

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

AUDIT REPORT
JUNE 30, 2011

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Independent Auditor's Report

Board of Town Council
Town of Burlington
Burlington, Oklahoma

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 Burlington, State of Oklahoma, as of and for the year ended June 30, 2011, 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 Burlington, 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 Burlington, State of Oklahoma, as of June 30, 2011, 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 13, 2012, on my consideration of the Town of Burlington, 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 27 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 Burlington 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 Burlington, State of Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and 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, P.C.

Linda S. Woodruff CPA, PC
Oklahoma City, Oklahoma
June 13, 2012

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

TOWN OF BURLINGTON
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments			
Cash & Cash Equivalents	\$ 64,213.62	\$ 119,742.44	\$ 183,956.06
Certificates of Deposit	62,007.91	114,027.12	176,035.03
Accounts Receivable	-	48,230.24	48,230.24
Taxes Receivable	2,585.33	-	2,585.33
Prepaid Expense	-	2,558.97	2,558.97
Capital Assets			
Capital Assets, Net of Accumulated Depreciation	<u>75,373.35</u>	<u>170,119.26</u>	<u>245,492.61</u>
Total Assets	<u>\$ 204,180.21</u>	<u>\$ 454,678.03</u>	<u>\$ 658,858.24</u>
Liabilities:			
Payroll Taxes Payable	\$ -	\$ 1,414.94	\$ 1,414.94
Payable from Restricted Assets			
Meter Deposits	<u>-</u>	<u>5,800.00</u>	<u>5,800.00</u>
Total Liabilities	-	7,214.94	7,214.94
Net Assets			
Invested in Capital Assets	75,373.25	159,159.26	234,532.51
Restricted			
Debt Service	-	-	-
Other Purposes	7,024.32	1.00	7,025.32
Unrestricted	<u>121,782.64</u>	<u>288,302.83</u>	<u>410,085.47</u>
Total Net Assets	<u>204,180.21</u>	<u>447,463.09</u>	<u>651,643.30</u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
General Government	\$ 7,942.17	\$ -	\$ 19,397.72	\$ -	\$ 11,455.55
Total General Government	<u>7,942.17</u>	<u>-</u>	<u>19,397.72</u>	<u>-</u>	<u>11,455.55</u>
Public Safety					
Fire	8,209.59	19,124.98	-	-	10,915.39
Animal Control	-	-	-	-	-
Police	-	-	-	-	-
Total Public Safety and Judiciary	<u>8,209.59</u>	<u>19,124.98</u>	<u>-</u>	<u>-</u>	<u>10,915.39</u>
Transportation					
Streets	-	1,116.29	-	-	1,116.29
Total Transportation	<u>-</u>	<u>1,116.29</u>	<u>-</u>	<u>-</u>	<u>1,116.29</u>
Unallocated Depreciation*	<u>2,081.73</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,081.73)</u>
Total Governmental Activities	<u>18,233.49</u>	<u>20,241.27</u>	<u>19,397.72</u>	<u>-</u>	<u>21,405.50</u>
Business-Type Activities					
Utility Collections	322,158.37	367,373.68	3,248.60	-	48,463.91
Unallocated Depreciation*	<u>11,027.60</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,027.60)</u>
Total Business-Type Activities	<u>333,185.97</u>	<u>367,373.68</u>	<u>3,248.60</u>	<u>-</u>	<u>37,436.31</u>
Total	<u>\$ 351,419.46</u>	<u>\$ 387,614.95</u>	<u>\$ 22,646.32</u>	<u>\$ -</u>	<u>\$ 58,841.81</u>

* This amount does not include the depreciation that is included in the direct expenses of various programs.

SEE INDEPENDENT AUDITOR'S REPORT
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TOWN OF BURLINGTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental	Business-Type	Total
	Activities	Activities	
Net (Expense)/Revenue	\$ 21,405.50	\$ 37,436.31	\$ 58,841.81
General revenues:			
Taxes:			
Sales and Use Taxes	18,546.57	-	18,546.57
Franchise Taxes	949.99	-	949.99
Investment Earnings	891.86	7,459.38	8,351.24
Miscellaneous	4,915.00	3,950.00	8,865.00
Transfers	-	-	-
Total General Revenues and Transfers	<u>25,303.42</u>	<u>11,409.38</u>	<u>36,712.80</u>
Change in Net Assets	46,708.92	48,845.69	95,554.61
Net Assets - Beginning of Year	156,865.21	398,617.40	555,482.61
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - End of Year	<u>\$ 203,574.13</u>	<u>\$ 447,463.09</u>	<u>\$ 651,037.22</u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other	Total
	Fund	Governmental	Governmental
	Fund	Funds	Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and Investments			
Cash & Cash Equivalents	\$ 57,189.30	\$ 7,024.32	\$ 64,213.62
Investments	62,007.91	-	62,007.91
Taxes Receivable (Net)	2,585.33	-	2,585.33
Due from Other Funds	-	-	-
Receivable from Other Grants	-	-	-
Inventories	-	-	-
Prepaid Expenses	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>121,782.54</u>	<u>7,024.32</u>	<u>128,806.86</u>
Liabilities			
Accounts Payable	-	-	-
Due to Other Funds	-	-	-
Deferred Revenue	-	-	-
Other Payables	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance			
Reserved	-	-	-
Unreserved	121,782.64	-	121,782.64
Reserved, Reported in Non-Major Special Revenue Fund	-	7,024.32	7,024.32
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>121,782.64</u>	<u>7,024.32</u>	<u>128,806.96</u>
Total Liabilities and Fund Equity	<u>\$ 121,782.64</u>	<u>\$ 7,024.32</u>	<u>\$ 128,806.96</u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Total Fund Balance, Governmental Funds	\$ 128,806.96
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
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	77,455.08
Some liabilities (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	-
Depreciation expense on capital assets is reported on Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources; therefore, depreciation expense is not reported as expenditures in Government Funds.	<u>(2,081.73)</u>
Net Assets of Governmental Activities in Statement of Net Assets	<u>\$ 204,180.31</u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Street & Alley Fund	Total Governmental Funds
Revenues:			
Beverage Tax	\$ 3,515.21	\$ -	\$ 3,515.21
Sales Tax	15,031.36	-	15,031.36
Franchise Tax	949.99	-	949.99
Motor Vehicle Tax	-	1,116.29	1,116.29
Gas Tax	-	-	-
Grants	19,397.72	-	19,397.72
Interest Income	891.86	-	891.86
Building Rent	4,915.00	-	4,915.00
Fire Proceeds	19,124.98	-	19,124.98
Total Revenues	63,826.12	1,116.29	64,942.41
Expenditures:			
Administration:			
Personal Services	825.93	-	825.93
Maintenance & Operations	6,966.24	-	6,966.24
Street Maintenance	150.00	-	150.00
Total Administration	7,942.17	-	7,942.17
Fire Department			
Personal Services	-	-	-
Maintenance & Operations	8,209.59	-	8,209.59
Capital Outlay	-	-	-
Total Fire Department	8,209.59	-	8,209.59
Total Expenditures	16,151.76	-	16,151.76
Excess of Revenues Over (Under)			
Expenditures	47,674.36	1,116.29	48,790.65
Other Financing Uses:			
Operating Transfers In (Out)	-	-	-
Net Change in Fund Balances	47,674.36	1,116.29	48,790.65
Fund Balance - Beginning of Year	151,563.26	5,908.03	157,471.29
Fund Balance - End of Year	\$ 199,237.62	\$ 7,024.32	\$ 206,261.94

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 48,790.65

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 asset's estimated useful life as depreciation expense for the period. This is the amount by which outlays \$0 exceed depreciation \$2,081.73 in the current period.

(2,081.73)

Change in Net Assets of Governmental Activities \$ 46,708.92

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
STATEMENT OF ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

		Public Works Authority Enterprise Fund
Assets:		
Current Assets		
Cash & Cash Equivalents	\$	119,741.44
Restricted Cash		1.00
Certificates of Deposit		114,027.12
Prepaid Expense		2,558.97
Accounts Receivable		48,230.24
Total Current Assets		<u>284,558.77</u>
Noncurrent Assets:		
Land		10,960.00
Capital Assets -		
Less Accumulated Depreciation		159,159.26
Total Noncurrent Assets		<u>170,119.26</u>
Total Assets	\$	<u>454,678.03</u>
Current Liabilities:		
Payroll Tax Payable	\$	1,414.94
Noncurrent Liabilities:		
Refundable Deposits		<u>5,800.00</u>
Total Liabilities		<u>7,214.94</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt		170,119.26
Restricted Grant		1.00
Unrestricted		288,302.83
Total Net Assets	\$	<u>458,423.09</u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Public Works Authority
Revenues:	
Electricity	\$ 220,999.49
Gas	92,253.00
Water	27,698.55
Sewer	8,795.00
Trash	17,627.64
Total Revenues	367,373.68
 Cost of Sales:	
Electricity	125,814.07
Gas	57,591.20
Water	17,064.06
Trash	15,780.50
Total Operating Revenues	216,249.83
 Gross Profit	151,123.85
 Operating Expenses:	
Wages	58,884.00
Payroll Taxes	4,503.98
Employee Benefits	4,705.00
Office Expenses	1,469.15
Maintenance & Repairs	10,219.57
Advertising	1,952.64
Insurance	10,928.72
Sales Tax	9,230.90
Supplies	129.00
Contract Labor	803.00
Depreciation	11,027.60
Mileage	3,082.58
Total Operating Expenses	116,936.14
 Operating Income (Loss)	34,187.71
 Non-Operating Revenues (Expenses):	
Grant Income	3,248.60
Miscellaneous	3,950.00
Interest Income	2,499.52
Patronage Dividend	4,959.86
Total Non-Operating	14,657.98
 Net Income (Loss) Before Transfers	48,845.69
 Transfers In (Out)	-
 Change in Net Assets	48,845.69
 Net Assets at Beginning of Year	398,617.40
 Net Assets at End of Year	\$ 447,463.09

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

		Public Works Authority
Cash Flows from Operating Activities:		
Cash Received from Customers & Service Users	\$	319,143.44
Cash Payments for Goods & Services & Employees		<u>(286,722.61)</u>
Net Cash Provided by Operating Activities		<u>32,420.83</u>
Cash Flows from Noncapital Financing Activities:		
Operating Transfers In/(Out) to Other Funds		<u>-</u>
Net Cash Provided (Used) for Noncapital Financing Activities		-
Cash Flows from Capital and Related Financing Activities:		
Purchase of Fixed Assets		(7,188.58)
Miscellaneous Rents		3,950.00
Grants		<u>3,248.60</u>
Net Cash Provided (Used) for Capital and Related Financing Activities		10.02
Cash Flows from Investing Activities:		
Miscellaneous		4,959.86
Patronage Dividend		<u>2,499.52</u>
Net Cash Provided by investing Activities		7,459.38
Net Increase (Decrease) in Cash & Cash Equivalents		39,890.23
Cash and Cash Equivalents - Beginning of Year		<u>193,879.33</u>
Cash and Cash Equivalents - End of Year	\$	<u><u>233,769.56</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$	34,187.71
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		11,027.60
Change in Assets and Liabilities:		
Increase (Decrease) in Meter Deposits		150.00
(Increase) Decrease in Accounts Receivable		(12,331.41)
(Increase) Decrease in Prepaid Expenses		(601.58)
Increase (Decrease) in Payroll Taxes Payable		<u>(11.49)</u>
Total Adjustments		<u>(1,766.88)</u>
Net Cash Provided by Operating Activities	\$	<u><u>32,420.83</u></u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The Town of Burlington, 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 Burlington, 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 (electric, gas, water, sewer, and refuse).

Blended Component Units:

The Burlington 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 Burlington, Oklahoma. The Authority operates the electric, water, natural gas, sanitation, and sewer services for the Town of Burlington. The authority is exempt from State and Federal income taxes. The Authority is reported as an enterprise fund.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 following is the Town’s Special Revenue Fund: Street and Alley.

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.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 Burlington Public Works Authority is accounted for as an enterprise fund. The following are the Town’s major enterprise funds:

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

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

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

The restricted cash and investments in the governmental funds consist of funds restricted for juvenile programs and funds restricted for cemetery care and improvements.

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 BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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. 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 statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town does not maintain a capitalization threshold. 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. Such infrastructure assets acquired after July 1, 2003, are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Assets, Liabilities and Equity -- Continued

7. Capital Assets and Infrastructure – Continued

Depreciation is computed on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	100 years	40 years
Furniture, Fixtures & Equipment	5 - 40 years	5 - 40 years
Land Improvements	40 years	40 years
Vehicles	5 - 40 years	5 - 40 years

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 BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Assets, Liabilities and Equity -- Continued

11. 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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

3. 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 \$1 in cash held for grant writing and \$7,024.32 for street and alley funds.

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, 2011, the estimated uncollectible amounts from utility customers was zero.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

3. DETAILED NOTES CONCERNING THE FUNDS – CONTINUED

D. Capital Assets

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

Governmental Activities	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Business-Type Activities				
Non-Depreciable Assets				
Land	\$ 10,960.00	\$ -	\$ -	\$ 10,960.00
Total Non-Depreciable Assets	<u>10,960.00</u>	<u>-</u>	<u>-</u>	<u>10,960.00</u>
Depreciable Assets				
Buildings	100,108.33	-	-	100,108.33
Office Equipment	5,229.69	-	-	5,229.69
Equipment	45,170.00	7,188.58	-	52,358.58
Utility Plant	103,305.00	-	-	103,305.00
Lagoons	34,998.00	-	-	34,998.00
Total Depreciable Assets	<u>288,811.02</u>	<u>7,188.58</u>	<u>-</u>	<u>295,999.60</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(125,812.74)</u>	<u>(11,027.60)</u>	<u>-</u>	<u>(136,840.34)</u>
Net Depreciable Assets	<u>162,998.28</u>	<u>(3,839.02)</u>	<u>-</u>	<u>159,159.26</u>
Net Business-Type Activities Capital Assets	<u>\$ 173,958.28</u>	<u>\$ (3,839.02)</u>	<u>\$ -</u>	<u>\$ 170,119.26</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

3. DETAILED NOTES CONCERNING THE FUNDS – CONTINUED

E. Prepaid Expense

At June 30, 2011, the Town had prepaid insurance consisting of \$2,558.97 in the Public Works fund.

F. Inter-fund Receivables and Payables

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

G. Long-term Debt

The Town had no debt at June 30, 2011.

4. 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.

The Town is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing 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.

As a member of the Plan, the Town is required to pay fees set by the Plan according to an established payment schedule. The Town is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the Town. The State Insurance Fund provides coverage in excess of the Loss Fund so the Town's liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

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 BURLINGTON
BURLINGTON, OKLAHOMA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

4. OTHER INFORMATION – CONTINUED

C. Employee Retirement Plans

Firefighters' Pension Plan

All full-time or volunteer firefighters hired before age 45 are covered by a statewide cost-sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan the Town contributes \$60 for each volunteer fireman. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma Town, OK 73105-3414, or by calling 1-800-525-7461.

The required contribution from the Town for this plan was \$720, \$720, and 720 for, 2009, 2010, and 2011 respectively. The required contribution was fully contributed. At June 30, 2011, the system held no related-party investments of the Town or of its related entities.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2011

TOWN OF BURLINGTON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues				
Beverage Tax	\$ 2,200.00	\$ 2,200.00	\$ 3,515.21	\$ 1,315.21
Sales Tax	6,500.00	6,500.00	15,031.36	8,531.36
Franchise Tax	850.00	850.00	949.99	99.99
Motor Vehicle Tax	1,000.00	1,000.00	1,116.29	116.29
Grants	15,000.00	15,000.00	19,397.72	4,397.72
Interest Income	-	-	891.86	891.86
Building Rent	-	-	4,915.00	4,915.00
Fire Proceeds	10,000.00	10,000.00	19,124.98	9,124.98
Total Revenues	<u>35,550.00</u>	<u>35,550.00</u>	<u>64,942.41</u>	<u>29,392.41</u>
Expenditures				
Administration:				
Personal Services	2,000.00	2,000.00	825.93	1,174.07
Maintenance & Operations	10,000.00	10,000.00	6,966.24	3,033.76
Street Maintenance	42,000.00	42,000.00	150.00	41,850.00
Total Administration	<u>54,000.00</u>	<u>54,000.00</u>	<u>7,942.17</u>	<u>46,057.83</u>
Fire Department:				
Personal Services	-	-	-	-
Maintenance & Operations	-	-	8,209.59	(8,209.59)
Capital Outlay	-	-	-	-
Total Fire Department	<u>-</u>	<u>-</u>	<u>8,209.59</u>	<u>(8,209.59)</u>
Total Expenditures	<u>54,000.00</u>	<u>54,000.00</u>	<u>16,151.76</u>	<u>37,848.24</u>
Excess of Revenue Over (Under) Expenditures	(18,450.00)	(18,450.00)	48,790.65	67,240.65
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in Fund Balance	(18,450.00)	(18,450.00)	48,790.65	67,240.65
Fund Balance at Beginning of Year			157,471.29	
Fund Balance at End of Year			<u>\$ 206,261.94</u>	

SEE AUDITOR'S INDEPENDENT AUDIT REPORT
THE NOTES TO REQUIRED SUPPLEMENTAL INFORMATION ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

SUPPLEMENTAL INFORMATION
JUNE 30, 2011

TOWN OF BURLINGTON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Special Revenue</u> <u>Street</u> <u>& Alley</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Governmental</u> <u>Funds</u>
Assets		
Cash in Bank (Note 3A)	\$ 7,024.32	\$ 7,024.32
Investments	-	-
Total Assets	<u>\$ 7,024.32</u>	<u>\$ 7,024.32</u>
Liabilities		
Due to Cemetery Fund	\$ -	\$ -
Accounts Payable	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balances		
Reserved	7,024.32	7,024.32
Unreserved	-	-
Total Fund Balances	<u>7,024.32</u>	<u>7,024.32</u>
Total Liabilities and Fund Balances	<u>\$ 7,024.32</u>	<u>\$ 7,024.32</u>

COMBINING BALANCE SHEET
 COMBINING STATE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE – NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue	Total
	Street	Non-Major
	& Alley	Governmental
	Fund	Funds
Revenues		
Motor Vehicle Taxes	\$ 1,116.29	\$ 1,116.29
Total Revenues	1,116.29	1,116.29
Expenditures		
General Government	-	-
Highways & Roads	-	-
Public Safety	-	-
Parks & Recreation	-	-
Cemetery	-	-
Grant Expense	-	-
Total Expenditures	-	-
Excess of Revenues Over(Under)		
Expenditures	1,116.29	1,116.29
Other Financing Uses		
Operating Transfers In(Out)	-	-
Excess of Revenues Over(Under)		
Expenditures & Transfers	1,116.29	1,116.29
Fund Balance -		
Beginning of Year	5,908.03	5,908.03
Fund Balance - End of Year	\$ 7,024.32	\$ 7,024.32

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<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			
Street Improvement Contract AL10-6	\$ 15,000	\$ 15,000	\$ 15,000
Oklahome Department of Agriculture (Fire)	\$ 4,398	\$ 4,398	\$ 4,398
FEMA			
2008 Flood Proceeds	\$ 3,249	\$ 3,249	\$ 3,249

NOTE A – BASIS OF PRESENTATION

This schedule includes the federal grant activity of the Town of Burlington 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.

NOTE B – PRESENTATION

This schedule is incomplete since the formal grant title and number has been omitted

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
JUNE 30, 2011

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 Burlington
Burlington, 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 Burlington, State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise Town of Burlington, State of Oklahoma's basic financial statements and have issued my report thereon dated June 13, 2012. 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 Burlington, State of Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Burlington, State of Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Burlington, 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 weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses 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 findings to be material weaknesses. 11-02

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 accompany schedule of findings to be significant deficiencies. 11-01; 11-03

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Burlington, 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 Burlington, 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 Burlington, 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, Oklahoma
June 13, 2012

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

SCHEDULE OF FINDINGS

11-01 Internal Control

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, but economic cost could exceed the benefit.

11-02. 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 and will prepare financial statements that are basic but adequate for auditing requirements by use of computer software.

TOWN OF BURLINGTON
BURLINGTON, OKLAHOMA

SCHEDULE OF FINDINGS

11-03. Internal Control – Material Adjusting Journal Entries

Condition: Management is responsible for adjusting the financial statements to correct material misstatements. As part of the audit, I proposed material adjusting journal entries to management that I believe are necessary to give confidence that those financial statements are appropriate for conformity with the accrual basis of accounting. Although management reviewed, approved and accepted responsibility for those material adjusting journal entries and agreed to post them to the general ledger, the auditor cannot be considered part of the Town's control over the preparation of these material adjusting journal entries. Based on the fact that your internal financial statements do not reflect all material adjusting journal entries, the organization does not have the necessary controls in place to detect, prevent or correct material misstatements in the financial statements.

Criteria: Internal controls should be in place so the Town could prepare and record material adjusting journal entries in the financial statements on a timely basis prior to the audit.

Effect: The absence of controls over the preparation of material adjusting journal entries is considered a significant deficiency because more than a remote likelihood exists that a misstatement of the financial statements could occur and not be prevented or detected by the organization's internal control.

Recommendations: I recommend that the Town strive to prepare and post material adjusting journal entries to the financial statements rather than relying on the auditor to propose such entries.

Response: Management concurs with the recommendation and will strive to more accurately record adjusting entries.