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Town of Bennington, Oklahoma

**Financial Statements and Report
of Independent Accountants**

**As of and For the Year Ending
June 30, 2011**

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Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

Report of Independent Accountants

To the Board of Trustees
Town of Bennington, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bennington, 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 the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 we 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Town prepares its annual financial statements and schedules on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Bennington, Oklahoma, as of June 30, 2011, and the respective changes in modified cash basis 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*, we have also issued our report dated September 14, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.



September 14, 2011

**Town of Bennington
Statement of Net Assets
Modified Cash Basis
June 30, 2011**

| | Governmental Activities | Business-Type Activities | Totals |
|---|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash in Bank - Unrestricted | 14,250.46 | 29,351.73 | 43,602.19 |
| Cash in Bank - Restricted | 115,575.54 | 9,742.19 | 125,317.73 |
| Total Current Assets | <u>129,826.00</u> | <u>39,093.92</u> | <u>168,919.92</u> |
| Noncurrent Assets: | | | |
| Capital Assets, net | 343,238.57 | 1,385,117.02 | 1,728,355.59 |
| Total Noncurrent Assets | <u>343,238.57</u> | <u>1,385,117.02</u> | <u>1,728,355.59</u> |
| TOTAL ASSETS | <u>\$ 473,064.57</u> | <u>\$1,424,210.94</u> | <u>\$1,897,275.51</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Meter Deposits | 0.00 | 1,835.16 | 1,835.16 |
| Contingent Liability | 110,000.00 | 0.00 | 110,000.00 |
| Current Portion of Long Term Debt | 0.00 | 3,888.16 | 3,888.16 |
| Total Current Liabilities | <u>110,000.00</u> | <u>5,723.32</u> | <u>115,723.32</u> |
| Noncurrent Liabilities: | | | |
| Notes Payable | 0.00 | 132,466.51 | 132,466.51 |
| Total Noncurrent Liabilities | <u>0.00</u> | <u>132,466.51</u> | <u>132,466.51</u> |
| TOTAL LIABILITIES | <u>110,000.00</u> | <u>138,189.83</u> | <u>248,189.83</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 343,238.57 | 1,248,762.35 | 1,592,000.92 |
| Restricted - Net Assets | 2,310.70 | 9,742.19 | 12,052.89 |
| Unrestricted - Net Assets | 17,515.30 | 27,516.57 | 45,031.87 |
| TOTAL NET ASSETS | <u>363,064.57</u> | <u>1,286,021.11</u> | <u>1,649,085.68</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 473,064.57</u> | <u>\$1,424,210.94</u> | <u>\$1,897,275.51</u> |

**Town of Bennington
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2011**

| | General Fund | Cemetery Fund | Total Governmental Fund |
|---|----------------------|--------------------|-------------------------------|
| ASSETS | | | |
| Cash in Bank - Unrestricted | 14,250.46 | 0.00 | 14,250.46 |
| Cash in Bank - Restricted | 113,264.84 | 2,310.70 | 115,575.54 |
| Total Assets | \$ 127,515.30 | \$ 2,310.70 | \$ 129,826.00 |
| LIABILITIES | | | |
| Contingent Liability | 110,000.00 | 0.00 | 110,000.00 |
| Total Liabilities | 110,000.00 | 0.00 | 110,000.00 |
| NET ASSETS | | | |
| Restricted - Net Assets | 0.00 | 2,310.70 | 2,310.70 |
| Unrestricted - Net Assets | 17,515.30 | 0.00 | 17,515.30 |
| TOTAL NET ASSETS | 17,515.30 | 2,310.70 | 19,826.00 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 127,515.30 | \$ 2,310.70 | \$ 129,826.00 |

***Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities***

| | |
|---|---------------|
| Total Governmental Fund Balances | \$ 19,826.00 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 343,238.57 |
| Net Assets of Governmental Activities | \$ 363,064.57 |

**Town of Bennington
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2011**

| | General Fund | Cemetery Funds | Total Governmental Funds |
|--|-------------------|-------------------|--------------------------------|
| Revenues | | | |
| Taxes | 59,234.77 | 0.00 | \$ 59,234.77 |
| Fines | 9,698.94 | 0.00 | 9,698.94 |
| Grants | 13,520.00 | 0.00 | 13,520.00 |
| Interest | 3,681.01 | 3.45 | 3,684.46 |
| Other Revenues | 8,864.18 | 1,050.00 | 9,914.18 |
| Total Revenues | 94,998.90 | 1,053.45 | 96,052.35 |
| Expenditures | | | |
| General Government | 46,662.40 | 0.00 | 46,662.40 |
| Capital Outlay | 65,160.65 | 0.00 | 65,160.65 |
| Police Department | 42,624.03 | 0.00 | 42,624.03 |
| Maintenance and Operations | 28,102.63 | 605.00 | 28,707.63 |
| Total Expenditures | 182,549.71 | 605.00 | 183,154.71 |
| Excess revenues over (under) expenditures | (87,550.81) | 448.45 | (87,102.36) |
| Transfers In/Out | (3,687.30) | 0.00 | (3,687.30) |
| Excess revenue over (under) expenditures after transfers | (91,238.11) | 448.45 | (90,789.66) |
| Net Assets at beginning of year | 108,753.41 | 1,862.25 | 110,615.66 |
| Net Assets at end of year | \$ 17,515.30 | \$ 2,310.70 | \$ 19,826.00 |

***Reconciliation of Fund Financial Statements to
Governmental Wide Financial Statements***

| | |
|--|----------------|
| Change in Net Assets, Fund Financial Statements | (90,789.66) |
| Capital Outlay included in the expenditures of the fund financial statements but capitalized as a fixed asset in the government wide financial statements | 65,160.65 |
| Depreciation recorded in the government wide financial statements but not recorded in the fund financial statements | (17,420.79) |
| Change in Net Assets per the Governmental Wide Financial Statements | \$ (43,049.80) |

**Town of Bennington
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2011**

ASSETS

Current Assets:

| | |
|-----------------------------|------------------|
| Cash in Bank - Unrestricted | \$ 29,351.73 |
| Cash in Bank - Restricted | <u>9,742.19</u> |
| Total Current Assets | 39,093.92 |

Noncurrent Assets

| | |
|--------------------------------|-------------------------------------|
| Capital Assets, net | <u>1,385,117.02</u> |
| Total Noncurrent Assets | <u>1,385,117.02</u> |
| TOTAL ASSETS | <u><u>\$1,424,210.94</u></u> |

LIABILITIES

Current Liabilities:

| | |
|-----------------------------------|------------------------|
| Meter Deposits | 1,835.16 |
| Current Portion of Long Term Debt | <u>3,888.16</u> |
| Total Current Liabilities | <u>5,723.32</u> |

Noncurrent Liabilities:

| | |
|-------------------------------------|--------------------------|
| Notes Payable | <u>132,466.51</u> |
| Total Noncurrent Liabilities | <u>132,466.51</u> |
| TOTAL LIABILITIES | 138,189.83 |

NET ASSETS

| | |
|---|-------------------------------------|
| Invested in Capital Assets, Net of Related Debt | 1,248,762.35 |
| Restricted - Net Assets | 9,742.19 |
| Unrestricted - Net Assets | <u>27,516.57</u> |
| TOTAL NET ASSETS | <u>1,286,021.11</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$1,424,210.94</u></u> |

**Town of Bennington
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2011**

Operating Revenues:

| | |
|---------------------------------|------------------|
| Sewer Fees | 31,439.14 |
| Total Operating Revenues | 31,439.14 |

Operating Expenditures:

| | |
|-------------------------------------|------------------|
| Personnel Services | 19,355.69 |
| Maintenance and Operations | 4,466.73 |
| Depreciation | 62,885.80 |
| Interest | 6,205.42 |
| Total Operating Expenditures | 92,913.64 |

| | |
|-----------------------------------|-------------|
| Excess Revenues over Expenditures | (61,474.50) |
|-----------------------------------|-------------|

Non-operating Revenues (Expenditures)

| | |
|--|------------------|
| Grant Revenues | 249,315.00 |
| Grant Expenses | (224,315.00) |
| Transfer in (out) | 3,687.30 |
| Interest Income | 27.89 |
| Net Non-operating Revenues (Expenditures) | 28,715.19 |

| | |
|--|-------------|
| Excess Revenues over (under) Expenditures after transfer | (32,759.31) |
|--|-------------|

| | |
|--|-------------------------------------|
| Net Assets at beginning of year | 1,318,780.42 |
| Net Assets at end of year | <u><u>\$1,286,021.11</u></u> |

**Town of Bennington
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2011**

| | |
|---|----------------------------|
| Cash flows from operating activities | |
| Receipts from customers | \$ 31,467.03 |
| Grants Received | 249,315.00 |
| Grant Expenses | (224,315.00) |
| Payments to suppliers | (6,984.85) |
| Payments to employees | (19,355.69) |
| Net cash provided by operating activities | <u>30,126.49</u> |
| Cash flows from capital and related financing activities | |
| Change in meter deposits | - |
| Principal paid on long term debt | (3,850.58) |
| Net cash flows from capital and related financing activities | <u>(3,850.58)</u> |
| Net increase (decrease) in cash | 26,275.91 |
| Cash, Beginning of the Year | <u>12,818.01</u> |
| Cash, End of the Year | <u>\$ 39,093.92</u> |
| <i>Reconciliation of change in net assets to net cash provided by operations</i> | |
| Change in Net Assets | (32,759.31) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 62,885.80 |
| Net cash provided by operating activities | <u>\$ 30,126.49</u> |

Town of Bennington, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Bennington, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, cemetery care, public works and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2011, the Town had only one component unit, the Bennington Public Works Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2011, the Town had governmental funds of general fund and cemetery care. The proprietary funds consisted of the Bennington Public Works Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the modified cash basis of accounting. Revenues are recognized when collected and expenses are recognized when paid. This is the same approach used in the preparation of the proprietary fund financial statements. The fund financial statements also use the modified cash basis of accounting. The government-wide statements record fixed assets and long-term debt as assets and liabilities. The fund financial statements record fixed assets as expenditures. The fund financial statements records the proceeds of long term debt as a revenue and the repayment of long term debt as an expenditures. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the

goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

PROPRIETARY FUNDS

The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable, then Government Accounting Standards Board pronouncements are used

Cash and Cash Equivalents

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 short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of monies held in conjunction with the Bennington Public Works Authority's bond indenture requirements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2011.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 2483, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

Estimates

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

Note 2-Deposits with Financial Institutions

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Bennington is considered a separate entity from the Bennington Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Bennington's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Bennington Public Works Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

Capital Asset activity for the year ended June 30, 2011 was as follows:

| <u>Governmental Funds</u> | | | | |
|---------------------------|-------------------|-----------|-----------|-------------------|
| | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| City Hall | \$ 90,000 | 5,659 | - | \$ 95,659 |
| House | - | 54,000 | - | 54,000 |
| Vehicles & Equipment | 101,131 | 5,500 | - | 106,631 |
| Revtech Incubator | 249,238 | - | - | 249,238 |
| Total | \$ 440,369 | | | \$ 505,528 |
| Accumulated Depreciation | (144,868) | (17,421) | - | (162,289) |
| Net Assets | <u>\$ 295,501</u> | | | <u>\$ 343,239</u> |

As of June 30, 2011, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$17,421 for the governmental funds was recorded as follows: equipment - \$4,884, police cars - \$5,747, revtech incubator - \$6,790, all charged to general government.

Public Works Authority

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------|----------------------|-----------|-----------|---------------------|
| Land | \$ 109,936 | - | - | \$ 109,936 |
| Buildings | 948,007 | - | - | 948,007 |
| Sewer System | 1,120,615 | - | - | 1,120,615 |
| Total | \$ 2,178,558 | | | \$ 2,178,558 |
| Accumulated Depreciation | (730,556) | (62,886) | - | (793,442) |
| Net Assets | <u>\$ 1,448,002</u> | | | <u>\$ 1,385,116</u> |

As of June 30, 2011, the Public Works Authority had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight -line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$62,886 for the Public Works Authority was recorded as follows: Sewer System Upgrade - \$39,186 and Industrial Incubator - \$23,700. All depreciation in the Public Works Authority was charged to the sewer department except for the Industrial Incubator. Depreciation for the Industrial Incubator is charged to economic development in the government wide financial statements and to general depreciation in the proprietary fund type statement of revenues over expenditures and changes in net assets.

Note 4-Notes Payable

Bennington Public Works Authority

As of June 30, 2002, the Bennington Public Works Authority had a note outstanding with the Farmers Home Administration. The balance of the note as of June 30, 2011 was \$61,011. Collateral for the loan are the revenues generated by the sewer system. The loan carries a 5% interest rate with monthly payments of \$487. The Bennington Public Works Authority paid \$2,719 in principal and \$3,125 in interest for the year ending June 30, 2011. Principal required for the next five years and in five year increments until maturity is as follows:

| | Principal | Interest | | |
|-----------|------------------|------------------|----------------------------|------------------|
| 2011/2012 | 2,858 | 2,986 | Balance, Beginning of Year | \$ 63,734 |
| 2012/2013 | 3,004 | 2,840 | Principal Paid During Year | <u>(2,723)</u> |
| 2013/2014 | 3,158 | 2,686 | Balance, End of Year | <u>\$ 61,011</u> |
| 2014/2015 | 3,320 | 2,524 | | |
| 2015/2016 | 3,490 | 2,354 | | |
| 2016/2021 | 20,317 | 8,903 | | |
| 2021/2026 | 24,864 | 3,149 | | |
| | <u>\$ 61,011</u> | <u>\$ 25,442</u> | | |

As of June 30, 2006, the Bennington Public Works Authority had a new note outstanding with the Farmers Home Administration. The balance of the note as of June 30, 2011 was \$75,344. Collateral for the loan are the revenues generated by the sewer system and real estate. The loan carries a 4.25% interest rate with monthly payments of \$351. The Bennington Public Works Authority paid \$1,127 in principal and \$3,231 in interest for the year ending June 30, 2011. Principal required for the next five years and in five year increments until maturity is as follows:

| | <u>Principal</u> | <u>Interest</u> | | |
|-----------|------------------|------------------|----------------------------|------------------|
| 2011/2012 | 1,030 | 3,182 | Balance, Beginning of Year | \$ 76,471 |
| 2012/2013 | 1,074 | 3,138 | Principal Paid During Year | <u>(1,127)</u> |
| 2013/2014 | 1,121 | 3,091 | Balance, End of Year | <u>\$ 75,344</u> |
| 2014/2015 | 1,170 | 3,042 | | |
| 2015/2016 | 1,220 | 2,992 | | |
| 2016/2021 | 6,942 | 14,118 | | |
| 2021/2026 | 8,582 | 12,478 | | |
| 2026/2031 | 10,610 | 10,450 | | |
| 2031/2036 | 13,117 | 7,943 | | |
| 2036/2041 | 16,217 | 4,843 | | |
| 2041/2045 | 14,260 | 1,962 | | |
| | <u>\$ 75,344</u> | <u>\$ 67,238</u> | | |

Note 5-Contingent Liability

On May 8, 2009, the Oklahoma Tax Commission gave the Town of Bennington \$110,000 in back sales tax. The Tax Commission is not certain whether the money actually belongs to the Town. As a result the Tax Commission has told the Town to not spend the money for three years. Once the three years has elapsed the Town will be the rightful owner of the money, because of this the Town has set aside this money in a certificate of deposit. A contingent liability has been setup to reflect these circumstances. The contingency will expire May 8, 2012.

Note 6 – Subsequent Events

Subsequent events have been evaluated through September 14, 2011, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

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

To the Board of Trustees
Town of Bennington, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Bennington, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated September 14, 2011. Our report was a qualified report because of the use of the modified cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2011-1 & 2011-2. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our 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 items 2011-3.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these parties.

Casey J. Russell CPA, cma.

September 14, 2011

Schedule of Current Findings and Responses

2011-1 Customer Deposits (Repeat Finding)

CONDITION: During our review of the water metered deposits, we noted that the town was unable to provide a detailed listing of the individual customer deposits that could easily be reconciled to the amount shown on the financial statements.

CRITERIA: The liability balance as shown on the financial statements should have a detailed listing supporting the account balance.

CAUSE OF CONDITION: The town recently transferred to a computer system listing each customer deposit. Several customer deposits dating back for several years could not be located to enter into the software system.

EFFECT OF CONDITION: The account balance is unsupported.

MANAGEMENT RESPONSE: The town has made strides toward improved record keeping of account balances. There are additional forms which customers are required to complete which track deposits made as well as additional account information.

2011-2 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the town and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited.

2011-3 Budget Deadlines (Repeat Finding)

CONDITION: During our review of the budget procedures, the town failed to prepare the required budgets within the required deadlines mandated by state statute.

CRITERIA: State statute requires budgets be submitted for all funds to the governing body.

CAUSE OF CONDITION: The town has not adopted formal budget procedures in regards to the preparation of their annual budget.

EFFECT OF CONDITION: Budget procedures should be adopted to verify whether the budgeted expenditures can be supported by each of the funds revenue sources.

RECOMMENDATION: The town should review and adopt the budget requirements listed by state statute.

MANAGEMENT RESPONSE: We understand the need of preparing budget forms before the start of the fiscal year and will strive to prepare budgets according to the required deadlines.