

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

FOR THE YEAR ENDED  
JUNE 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council,  
Town of Bowlegs, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Bowlegs, State of Oklahoma ("the Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 fraud or error.

### 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. 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

#### *Basis for Qualified Opinion on the Governmental Fund*

Prior to June 30, 2010 management of the Town had not maintained historical capital asset records in order to record capital asset purchases and accumulated depreciation.

#### *Qualified Opinion*

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Governmental Fund", the financial statements referred to above present fairly, in all material respects, the financial statements of the governmental activities, business-type activities and aggregate remaining fund information of the Town of Bowlegs, Oklahoma as of June 30, 2014, and the respective changes in financial position and, where applicable, the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **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 Information*

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with Government Auditing Standards, I have also issued my report dated April 22, 2015 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**

April 22, 2015

TOWN OF BOWLEGS  
**STATEMENT OF NET ASSETS**  
 JUNE 30,

	<b>2014</b>		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash, including time deposits	\$ 26,406	\$ 72,804	\$ 99,210
Investments	37,330	14,021	51,351
Due from other governments	4,703	-	4,703
Accounts receivable	-	3,190	3,190
Total current assets	<u>68,439</u>	<u>90,015</u>	<u>158,454</u>
Noncurrent assets:			
Restricted assets - cash and investments	-	8,866	8,866
Capital assets, net of accumulated depreciation	51,807	224,931	276,738
Total noncurrent assets	<u>51,807</u>	<u>233,797</u>	<u>285,604</u>
<b>Total Assets</b>	<u><u>120,246</u></u>	<u><u>323,812</u></u>	<u><u>444,058</u></u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	-	-
Current portion of long term debt	2,690	56,160	58,850
Total current liabilities	<u>2,690</u>	<u>56,160</u>	<u>58,850</u>
Noncurrent liabilities:			
Notes payable, less current portion	7,602	17,315	24,917
Total noncurrent liabilities	<u>7,602</u>	<u>17,315</u>	<u>24,917</u>
<b>Total Liabilities</b>	<u><u>10,292</u></u>	<u><u>73,475</u></u>	<u><u>83,767</u></u>
<b>Net position</b>			
Invested in capital assets, net of related debt	41,515	151,456	192,971
Restricted	-	8,866	8,866
Unrestricted	68,439	90,015	158,454
Total net position	<u><u>\$ 109,954</u></u>	<u><u>\$ 250,337</u></u>	<u><u>\$ 360,291</u></u>



TOWN OF BOWLEGS  
**BALANCE SHEET -- GOVERNMENTAL FUND**  
 YEAR ENDED JUNE 30,

	<b>2014</b>
	<u>General Fund</u>
<b>Assets</b>	
Cash, including time deposits	\$ 26,406
Investments	37,330
Due from other governments	4,703
<b>Total assets</b>	<b>68,439</b>
 <b>Liabilities and fund balances</b>	
Liabilities:	
Accounts payable	-
<b>Total liabilities</b>	<b>-</b>
 <b>Fund balances:</b>	
Nonspendable	-
Restricted	-
Committed	-
Assigned	-
Unassigned	68,439
<b>Total fund balances</b>	<b>68,439</b>
<b>Total liabilities and fund balances</b>	<b>\$ 68,439</b>
 Total fund balance, governmental funds	\$ 68,439
 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.	
Outstanding debt in governmental activities are not financial outflows and, therefore, are not reported in the funds.	51,807
	(10,292)
 <b>Net position of governmental activities in the Statement of Net Position</b>	<b>\$ 109,954</b>

TOWN OF BOWLEGS

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

YEAR ENDED JUNE 30,

	<u>2014</u>
	<u>General Fund</u>
<b>Revenues:</b>	
Sales and use tax	\$ 16,743
Motor vehicle tax	2,839
Alcohol and cigarette tax	3,275
Gasoline tax	434
Franchise fees	12,241
Grants	34,474
Charges for services	1,275
Miscellaneous	203
Total revenues	<u>71,483</u>
 <b>Expenditures</b>	
General government:	
Administrative and accounting	22,226
Public Safety (Police, Fire)	16,755
Debt service	<u>3,241</u>
Total expenditures	<u>42,222</u>
Excess (deficiency) of revenues over expenditures	<u>29,261</u>
Other financing sources (uses)	<u>-</u>
<b>Net change in fund balances</b>	29,261
<b>Fund balances - beginning</b>	<u>39,178</u>
<b>Fund balances - ending</b>	<u><u>\$ 68,439</u></u>

**TOWN OF BOWLEGS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30,**

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	<u>2014</u>
<b>Net change in fund balances – total governmental funds</b>	\$ 29,261
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>	
<p>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 an expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period. This is the amount that depreciation in the current period exceeds the current capital outlays.</p>	(2,972)
<p>Governmental funds report outflows for debt service as expenditures because such outflows use current financial resources. In contrast, the Statement of Activities reports only the interest portion of these outflows as an expense. The outflow for principle payments reduce the amount of the outstanding debt in the Statement of Net Position.</p>	2,351
 <b>Change in net assets of governmental activities</b>	 <u><u>\$ 28,640</u></u>

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

	<u>2014</u> <u>Utility Fund</u>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 72,804
Investments	14,021
Accounts receivable - customers	3,190
Total current assets	<u>90,015</u>
<b>Noncurrent assets:</b>	
Restricted cash - Debt reserve	8,866
Capital assets, net of accumulated depreciation	224,931
<b>Total assets</b>	<u><u>323,812</u></u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Current portion of long-term obligations	56,160
Total current liabilities	<u>56,160</u>
<b>Noncurrent liabilities:</b>	
Long-term debt, less current portion	17,315
Total noncurrent liabilities	<u>17,315</u>
<b>Total liabilities</b>	<u><u>73,475</u></u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	151,456
Restricted:	
Debt service	8,866
Unrestricted	90,015
<b>Total net position</b>	<u><u>\$ 250,337</u></u>

TOWN OF BOWLEGS

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

YEAR ENDED JUNE 30,

	<u>2014</u>
	Utility Fund
	<u>Fund</u>
<b>Operating revenues</b>	
Charges for services:	
Sewer	41,950
Total operating revenues	<u>41,950</u>
<b>Operating expenses</b>	
Sewer operation	16,899
Personnel and benefits	3,735
Depreciation	2,400
Total operating expenses	<u>23,034</u>
Net operating income (loss)	<u>18,916</u>
<b>Nonoperating revenues (expenses)</b>	
Interest income	68
Interest expense	(2,858)
Grant income	159,999
Total nonoperating revenues (expenses)	<u>157,209</u>
<b>Other financing sources (uses)</b>	
Transfers	-
Total operating transfers	<u>-</u>
<b>Change in net assets</b>	176,125
Net assets, beginning	74,212
Prior Period Adjustment	-
Net assets, ending	<u>\$ 250,337</u>

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

	<u>2014</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 41,950
Payments to suppliers	(16,899)
Payments to employees	(3,735)
Net cash provided (used) by operating activities	<u>21,316</u>
 <b>Cash flows from capital and related financing activities:</b>	
Grant proceeds	159,999
Proceeds from capital debt	50,000
Principle payments on capital debt	(5,353)
Interest payments on capital debt	(2,885)
Net cash provided (used) by capital and related financing activities	<u>201,761</u>
 <b>Cash flows from non-capital and related financing activities:</b>	
Transfers to other funds	<u>-</u>
 <b>Cash flows from investing activities</b>	
Purchases of fixed assets	(175,077)
Purchase of investments	(14,000)
Interest and dividends	-
Net cash provided (used) by investing activities	<u>(189,077)</u>
 Net increase (decrease) in cash and cash equivalents	34,000
 <b>Cash and cash equivalents, beginning</b>	<u>38,804</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 72,804</u>
 <b>Reconciliation of operating income to net</b>	
Cash provided by operating activities	
Operating income	18,916
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation expense	2,400
Change in assets and liabilities	
(Increase) decrease in receivables, net	-
Increase (decrease) in accounts payable	-
Increase (decrease) in customer deposits	-
Total adjustments	<u>2,400</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 21,316</u>

TOWN OF SOUTH Coffeyville  
**NOTES TO FINANCIAL STATEMENTS**  
YEAR ENDED JUNE 30, 2014

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***Note 1- Summary of Significant Accounting Policies***

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.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the Town and its 'Component Units and Trusts, entities for which the Town is considered to be financially accountable. Blended component units and trusts, 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.

Blended Component Units Trusts

The Bowlegs Public Works Authority (BPWA) was created pursuant to a trust indenture for the benefit of the Town. BPWA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remove water and sewer facilities for the Town. The water, sanitary sewer and solid waste disposal systems owned by the Town have been leased to BPWA until such date that all indebtedness of the Authority is retired or provided for. BPW A is a public entity and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 2001, Section 176 et seq., and is governed by a board consisting of five trustees identical with the Town Council. BPWA is exempt from Federal and state income taxes, and is reported as an enterprise fund.

***Note 2 - 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, excluding fiduciary funds. The statements distinguish between those activities of the Town that are governmental and those considered business 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.

TOWN OF BOWLEGS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

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

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.

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.

Governmental Funds

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 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 generally recorded when the related fund liability is incurred, with exceptions for un-matured interest on general long-term debt recognized when due, and certain compensated absences and claims and judgments recognized when the obligations are expected to be liquidated with expendable available financial resources.

Gasoline excise and motor vehicle taxes collected and held by the state and county at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise fees, 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 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.

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 - 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.

TOWN OF SOUTH Coffeyville  
**NOTES TO FINANCIAL STATEMENTS**  
YEAR ENDED JUNE 30, 2014

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

Enterprise Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds - are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Town. Agency funds are generally used to account for assets that the Town holds on behalf of others as their agent.

***Note 3 - Assets, Liabilities and Equity***

*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.

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 from date of issue are considered investments.

*Fair Value of Financial Instruments*

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

*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.

*Receivables and Payables*

Transactions between funds th.a.t are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/ due to other funds".

TOWN OF SOUTH Coffeyville  
**NOTES TO FINANCIAL STATEMENTS**  
YEAR ENDED JUNE 30, 2014

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*Note 3 - Assets, Liabilities and Equity - Continued*

*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.

All reported capital assets in the proprietary fund are depreciated except construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacements. Land has not been included which is a variance from accounting principles generally accepted in the United States of America.

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	40-100
Furniture, fixtures & equipment	10-100
Land improvements	10-100
Vehicles	5-40
Infrastructure	40-100

The Town and the Bowlegs Public Works Authority have not maintained accurate capital assets records to support the historical cost of past capital asset purchases.

*Compensated Absences*

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure. The expense and related liability for vested vacation benefits and compensatory time is not recorded in the respective funds of the Town or its component unit.

*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 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 spending resources". Governmental fund operating statements present increases (revenues and other financial resources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of "available spending resources" during a period.

TOWN OF BOWLEGS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

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*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 n 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, 2014

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***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, 2014

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*Note 4 - Property and Equipment*

Capital Asset Activity - Governmental Type

Capital asset activity for governmental type activities for the year ended June 30, 2014 was as follows:

	<b>2013</b>	<b>Additions</b>	<b>Dispositions</b>	<b>2014</b>
Buildings	\$ 7,900	\$ 30,000	\$ -	\$ 37,900
Equipment	24,447	-	-	24,447
Total Property, Plant, and Equipment	32,347	30,000	-	62,347
Accumulated Depreciation	(6,818)	(3,722)	-	(10,540)
Net book value	<u>\$ 25,529</u>	<u>\$ 26,278</u>	<u>\$ -</u>	<u>\$ 51,807</u>

Capital Asset Activity - Business Type

Capital asset activity for business type activities for the year ended June 30, 2014 was as follows:

	<b>2013</b>	<b>Additions</b>	<b>Dispositions</b>	<b>2014</b>
Construction in Process	\$ -	\$ 175,077	\$ -	\$ 175,077
Lagoon System	120,000	-	-	120,000
Total Property, Plant, and Equipment	120,000	175,077	-	295,077
Accumulated Depreciation	(67,746)	(2,400)	-	(70,146)
Net book value	<u>\$ 52,254</u>	<u>\$ 172,677</u>	<u>\$ -</u>	<u>\$ 224,931</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, 2014

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*Note 5 – Restricted Assets*

Debt Service

As of June 30, 2014, 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, 2014

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***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, 2014 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, 2014 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, 2014

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**Note 11 – Long-term Debt (continued)**

During the fiscal year 2014, the Public Works Authority entered into a new loan agreement in the amount of \$50,035. The loan matures in December 2014. The PWA intends to repay the balance with grant proceeds in which it anticipates receiving during the fiscal year 2015.

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

Town of Bowlegs

	Year Ended		
	June 30	Principal	Interest
2015		2,690.00	452.61
2016		2,827.34	315.26
2017		2,971.70	170.91
2018		1,803.07	30.12
		<u>10,292.11</u>	<u>968.90</u>

Public Works Authority

	Year Ended		
	June 30	Principal	Interest
2015		56,160.61	1,032.89
2016		6,439.01	719.49
2017		6,768.44	390.06
2018		4,107.06	68.74
		<u>73,475.12</u>	<u>2,211.18</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, 2014, 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**

April 22, 2015

## TOWN OF BOWLEGS

### Schedule of Findings and Questioned Costs

June 30, 2014

#### **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.