>
Total primary government	<u>694,277</u>	<u>381,090</u>	<u>-</u>	<u>-</u>	<u>(251,290)</u>	<u>(61,897)</u>	<u>(313,187)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ -	\$ -	\$ -
Property taxes, levied for debt service					-	-	-
Franchise taxes					28,424	-	28,424
Public service taxes					182,718	-	182,718
Grants and contributions not restricted to specific programs					289,897	-	289,897
Unrestricted investment earnings					1,898	9,046	10,944
Depreciation					(10,544)	-	(10,544)
Special item - gain on sale of asset					-	-	-
Transfers					-	-	-
Total general revenues, special items, and transfers					<u>492,393</u>	<u>9,046</u>	<u>501,439</u>
Change in net assets					241,103	(52,851)	188,252
Net assets - beginning					395,257	1,740,938	2,136,195
Net assets - ending					<u>\$ 636,360</u>	<u>\$ 1,688,087</u>	<u>\$ 2,324,447</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 82,234	\$ -	\$ 82,234
Investments	228,957	-	228,957
Taxes receivable, net	32,993	-	32,993
Due from other funds	-	-	-
Receivable from other governments	-	-	-
Other receivables	-	-	-
Inventories	-	-	-
Prepaid expenses	-	-	-
Total assets	344,184	-	344,184
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Due to other funds	-	-	-
Payable to other governments	-	-	-
Deferred revenue	-	-	-
Other accrued expenses	-	-	-
Other payables	-	-	-
Total liabilities	-	-	-
 Fund balances:			
Reserved for:			
Inventories	-	-	-
Encumbrances	-	-	-
Prepaid expenses	-	-	-
Debt service	-	-	-
Other purposes	-	-	-
Unreserved	344,184	-	344,184
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Debt service funds	-	-	-
Permanent Endowment Fund	-	-	-
Total fund balances	344,184	-	344,184
Total liabilities and fund balances	\$ 344,184	\$ -	\$ 344,184

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2012

Total fund balance, governmental funds	\$	344,184
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		302,720
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		-
<p>The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.</p>		-
<p>Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation recorded in the current period.</p>		(10,544)
Net Assets of Governmental Activities in the Statement of Net Assets		636,360

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	216,028	-	216,028
Fees and fines	-	-	-
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Pool Receipts	5,110	-	5,110
Investment earnings	1,898	-	1,898
Miscellaneous and Grants	307,468	-	307,468
Total revenues	530,504	-	530,504
EXPENDITURES			
Current:			
General government	83,966	-	83,966
Public Safety	118,507	-	118,507
Public Works	46,401	-	46,401
Health and sanitation	-	-	-
Culture and recreation	22,335	-	22,335
Education	-	-	-
NODA Expense	7,647	-	7,647
Debt Service:		-	-
Principal	-	-	-
Interest and other charges	-	-	-
Capital Outlay	302,720	-	302,720
Total expenditures	581,576	-	581,576
Excess (deficiency) of revenues over expenditures	(51,072)	-	(51,072)
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt, net	-	-	-
Proceeds from capital leases	-	-	-
Other source	-	-	-
Other use	-	-	-
Transfers in	126,128	-	126,128
Transfers out	(126,128)	-	(126,128)
Total other financing sources and uses	-	-	-
SPECIAL ITEM			
Proceeds from sale of land	-	-	-
Net change in fund balances	(51,072)	-	(51,072)
Fund balances - beginning	395,256	-	395,256
Fund balances - ending	\$ 344,184	\$ -	\$ 344,184

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the
 Governmental Funds to the Statement of Activities
 for the Year Ended June 30, 2012

Net change in fund balances - total governmental funds: \$ (51,072)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$302,720 exceeded depreciation \$10,544 in the current period. 292,176

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 the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. -

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. -

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. -

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:
 Accrued interest not reflected on Governmental funds -

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. -

Change in net assets of governmental activities \$ 241,103

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Assets
Proprietary Funds
June 30, 2012

	<u>Enterprise Funds</u>		
	<u>Public Works</u>	<u>Industrial</u>	
	<u>Authority</u>	<u>Development</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 121,007	\$ 79,247	\$ 200,254
Investments	-	-	-
Accounts Receivable, net	30,389	213,115	243,504
Deferred charges	-	-	-
Due from other funds	-	-	-
Receivables from other governments	-	-	-
Other receivables	-	-	-
Inventories	-	-	-
Prepaid expenses	-	-	-
Total current assets	<u>151,396</u>	<u>292,362</u>	<u>443,758</u>
Non-current assets:			
Capital Assets:			
Land and improvements	-	-	-
Infrastructure	1,339,324	-	1,339,324
Utility System	-	-	-
Construction in Progress	-	-	-
Buildings	-	144,208	144,208
Equipment and Furniture	439,481	-	439,481
Less Accumulated depreciation	<u>(651,376)</u>	<u>-</u>	<u>(651,376)</u>
Total non-current assets	<u>1,127,429</u>	<u>144,208</u>	<u>1,271,637</u>
Total assets	<u><u>1,278,825</u></u>	<u><u>436,570</u></u>	<u><u>1,715,395</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	3,133	-	3,133
Salaries payable	-	-	-
Accrued interest payable	-	-	-
Due to other funds	-	-	-
Payable to other governments	-	-	-
Meter deposit payable	24,175	-	24,175
Deferred revenue	-	-	-
Compensated absences	-	-	-
Capital lease obligation	-	-	-
Claims and judgments	-	-	-
Bonds, notes and loans payable	-	-	-
Total current liabilities	<u>27,308</u>	<u>-</u>	<u>27,308</u>
Non-current liabilities:			
Compensated absences	-	-	-
Capital lease obligation	-	-	-
Claims and judgments	-	-	-
Bonds, notes and loans payable	-	-	-
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u><u>27,308</u></u>	<u><u>-</u></u>	<u><u>27,308</u></u>
NET ASSETS			
Invested in capital assets, net of related deb	1,127,429	144,208	1,271,637
Restricted for debt service	-	-	-
Restricted for capital projects	-	-	-
Restricted for other purposes	24,175	-	24,175
Unrestricted	<u>99,912</u>	<u>292,362</u>	<u>392,274</u>
Total net assets	<u><u>\$ 1,251,516</u></u>	<u><u>\$ 436,570</u></u>	<u><u>\$ 1,688,086</u></u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
for the Year Ended June 30, 2012

	Enterprise Funds		
	<u>Public Works</u> <u>Authority</u>	<u>Industrial</u> <u>Development</u>	<u>Total</u>
REVENUES			
Charges for services	\$ 343,465	\$ -	\$ 343,465
Miscellaneous	10,059	-	10,059
Total operating revenues	<u>353,524</u>	<u>-</u>	<u>353,524</u>
OPERATING EXPENSES			
Personal services	130,913	-	130,913
Contractual services	-	-	-
Utilities	5,820	-	5,820
Repairs and maintenance	-	280	280
Other supplies and expenses	233,082	1,777	234,859
Insurance claims and expenses	-	-	-
Depreciation	43,510	-	43,510
Total operating expenses	<u>413,325</u>	<u>2,057</u>	<u>415,382</u>
Operating income (loss)	<u>(59,801)</u>	<u>(2,057)</u>	<u>(61,858)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	133	8,913	9,046
Donation	-	-	-
Operating grants and contributions	-	-	-
Interest expense	-	-	-
Miscellaneous expenses	-	(40)	(40)
Total non-operating revenue (expenses)	<u>133</u>	<u>8,873</u>	<u>9,006</u>
Income (loss) before contributions and transfers	<u>(59,668)</u>	<u>6,816</u>	<u>(52,852)</u>
Capital contributions	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Special item - gain (loss) on sale of land	-	-	-
Change in net assets	<u>(59,668)</u>	<u>6,816</u>	<u>(52,852)</u>
Total net assets - beginning	<u>1,311,184</u>	<u>429,754</u>	<u>1,740,938</u>
Total net assets - ending	<u>\$ 1,251,516</u>	<u>\$ 436,570</u>	<u>\$ 1,688,086</u>

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Statement of Cash Flows
Proprietary Funds
for the Year Ended June 30, 2012

	Public Works Authority	Industrial Development Authority
Cash Flows from Operating Activities:		
Cash Received from Customers & Service Users	\$ 327,999	\$ 35,493
Cash Payments for Goods & Services & Employees	253,720	(2,097)
Net Cash Provided by Operating Activities	74,279	33,396
Cash Flows from Noncapital Financing Activities:		
Operating Transfers In/(Out) to Other Funds	-	-
Net Cash Provided (Used) for Noncapital Financing Activities	-	-
Cash Flows from Capital and Related Financing Activities:		
Purchase of Fixed Assets	(40,461)	-
Grants	-	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(40,461)	-
Cash Flows from Investing Activities:		
Interest Income	133	8,913
Net Cash Provided by investing Activities	133	8,913
Net Increase (Decrease) in Cash & Cash Equivalents	33,951	42,309
Cash and Cash Equivalents - Beginning of Year	169,992	36,938
Cash and Cash Equivalents - End of Year	\$ 203,943	\$ 79,247
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ (59,801)	\$ (2,097)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	43,510	-
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,147	-
(Increase) Decrease in Loan Receivable	-	35,493
Increase (Decrease) in Accounts Payable	3,133	-
Increase (Decrease) in Meter Deposits	3,354	-
Total Adjustments	51,144	35,493
Net Cash Provided by Operating Activities	\$ (8,657)	\$ 33,396

The accompanying notes are an integral part of the basic financial statements.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Account Policies

The Town of Billings, Oklahoma (the Town) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. Reporting Entity

The Town of Billings, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a town council. As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government. The Town provides the following services as authorized by its charter: general government, public safety (fire), streets, and public works (water, sewer, and refuse).

Blended Component Units:

The Billings Public Works Authority (the Authority) was created to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the Town of Billings, Oklahoma. The Authority operates the water, natural gas, sanitation, and sewer services for the Town of Billings. The authority is exempt from State and Federal income taxes. The Authority is reported as an enterprise fund.

The Billings Industrial Development Authority was created to finance, operate, construct, and administer affordable housing and economic development for businesses with the Town of Billings. The Authority currently has four notes receivable to citizens of the Town. The Authority is exempt from state and federal income taxes and is reported as an enterprise fund.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Account Policies -- Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

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

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes collected and held by the state at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following is the Town's major governmental fund:

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

Other governmental funds of the Town that are considered non-major funds include:

Special Revenue Funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including capital projects). The Town has no special revenue funds in 2012.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies – Continued

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) 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 the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Billings Public Works Authority is accounted for as an enterprise fund. The following are the Town's major enterprise funds:

Billings Public Works Authority – accounts for the operations of providing public works (water, gas, sewer and sanitation) to the Town.

Billing Industrial Development Authority – accounts for the operations of providing economic development for small businesses and affordable housing for the Town.

There are no enterprise funds of the Town that are considered a non-major funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

2. Restricted Cash and Investments

There are no restricted funds in the governmental funds.

Restricted cash and investments of the enterprise funds consists of customer meter deposits.

3. Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The Town's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity -- Continued

4. Estimates

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

5. Receivables and Payables

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

6. Inventories

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

7. Capital Assets and Infrastructure

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town does not maintain a capitalization threshold or a depreciation schedule. The Town’s infrastructure consists of roads, bridges, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the Town.

8. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

1. Summary of Significant Accounting Policies – Continued

C. Assets, Liabilities and Equity -- Continued

9. Net Assets

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statement, governmental funds report reservations of fund balances that are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure. Designations of fund balances are not required by law but represent the classification or funds that are earmarked by the Town's management for specific purposes and may be subject to change.

2. Detailed Notes Concerning the Funds

A. Deposits and Investments

The Town's cash deposits, including interest-bearing certificates of deposit, are entirely 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.

B. Restricted Cash and Investments

Other restricted cash includes \$24,175 in cash held for meter deposits.

C. Uncollectible Accounts

Accounts receivable in the financial statements are reflected net of allowances. The Town's estimates of uncollectible accounts receivable is based on a review of past due listing by management. At June 30, 2012, the estimated uncollectible amounts from utility customers was approximately 10% of the receivable for a balance of \$3,500.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

2. Detailed Notes Concerning the Funds – Continued

D. Prepaid Expense

At June 30, 2012, the Town had no prepaid insurance.

E. Inter-fund Receivables and Payables

At year-end, there were no inter-fund receivables or payables.

F. Long-term Debt

The Town had no debt at June 30, 2012.

G. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

Governmental Activities	Balance 6/30/11	Additions	Disposals	Balance 6/30/12
Depreciable Assets				
Vehicles	\$ -	\$ 12,126	\$ -	\$ 12,126
Trailers	-	7,349	-	7,349
Equipment & Improvements	-	283,245	-	283,245
Total Depreciable Assets	<u>-</u>	<u>302,720</u>	<u>-</u>	<u>302,720</u>
Less Accumulated Depreciation	<u>-</u>	<u>10,544</u>	<u>-</u>	<u>10,544</u>
Net Governmental Activities Capital Assets	<u>\$ -</u>	<u>\$ 292,176</u>	<u>\$ -</u>	<u>\$ 292,176</u>

No records were maintained prior to the current year for the governmental actives.

Business-Type Activities	Balance 6/30/11	Additions	Disposals	Balance 6/30/12
Non-depreciable Assets				
Land	\$ 103,870	\$ -	\$ -	\$ 103,870
Depreciable Assets				
Utility System/Buildings	1,563,271	-	-	1,563,271
Vehicles	11,387	-	-	11,387
Sewer Improvements	25,468	38,586	-	64,054
Equipment	34,348	1,875	-	36,223
Total Assets	<u>1,738,344</u>	<u>40,461</u>	<u>-</u>	<u>1,778,805</u>
Less Accumulated Depreciation				
Utility System/Buildings	(603,771)	(39,414)	-	(643,185)
Vehicles	(1,139)	(1,139)	-	(2,278)
Sewer Improvements	(687)	(1,651)	-	(2,338)
Equipment	(1,117)	(1,306)	-	(2,423)
Total Accumulated Depreciation	<u>(606,714)</u>	<u>(43,510)</u>	<u>-</u>	<u>(650,224)</u>
Net Business-type Activities Capital Assets	<u>\$ 1,131,630</u>	<u>\$ (3,049)</u>	<u>\$ -</u>	<u>\$ 1,128,581</u>

Depreciation expense was changed to unallocated depreciation and not charged as a direct expense of the various programs. Depreciation schedules were not maintained prior to 2006. Only summaries in those years are available from audit reports. Itemized schedules are now being created on an annual basis.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

3. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The Town purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

B. Contingent Liabilities

At times the Town is a defendant in legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the Town. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the Town. The Town's potential liability in the litigation is limited by the Governmental Tort Claims Act.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Town of Billings
Billings, Oklahoma

Notes to the Basic Financial Statements
for the Year Ended June 30, 2012

3. Other Information – Continued

C. Employee Retirement System and Plan

Description of Plan

The Town's defined benefit pension plan, Employee Retirement System of Billings, Oklahoma (ERSCO), provides retirement and disability benefits and death benefits to plan members and beneficiaries. All employees are covered except police, firefighters, and other employees covered under a state system. Effective July 1, 1998, normal retirement for covered employees was reduced from age 65 to age 60. Elected members of the Town Council shall not be considered employees solely by reason of their holding such office. Employees hired after their 60th birthday are excluded from plan membership. ERSCO is affiliated with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple-employer pension plan. OMRF 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 Municipal Retirement System, 525 Central Park Drive, Oklahoma Town, OK 73105, or by calling 1-888-394-6673.

Funding Policy

The required contribution rate for the 2011-2012 plan year was 3.75% of each participant's payroll. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the Town's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

Annual Pension Cost

The required contribution was determined as part of the June 30, 2011 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods.

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio
1/1/2003	\$ 57,536	Actuarial	\$ 60,090	\$ 2,554	95.7%
1/1/2004	63,277	Actuarial	67,360	4,083	93.9%
1/1/2005	70,151	Actuarial	79,869	9,718	87.8%
1/1/2006	77,505	Actuarial	76,355	(1,150)	101.5%
1/1/2007	90,121	Actuarial	110,367	20,246	81.7%
1/1/2008	97,321	Actuarial	96,166	(1,155)	101.2%
1/1/2009	98,330	Actuarial	103,835	5,505	94.7%
1/1/2010	107,347	Actuarial	118,771	11,424	90.4%
1/1/2011	121,674	Actuarial	134,083	12,409	90.7%
1/1/2012	136,743	Actuarial	154,925	18,101	88.3%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Town of Billings
Billings, Oklahoma

Required Supplemental Information
June 30, 2012

Town of Billings
Budget and Actual (with Variances)
General Fund
for the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	203,500	203,500	216,028	12,528
Fees and fines	5,000	5,000	-	(5,000)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	7,500	7,500	5,110	(2,390)
Investment earnings	5,500	5,500	1,898	(3,602)
Miscellaneous	5,000	5,000	307,468	302,468
Total revenues	<u>226,500</u>	<u>226,500</u>	<u>530,504</u>	<u>304,004</u>
EXPENDITURES				
Current:				
General government	126,500	126,500	83,966	42,534
Public Safety	53,000	53,000	118,507	(65,507)
Highways and roads	42,500	42,500	46,401	(3,901)
Health and sanitation	-	-	-	-
Culture and recreation	-	-	22,335	(22,335)
Education	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	302,720	(302,720)
Total Expenditures	<u>222,000</u>	<u>222,000</u>	<u>573,929</u>	<u>(351,929)</u>
Excess (deficiency) of revenues over expenditures	<u>4,500</u>	<u>4,500</u>	<u>(43,425)</u>	<u>(47,925)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	126,128	(126,128)
Transfers out	-	-	(126,128)	126,128
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM				
Proceeds from sale capital assets	-	-	-	-
Net change in fund balances	<u>4,500</u>	<u>4,500</u>	<u>(43,425)</u>	<u>47,925</u>
Fund balances - beginning	103,784	103,784	103,784	-
Fund balances - ending	<u>\$ 108,284</u>	<u>\$ 108,284</u>	<u>\$ 60,359</u>	<u>\$ 47,925</u>

Town of Billings
Billings, Oklahoma

Supplemental Information
June 30, 2012

Town of Billings
Billings, Oklahoma

Schedule of Expenditures of Federal & State Awards
for the Year Ended June 30, 2012

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>
REAP Grants			
NODA 2012 REAP - Fund NB12-4	\$ 20,200	\$ 20,200	\$ 20,200
US Department of Agriculture			
Fire Grant	4,413	4,413	4,413
CDBG - Oklahoma Department of Commerce			
Community Development			
Contract #14595 CDBG 06 (closed 03/08/2012)	265,284	265,284	265,181

note A – Basis of Presentation

This schedule includes the federal grant activity of the Town of Billings and is presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of the basic financial statements.

Town of Billings
Billings, Oklahoma

Report Required by
Government Auditing Standards
June 30, 2012

**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***

The Board of Town Council
Town of Billings
Billings, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Billings, State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise Town of Billings, State of Oklahoma's basic financial statements and have issued my report thereon dated June 16, 2014. I conducted my 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.

Internal Control Over Financial Reporting

Management of the Town of Billings, State of Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Town of Billings, State of Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Billings, State of Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Billings, State of Oklahoma's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reports that I consider to be a material weakness and other deficiencies that I consider to be significant deficiencies.

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 a 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. I consider the deficiencies described in the accompanying schedule of notes and responses to be a material weakness. 2012-01; 2012-02; 2012-03

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2012-04

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Billings, State of Oklahoma's financial statements are free of material misstatement, I performed tests of its 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Billings, State of Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings. I did not audit Town of Billings, State of Oklahoma's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Linda S Woodruff CPA, PC
Oklahoma City, OK 73172
June 16, 2014

Town of Billings
Billings, Oklahoma

Schedule of Findings & Responses

2012-01 Internal Control – Segregation of Duties

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the Town.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the Town strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Management agrees with the recommendation. The economic benefits received from segregation of duties may be less than the cost of the implementation.

2012-02 Internal Control – Financial Statements

Criteria: The Town's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the government's annual statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing account data (2) reporting government-wide and fund financial statements, including the related footnotes (i.e. external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As in the case with many smaller and medium-sized entities, the Town has historically relied extensively on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the town's ability to prepare financial statements in accordance with generally accepted accounting principle (GAAP) is based, in part, on its external auditors, who cannot by definition be considered a part of the town's internal controls.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the Town lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation: I recommend that the Town consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with generally accepted accounting principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation. Templates have been provided to the Town to assist in preparing an adequate trial balance and financial statements.

Town of Billings
Billings, Oklahoma

Schedule of Findings & Responses

2012-03 Internal Control – Material Adjusting Journal Entries

Criteria: The Town's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the Town's accounting records. For trial balances to be both complete and accurate, the Town must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, Town management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The Town's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The Town's accounting and financial reporting staff lacks the necessary expertise relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance.

Effect of Potential Effect: As a result of this condition, without reliance on its external auditors, the Town lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regard to the trial balance.

Recommendation: The Town should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the Town's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation. Templates have been provided to the Town to assist in preparing an adequate trial balance and financial statements.

Town of Billings
Billings, Oklahoma

Schedule of Findings & Responses

2012-04 Internal Control – Bank Reconciliation

Condition: Bank accounts are not reconciled to the general ledger on a monthly basis.

Criteria: Recordkeeping controls should be in place to provide assurance that all transactions can be traced and cleared through the bank statements and reconciled to the general ledger.

Effect: An opportunity exists for the Town to lose funds from the bank accounts without realizing a problem exists and misstate revenue or expenditures on financial statements.

Recommendation: Reconcile each account using the software available and also prepare the receipts and disbursement template on a monthly basis. Prepare financial statements from the software and templates to present to the Board.

Response: Management agrees with the recommendation and will use the bank reconciliation available within the accounting module and will utilize the templates provided by the CPA.