

TOWN OF BOWLEGS, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Town Council,
Town of Bowlegs, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information for the Town of Bowlegs, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements-modified cash basis, 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 1B; 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 financial statements that are free from material misstatement, whether due to error or fraud.

AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

OPINIONS

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bowlegs, Oklahoma, as of June 30, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1B.

BASIS OF ACCOUNTING

I draw attention to Note 1B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a special purpose framework other than accounting principles generally accepted in the United States of America. My opinions were not modified with respect to that matter.

OTHER MATTERS

Required Supplementary Information

Management has omitted the annual budget and management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, I have also issued my report dated February 12, 2016 on my consideration of the Town'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 in considering the Town's internal control over financial reporting and compliance.



DAVID CLANIN, CPA PLLC
CLAREMORE, OKLAHOMA
February 12, 2016

TOWN OF BOWLEGS

STATEMENT OF NET POSITION – MODIFIED CASH BASIS

JUNE 30,

	2015		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash, including time deposits	\$ 23,402	\$ 59,797	\$ 83,199
Investments	23,352	-	23,352
Total current assets	<u>46,754</u>	<u>59,797</u>	<u>106,551</u>
Noncurrent assets:			
Restricted assets - cash and investments	14,063	22,946	37,009
Capital assets, net of accumulated depreciation	46,556	250,262	296,818
Total noncurrent assets	<u>60,619</u>	<u>273,208</u>	<u>333,827</u>
Total Assets	<u>107,373</u>	<u>333,005</u>	<u>440,378</u>
Liabilities			
Current liabilities:			
Current portion of long term debt	2,827	50,035	52,862
Total current liabilities	<u>2,827</u>	<u>50,035</u>	<u>52,862</u>
Noncurrent liabilities:			
Notes payable, less current portion	3,336	16,360	19,696
Total noncurrent liabilities	<u>3,336</u>	<u>16,360</u>	<u>19,696</u>
Total Liabilities	<u>6,163</u>	<u>66,395</u>	<u>72,558</u>
Net position			
Invested in capital assets, net of related debt	40,393	183,867	224,260
Restricted	14,063	22,946	37,009
Unrestricted	46,754	59,797	106,551
Total net position	<u>\$ 101,210</u>	<u>\$ 266,610</u>	<u>\$ 367,820</u>

TOWN OF BOWLEGS
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
YEAR ENDED JUNE 30,

		2015					
		<u>Program Revenues</u>					
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ (17,986)	\$ -	\$ -	\$ -	\$ (17,986)	\$ -	\$ (17,986)
Public safety and judiciary	(28,823)	5,634	-	-	(23,189)	-	(23,189)
Total governmental activities	(46,809)	5,634	-	-	(41,175)	-	(41,175)
Business-type activities:							
Sewer	(17,436)	33,620	-	-	-	16,184	16,184
Total business-type activities	(17,436)	33,620	-	-	-	16,184	16,184
Total	<u>\$ (64,245)</u>	<u>\$ 39,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,175)</u>	<u>\$ 16,184</u>	<u>\$ (24,991)</u>
Net (expense)/revenue							
General revenues:					\$ (41,175)	\$ 16,184	\$ (24,991)
Taxes:							
Sales and use					13,263	-	13,263
Alcohol and cigarette					3,365	-	3,365
Motor vehicle					3,074	-	3,074
Gasoline					1,051	-	1,051
Franchise fees					12,185	-	12,185
Interest income/(expense)					100	89	189
Miscellaneous					50	-	50
Transfer of funds (net)					-	-	-
Total general revenues and transfers					<u>33,088</u>	<u>89</u>	<u>33,177</u>
Change in net assets					(8,087)	16,273	8,186
Net position, beginning					109,954	250,337	360,291
Prior period adjustments					(657)	-	(657)
Net position, ending					<u>\$ 101,210</u>	<u>\$ 266,610</u>	<u>\$ 367,820</u>

TOWN OF BOWLEGS
BALANCE SHEET -- GOVERNMENTAL FUND
MODIFIED CASH BASIS
 YEAR ENDED JUNE 30,

	<u>2015</u>
Assets	<u>General Fund</u>
Current assets:	
Cash, including time deposits	\$ 23,402
Investments	23,352
Restricted assets - cash and investments	<u>14,063</u>
Capital assets, net of accumulated depreciation	46,556
Total noncurrent assets	<u>60,619</u>
Total Assets	<u><u>107,373</u></u>
Current liabilities:	
Current portion of long term debt	<u>2,827</u>
Total current liabilities	<u>2,827</u>
Noncurrent liabilities:	
Notes payable, less current portion	<u>3,336</u>
Total noncurrent liabilities	<u>3,336</u>
Total Liabilities	<u>6,163</u>
Net position	
Invested in capital assets, net of related debt	40,393
Restricted	14,063
Unrestricted	46,754
	<u>\$ 101,210</u>

TOWN OF BOWLEGS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS

MODIFIED CASH BASIS

YEAR ENDED JUNE 30,

	<u>2015</u>
	<u>General Fund</u>
Revenues:	
Sales and use tax	\$ 13,263
Motor vehicle tax	3,074
Alcohol and cigarette tax	3,365
Gasoline tax	1,052
Franchise fees	12,185
Charges for services	5,634
Miscellaneous	149
Total revenues	<u>38,722</u>
Expenditures	
General government:	
Administrative and accounting	13,857
Public safety	28,823
Debt service	4,129
Total expenditures	<u>46,809</u>
Excess (deficiency) of revenues over expenditures	<u>(8,087)</u>
Other financing sources (uses)	<u>-</u>
Net change in fund balances	<u>(8,087)</u>
Fund balances - beginning (as restated)	<u>109,297</u>
Fund balances - ending	<u>\$ 101,210</u>

TOWN OF BOWLEGS
STATEMENT OF NET POSITION - PROPRIETARY FUND
MODIFIED CASH BASIS
YEAR ENDED JUNE 30,

	<u>2015</u>
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 59,797
Investments	14,064
Accounts receivable - customers	-
Total current assets	<u>73,860</u>
Noncurrent assets:	
Restricted cash - Debt reserve	8,883
Capital assets, net of accumulated depreciation	<u>250,262</u>
Total assets	<u><u>333,005</u></u>
LIABILITIES	
Current liabilities:	
Current portion of long-term obligations	<u>50,035</u>
Total current liabilities	<u>50,035</u>
Noncurrent liabilities:	
Long-term debt, less current portion	<u>16,360</u>
Total noncurrent liabilities	<u>16,360</u>
Total liabilities	<u><u>66,395</u></u>
NET POSITION	
Invested in capital assets, net of related debt	183,867
Restricted:	
Debt service	22,946
Unrestricted	<u>59,797</u>
Total net position	<u><u>\$ 266,610</u></u>

TOWN OF BOWLEGS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -- PROPRIETARY FUNDS

MODIFIED CASH BASIS

YEAR ENDED JUNE 30,

	<u>2015</u>
	Utility Fund
Operating revenues	
Charges for services:	
Sewer	33,620
Total operating revenues	<u>33,620</u>
Operating expenses	
Sewer operation	7,262
Personnel and benefits	3,636
Depreciation	6,538
Total operating expenses	<u>17,435</u>
Net operating income (loss)	<u>16,185</u>
Nonoperating revenues (expenses)	
Interest income	88
Interest expense	-
Grant income	-
Total nonoperating revenues (expenses)	<u>88</u>
Other financing sources (uses)	
Transfers	-
Total operating transfers	<u>-</u>
Change in net assets	<u>16,273</u>
Net assets, beginning	<u>250,337</u>
Net assets, ending	<u>\$ 266,610</u>

TOWN OF BOWLEGS
STATEMENT OF CASH FLOWS -- UTILITY FUND
MODIFIED CASH BASIS
YEAR ENDED JUNE 30,

	<u>2015</u>
Cash flows from operating activities	
Receipts from customers	\$ 36,900
Payments to suppliers	(7,262)
Payments to employees	(3,636)
Net cash provided (used) by operating activities	<u>26,002</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	-
Principle payments on capital debt	(7,080)
Interest payments on capital debt	-
Net cash provided (used) by capital and related financing activities	<u>(7,080)</u>
Cash flows from non-capital and related financing activities:	-
Cash flows from investing activities	
Purchases of fixed assets	(31,870)
Purchase of investments	(59)
Net cash provided (used) by investing activities	<u>(31,929)</u>
Net increase (decrease) in cash and cash equivalents	(13,007)
Cash and cash equivalents, beginning	<u>72,804</u>
Cash and cash equivalents, ending	<u>\$ 59,797</u>
Reconciliation of operating income to net	
Cash provided by operating activities	
Operating income	16,273
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation expense	6,539
Change in assets and liabilities	
(Increase) decrease in receivables, net	3,190
Increase (decrease) in accounts payable	-
Increase (decrease) in customer deposits	-
Total adjustments	<u>9,729</u>
Net cash provided (used) by operating activities	<u>\$ 26,002</u>

TOWN OF SOUTH Coffeyville
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 1- Summary of Significant Accounting Policies

A. Reporting Entity

The Town is organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a five-member Board of Trustees. The Trustees elect a chairman from their own body. The Town provides the following services as authorized by its charter: General government, public safety (fire), streets, public works (water, sewer & refuse) and public improvements.

The Town's financial reporting entity includes two separate legal entities reported as the primary government.

- **The Town of Bowlegs** – that operates the public safety, cemetery, streets, health and welfare, culture and recreation, and administrative activities.
- **The Bowlegs Public Works Authority** – that operates the sewer and sanitation services of the Town through a public trust of which the Town is the beneficiary.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Council Statement No. 14, as amended by Statement No. 61, The Financial Reporting Entity, and includes all component units for which the Town is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustee) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. The Town, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

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

Government Wide Financial Statements

The statements of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted only for certain modifications stated below that have substantial support in generally accepted accounting principles (GAAP).

TOWN OF BOWLEGS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- utility deposit liabilities

Other modifications include:

- Capital assets and depreciation in the government-wide and proprietary fund financial statements
- Long-term debt associated with capital assets in the government-wide and proprietary fund financial statements

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and 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 accrued expenses and liabilities) are not recorded in these financial statements.

Note 2 - Measurement Focus, Basis of Accounting and Basis of Presentation -Fund Accounting

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria.

Governmental Funds

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Current financial assets and liabilities, capital assets and long-term debt are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

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.

Proprietary Funds - The proprietary fund is also reported on a modified cash basis, as defined above.

The Town's proprietary fund is comprised of the following:

- Town of Bowlegs Public Works Authority

TOWN OF SOUTH Coffeyville
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 3 - Assets, Liabilities and Equity

Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary accounts. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government wide statements of net assets and in the respective funds.

The financial statements of Bowlegs Public Works Authority include property and equipment. Depreciation was not charged until the 2009-2010 year; which included prior period depreciation.

Depreciation is computed using the straight-line method over the following estimated useful lives in years:

- Buildings 40 years
- Furniture, fixtures & equipment 5 to 10 years
- Land improvements 10 to 40 years
- Vehicles 5 to 10 years
- Infrastructure 40 to 60 years

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town council action or management decision when the Town council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

TOWN OF BOWLEGS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

It is the Town's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance is available. The Town's policy for the use of the unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position:

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net position* - All other net position that does not meet the definition of "restricted."

It is the Town's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position elements are available.

Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

Internal and Interfund Balances and Transfers

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

4. Deposits and Investments

For the year ended June 30, 2015, the Town recognized \$189 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

TOWN OF SOUTH Coffeyville
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 3 - Assets, Liabilities and Equity - Continued

Long-Term Obligations - Continued

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means 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.

Equity Classifications

The Town reports governmental fund balances on the governmental fund financial statements according to the following classifications:

Nonspendable - This is the portion of the fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This is the portion of the fund balance that has constraints placed on the use of resource that are (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This is the portion of the fund balance that has been constrained by formal action of the Town Council to be used only for specific purposes. The committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. It is distinguished from *restricted* fund balance in that amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process as mentioned. Constraints imposed on the use of *committed* amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the Town Council that *commit* amounts to specific purposes is not considered to be legally enforceable.

Assigned - This is the portion of the fund balance constrained by the *intent* of the Town Council to be used for specific purposes, but is neither restricted nor committed.

Unassigned - This is the residual classification of fund balance in the *general fund*. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When an expenditure is incurred for purposes for which amounts in any of the fund balance classifications of committed, assigned or unassigned could be used, the Town considers the expenditure spent out of the committed fund balance.

TOWN OF SOUTH Coffeyville
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 3 - Assets, Liabilities and Equity - Continued

Net Assets

Reservations of fund balance represent amounts that are legally restricted for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans subject to change. The proprietary funds contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or funds.

Note 2 - Cash and Investments

The Town's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Cash and certificates of deposit held by the town are fully covered.

Custodial Credit Risk - All of the Town's deposits at financial institutions are covered by either FDIC insurance or collateralized.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy limits the Town's investment portfolio to maturities of not more than two years.

TOWN OF SOUTH Coffeyville
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 4 - Property and Equipment

Capital Asset Activity - Governmental Type

Capital asset activity for governmental type activities for the year ended June 30, 2015 was as follows:

	2014	Additions	Dispositions	2015
Buildings	\$ 37,900	\$ -	\$ -	\$ 37,900
Equipment	18,612	-	-	18,612
Total Property, Plant, and Equipment	56,512	-	-	56,512
Accumulated Depreciation	(6,234)	(3,722)	-	(9,956)
Net book value	<u>\$ 50,278</u>	<u>\$ (3,722)</u>	<u>\$ -</u>	<u>\$ 46,556</u>

Capital Asset Activity - Business Type

Capital asset activity for business type activities for the year ended June 30, 2015 was as follows:

Business Type Activities

	2014	Additions	Dispositions	2015
Construction in Process	\$ 175,077	\$ -	\$ (175,077)	\$ -
Lagoon System	120,000	206,946	-	326,946
Total Property, Plant, and Equipment	295,077	206,946	(175,077)	326,946
Accumulated Depreciation	(70,146)	(6,539)	-	(76,685)
Net book value	<u>\$ 224,931</u>	<u>\$ 200,407</u>	<u>\$ -</u>	<u>\$ 250,261</u>

The Authority's fixed assets are stated at cost. Depreciation is computed using the straight line method over the estimated useful life, which is; forty years for the water system, between seven and forty years for the lift station, and between five and seven years for office furniture and equipment. Expenditures for major renewals and betterments which extend the useful life of the fixed assets are capitalized Expenditures for maintenance and repairs are expensed as incurred.

TOWN OF BOWLEGS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 5 – Restricted Assets

Debt Service

As of June 30, 2015, the Sewer Fund (PWA) had one cash account restricted as to use. The Sewer Debt Reserve account, required by the bond indenture agreement, had \$8,866 at year end.

Note 6 – Worker's Compensation Insurance

The Town of Bowlegs participated in the Oklahoma Municipal Assurance Group's Workman's Compensation Insurance Plan.

The Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins on July 1st in any year and ends at midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the Plan to participate in the coverage and services that the Plan offers as outlined above. Upon acceptance in the Plan, a participant has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the Plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any Loss Funds set aside for claims, which have not been paid out as benefits. The following report details the funds being held by the Group for the Town of Bowlegs.

These funds represent both the current and past plan year participation with the Loss Fund balances in respect to their workers' compensation retention. Comp Source Oklahoma provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of Comp Source Oklahoma to honor its obligation could result in losses to the Plan. However, OMAG's evaluation of the financial condition of Comp Source Oklahoma indicated that Comp Source Oklahoma is presently financially sound and will be able to meet its contractual obligations.

Rate Stabilization Reserve (RSR) - Reserves developed under the Premium Modification Guidelines to be applied against future premium increases.

TOWN OF BOWLEGS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Note 7 - Bad Debt Provision

Management considers all receivable amounts to be fully collectible and therefore no reserve for bad debt has been recorded in the financial statements.

Note 8 - Internal Balances

Amounts reported in the fund financial statements as interfund receivables and payables, if any, are eliminated in the entity-wide governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Within the governmental fund financial statements, such amounts are equally offset by a fund balance reserve that indicated they do not constitute available spendable resource.

Note 9 - Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the outstanding capital debt less any unspent debt proceeds (held as liquid assets) and any associated unamortized cost.

Restricted Net Assets - represent liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant or granting agency) limitations on their use. The Town would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted Net Assets - represent unrestricted liquid assets.

Note 10 - Risk Management

The Town maintains insurance for claims and judgments through employee health, property and liability, workers' compensation, and unemployment insurance programs. These insurance programs are accounted for in the General Fund and the Public Works Authority Fund. The funds account for the risk financing activities of the Town but do not constitute a transfer risk from the Town.

Note 11 - Long-term Debt

The Town has a note payable at 4.99% with monthly payments of \$269.87. The principal balance at June 30, 2015 was \$10,292. The loan is collateralized with equipment purchased with the loan proceeds.

The PWA has a note payable at 5% with monthly payments of \$590. The principal balance at June 30, 2015 was \$23,440. The loan is collateralized with equipment purchased with the loan proceeds.

TOWN OF BOWLEGS
NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2015

Note 11 – Long-term Debt (continued)

During the fiscal year 2015, the Public Works Authority entered into a new loan agreement in the amount of \$50,035. The loan matures in December 2016. The PWA intends to repay the balance with grant proceeds in which it anticipates receiving during the fiscal year 2016.

Principal and interest maturities of long-term debt are as follows:

Town of Bowlegs

	Year Ended		
	June 30	Principal	Interest
2016		2,839	304
2017		2,984	159
2018		<u>340</u>	<u>19</u>
		<u>6,163</u>	<u>482</u>

Public Works Authority

	Year Ended		
	June 30	Principal	Interest
2016		56,501	693
2017		6,796	362
2018		<u>3,098</u>	<u>44</u>
		<u>66,395</u>	<u>1,099</u>

Note 12- Subsequent Events

Management has evaluated and disclosed subsequent events up to the date of the audit report.

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

To the Town Council
Town of Bowlegs, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Bowlegs, State of Oklahoma, as of and for the year ended June 30, 2015, which collectively comprise the Town of Bowlegs, State of Oklahoma's basic financial statements and have issued my report thereon dated April 22, 2015. 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

In planning and performing my audit, I considered Town of Bowlegs, 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 Bowlegs, State of Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Bowlegs, State of Oklahoma's internal control over financial reporting.

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 *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.

My 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 weakness or, significant deficiencies. Given these limitations, during my audit I did not note any matters involving the internal control over financial reporting that I consider to be a material weakness. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2010-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Bowlegs, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as 2014-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in black ink that reads "David Clanin CPA PLLC". The signature is written in a cursive style.

DAVID CLANIN, CPA PLLC
CERTIFIED PUBLIC ACCOUNTANT
CLAREMORE, OKLAHOMA

February 16, 2016

TOWN OF BOWLEGS

Schedule of Findings and Questioned Costs

June 30, 2015

Reportable Conditions of Internal Control

2010-01 Segregation of Duties

Criteria: The segregation of incompatible financial duties is important to adequately protect the Town's assets and ensure accurate financial reporting.

Condition: Presently the same individual receiving cash receipts also posts payments and adjustments to subsidiary ledgers. Additionally the same individual prepared cash disbursements and reconciles the bank accounts. The same individual enters cash transactions into the general ledger and maintains the accounting system.

Cause: The Town's limited resources result in its inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk increases that errors and fraud related to the collections and expenditures activities could occur and not be detected within a timely basis.

Recommendation: Effective segregation of duties in a small governmental environment is often difficult; however the governing body and Town management should be aware of this risk and attempt to exercise as much oversight as feasibly possible.

Management Response: None.

Reportable Conditions of Compliance and Other Matters

2014-01 Preparation of a Budget

Criteria: According to Oklahoma State Statute, municipalities are required to prepare a budget for the General Fund and any other significant funds listing separately each federal fund and determine compliance with the legal level of appropriations by comparing expenditures and encumbrances to the authorized appropriations (§11-17-105).

Condition: The Town is required by state statute to prepare an annual budget.

Cause: Management has not prepared a budget for several years.

Effect: The Town is not in compliance with the state statute regarding budgets.

Recommendation: We recommend that the Town implement procedures to prepare an annual budget and file it with the State with its annual financial statements.

Management Response: None.