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State Auditor & Inspector

AUDIT REPORT

RECEIPT #
16929

TOWN OF MILLERTON, OKLAHOMA

JUNE 30, 2011

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TOWN OF MILLERTON, OKLAHOMA
JUNE 30, 2011

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TOWN OF MILLERTON, OKLAHOMA
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* 28-29

SCHEDULE OF FINDINGS 30

TOWN OF MILLERTON, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2011

BOARD OF TRUSTEES

NAME	POSITION	TERM EXPIRATION
BUCK IRWIN	MAYOR	2015
PAM REICH	TRUSTEE	2015
RANDY COGBURN	TRUSTEE	2013
TRACY CUNNINGHAM	TRUSTEE	2013
CODY SMITH	TRUSTEE	2015
LINDA ENDSLEY	CLERK/TREASURER	2015

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Millerton, Oklahoma

I 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 Millerton, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town of Millerton, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Millerton, Oklahoma's management. My responsibility is to express an opinion 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, and in accordance with Oklahoma Statutes. 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 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.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

In my opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Millerton, Oklahoma, as of June 30, 2011, and the changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, I have also issued my report dated November 21, 2011, on my consideration of the Town of Millerton, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws,

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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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The Town of Millerton has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB 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 Millerton's basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.

Robert E. Kershaw

Robert E. Kershaw, CPA

November 21, 2011

EXHIBIT A

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	2011 Total
ASSETS			
Cash and Cash Equivalents	$ 17,651	$ 4,123	$ 21,773
Restricted Cash & Cash Equivalents	-	5,736	5,736
Investments	-	14,155	14,155
Due from other governments	-	-	-
Capital assets:			
Land and construction-in-progress	15,386	11,677	27,063
Other capital assets, net of Accum. Depr.	175,081	1,035,810	1,210,892
TOTAL ASSETS	208,118	1,071,501	1,279,619
LIABILITIES			
Due to Other Governments	-	-	-
Due to Depositors	-	5,950	5,950
Long-term liabilities:			
Due within one year	-	5,858	5,858
Due in more than one year	-	74,223	74,223
TOTAL LIABILITIES	-	86,031	86,031
NET ASSETS			
Invested in capital assets, net of related debt	190,467	967,406	1,157,874
Restricted for:			
Debt Service	-	19,891	19,891
Other Purposes	2,172	-	2,172
Unrestricted	15,480	(1,827)	13,652
TOTAL NET ASSETS	$ 208,118	$ 985,470	$ 1,193,589

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses)/ Revenue
Primary Government:					
Governmental activities:					
General Government	$ 32,189	$ -	$ -	$ -	$ (32,189)
Fire Department	16,072	-	45,270	-	29,198
Streets	5,798	-	-	-	(5,798)
Depreciation	20,003	-	-	-	(20,003)
Total Governmental Activities	74,062	-	45,270	-	(28,792)
Business-type activities:					
Sewer	71,819	35,109	-	-	(36,710)
Total Business-type Activities	71,819	35,109	-	-	(36,710)
Total	$ 145,881	$ 35,109	$ 45,270	$ -	$ (65,502)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	$ (28,792)	$ (36,710)	$ (65,502)
General revenues:			
Taxes:			
Sales Tax	25,503	-	25,503
Use Tax	1,676	-	1,676
Tobacco Tax	370	-	370
Franchise Tax	5,934	-	5,934
Intergovernmental:			
Alcoholic Beverage Tax	3,567	-	3,567
Gasoline Excise Tax	639	-	639
Motor Vehicle Tax	1,759	-	1,759
Interest and Investment Income	62	410	472
Other Revenues	6,663	-	6,663
Transfers - Internal Activity	4,564	(4,564)	-
Total general revenues & transfers	50,737	(4,154)	46,583
Changes in net assets	21,945	(40,864)	(18,919)
Net assets - beginning	186,131	1,026,334	1,212,465
Net assets - prior year adjustment	43	-	43
Net assets - ending	$ 208,118	$ 985,470	$ 1,193,589

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

TOWN OF MILLERTON, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Street & Alley Fund	Grant Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents - Unrestricted	$ 15,479	$ 2,172	$ -	$ 17,651
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	$ 15,479	$ 2,172	$ -	$ 17,651
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Governments	$ -	$ -	$ -	$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	2,172	-	2,172
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	15,479	-	-	15,479
TOTAL FUND BALANCES	15,479	2,172	-	17,651
TOTAL LIABILITIES AND FUND BALANCES	$ 15,479	$ 2,172	$ -	

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of $345,999, net of accumulated depreciation of $155,532, are not financial resources and, therefore, are not reported in the funds.	190,467
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
Net Assets of Governmental Activities	$ 208,118

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT D

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	Street & Alley Fund	Grant Fund	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	$ 25,503	$ -	$ -	$ 25,503
Use Tax	1,676	-	-	1,676
Tobacco Tax	370	-	-	370
Franchise Tax	5,934	-	-	5,934
Intergovernmental:				
Alcoholic Beverage Tax	3,567	-	-	3,567
Gasoline Excise Tax	-	639	-	639
Motor Vehicle Tax	-	1,759	-	1,759
Grants	45,270	-	-	45,270
Fees and Other Revenues	-	-	-	-
Miscellaneous Income & Donations	6,663	-	-	6,663
Interest Revenue	47	15	-	62
TOTAL REVENUES	89,030	2,412	-	91,443
EXPENDITURES:				
Personal Services	9,341	-	-	9,341
Maintenance & Operations:				
General Government	22,847	5,798	-	28,646
Public Safety - Fire	14,728	-	-	14,728
Capital Outlay	870	2,575	-	3,445
Capital Outlay - Fire	6,987	-	-	6,987
Debt Service Principal	30,342	-	-	30,342
Debt Service Interest	1,345	-	-	1,345
TOTAL EXPENDITURES	86,461	8,373	-	94,834
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,569	(5,961)	-	(3,391)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	9,819	4,255	-	14,073
Operating Transfers Out	(8,509)	-	(1,000)	(9,509)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,310	4,255	(1,000)	4,564
NET CHANGES IN FUND BALANCES	3,879	(1,706)	(1,000)	1,174
FUND BALANCE - BEGINNING OF YEAR	11,542	3,893	1,000	16,435
FUND BALANCE - PRIOR YEAR ADJUSTMENT	58	(15)	-	43
FUND BALANCE - END OF YEAR	$ 15,479	$ 2,172	$ -	17,651

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reconciliation to Statement of Activities:		
Net change in fund balances - total governmental funds	**$**	**1,174**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital debt obligation principal payments		**30,342**
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:		
Capital Debt Proceeds		**-**
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		**10,432**
Depreciation expense		**(20,003)**
Change in Net Assets of Governmental Activities	**$**	**21,945**

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT E

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

	Millerton Public Works Authority Enterprise Fund June 30, 2011
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 4,123
Due from other governments	-
Total Current Assets	4,123
Noncurrent Assets:	
Restricted cash and cash equivalents	5,736
Investments	14,155
Land and construction-in-progress	11,677
Other capital assets, net of accumulated depreciation	1,035,810
Total Noncurrent Assets	1,067,378
TOTAL ASSETS	1,071,501
LIABILITIES & FUND EQUITY	
Current Liabilities:	
Due to Other Governments	-
Customer Deposits	5,950
Notes Payable - Current Portion	5,858
Total Current Liabilities	11,808
Noncurrent Liabilities:	
Notes Payable	80,081
Less: Notes Payable - Current Portion	(5,858)
Total Noncurrent Liabilities	74,223
TOTAL LIABILITIES	86,031
NET ASSETS:	
Invested in capital assets, net of related debt	967,406
Restricted for debt service & other purposes	19,891
Unrestricted	(1,827)
TOTAL NET ASSETS	$ 985,470

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT F

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Millerton Public Works Authority Enterprise Fund June 30, 2011
OPERATING REVENUES:	
Charges for services:	
Sewer Charges	$ 34,852
Miscellaneous	258
TOTAL OPERATING REVENUES	35,109
OPERATING EXPENSES:	
Salaries & Related Expenses	11,660
Insurance	3,588
Office Expense	756
Professional Fees	2,000
Licenses, Fees & Testing	2,453
Utilities	3,244
Repairs & Maintenance	5,970
Sewer Billing Fees	-
Other Misc. Sewer	-
Depreciation	37,991
TOTAL OPERATING EXPENSES	67,661
NET OPERATING INCOME (LOSS)	(32,552)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	410
Interest Expense	(4,158)
Grant Income - DOC	-
Grant Income - OWRB	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,748)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(36,299)
Transfers in	4,255
Transfers out	(8,819)
CHANGE IN NET ASSETS	(40,864)
TOTAL NET ASSETS - BEGINNING	1,026,334
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-
TOTAL NET ASSETS - ENDING	$ 985,470

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT G

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	June 30, 2011
Net Cash Flows from Operating Activities:	
Cash Receipts from Customers	$ 35,109
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(29,670)
Other Operating Payments	-
Net Change in Customer Deposits	300
Net Cash Provided (Used) by Operating Activities	5,740
Net Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(8,819)
Transfers from other funds	4,255
Net Cash Provided (Used) by Non-Capital Financing Activities	(4,564)
Net Cash Flows from Capital & Related Financing Activities:	
Capital grant received for construction of capital assets	-
Additions to Capital Assets	-
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(5,574)
Interest paid	(4,158)
Net Cash Provided (Used) by Capital & Related Financing Activities	(9,732)
Net Cash Flows from Investing Activities:	
Interest earned	410
Net Cash Provided (Used) by Investing Activities	410
Net Increase (Decrease) in Cash and Cash Equivalents	(8,147)
Cash & Cash Equivalents, Beginning of Year	18,006
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	$ 9,859
Reconciliation of operating income (loss) to net cash provided operating activities:	
Operating Income (Loss)	$ (32,552)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	37,991
Increase(Decrease) in Customer Deposits	300
Net Cash Provided (Used) by Operating Activities	$ 5,740

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Millerton, Oklahoma is a "Statutory Town Government" under Title 11 of the Oklahoma Statutes.

The Town provides the following services: Public safety streets and highways, sanitation, public improvements, and general administrative services. The Millerton Public Works Authority (Enterprise Fund) provides sewer services. The Millerton Public Works Authority is a public trust created under authority of Title 60 Oklahoma Statutes.

The Town's financial statements were prepared upon the standards established by GASB-34, which provides for two levels of financial statements: fund financial statements and government-wide financial statements.

The accounts of the Town are organized based on funds and account groups. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. The various funds in this report are grouped into three fund types.

General Fund - The General Fund is used to account for all of the general revenues of the Town not specifically levied or collected for other Town funds, and for expenditures primarily related to the rendering of the general services to the Town.

Special Revenue Funds - Special Revenue Funds are established to account for revenues derived from specific taxes or other earmarked revenues. The Street and Alley Fund is reported as a special revenue fund.

Proprietary Fund Types - Proprietary Funds are used to account for operations that are financed and operated in manner similar to private business enterprises, where the intent of the governing body is that the costs 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 periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Millerton Public Works Authority Enterprise Fund is a Proprietary Fund Type.

The Reporting Entity and Component Units

The Town, for financial purposes, includes all of the funds and account groups relevant to the operations of the Town of Millerton. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Town of Millerton.

The financial statements of the Town include those of separately administered component units that are controlled by or dependent on the Town. Control or

dependence is determined based on budget adoption, taxing authority, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Millerton Public Works Authority. The Town board of trustees and PWA board of directors are the same.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Expenditures are generally recognized under the cash basis when paid and revenue is recognized when received.

The Enterprise Fund (The Millerton Public Works Authority) financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis has been modified to include depreciation of capitalized assets.

Cash and Investments

Cash includes amounts in demand deposits (checking accounts, NOW accounts, and savings). All investments are stated at cost, which approximates market, unless otherwise indicated. For financial statement purposes, certificates of deposits are classified as investments.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure 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 at June 30, 2011. All budget appropriations lapse at the end of the fiscal year.

Budget

In accordance with Oklahoma Statutes, Title 68, the Town Council formally adopts annual budgets, which include substantially all general funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code. All budgets are prepared on the same cash basis of accounting as the financial statements are prepared.

Fixed Assets

The Town records all fixed assets at cost. Assets acquired by the PWA (Enterprise Fund) are recorded in the PWA as assets at cost or if contributed property at the estimated fair market value at the time of contribution. Repairs and maintenance cost are recorded as expenses. Assets of governmental activities are reported in the Government-Wide financial statements are depreciated over lives of 5 to 50 years using the straight-line method. Assets recorded in the PWA are depreciated over their useful lives of 5 to 50 years using the straight-line method. The Enterprise Fund applies FASB No. 62 and capitalizes interest expense of borrowings related to construction project loans less the related interest earned on temporary interest bearing investment.

Complete detailed records of the cost of fixed assets owned and still in service are not available. The amounts recorded as property, plant and equipment of the Enterprise Fund have been estimated. The amount of property, plant, and equipment of and related depreciation, recorded as governmental activities has also been estimated.

Capitalization Policy

Purchases of capital items in excess of $750.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Estimates

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

Compensated Absences and Fringe Benefits

Governmental Generally Accepted Accounting Principles require the recording of an expenditure and the accrual of a liability for future vacation, sick pay, and other leave benefits for employee service already rendered, related to rights that vest, if the payment of compensation is probable and the amount of benefits can be reasonably estimated.

The Town's financial statements have been prepared on the modified cash basis and benefit cost (if any) are recognized when the benefits are paid. An accrued liability for benefits has not be recognized or reported in the financial statements.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt–Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets–Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets–All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax

Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Authority was in compliance with the reserve requirement of the GMAC (Berkadia) loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 1, the District prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations by more than the revenues exceeded budgeted revenues.

NOTE 3 - DEPOSIT COLLATERAL

Custodial Credit Risk

At June 30, 2011, the Town held deposits of approximately $41,664 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are 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.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Moneys held on deposit for water utility customers of $5,736 and construction funds of $0 are restricted and unavailable for general use by the Town or Public Works Authority. The Enterprise Fund has a certificate of deposit for $14,155, which is restricted for debt service per loan agreements.

NOTE 5 - CAPITAL ASSETS

Governmental Activities

Governmental activities capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deductions	Balance 6/30/11
Buildings	$ 94,003	$ -	$ -	$ 94,003
Land	15,386	-	-	15,386
Improvements	1,245	-	-	1,245
Office Assets	1,549	-	-	1,549
Other Property & Equip.	223,383	10,432	-	233,815
Subtotal	335,567	10,432	-	345,999
Less: Accum. Depreciation	(135,529)	(20,003)	-	(155,532)
Total Capital Assets (Net of Depreciation)	$ 200,038	$ 9,571	$ -	$ 190,467

Depreciation expense for the year ended June 30, 2011, aggregating $20,003, has been computed on assets with a cost basis totaling $345,999.

Business-Type Activities - Enterprise Fund (Public Works Authority)

Business-type activities capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deductions	Balance 6/30/11
Sewer System Property & Equipment	$1,009,756	$ -	$ -	$1,009,756
Improvements	671,069	-	-	671,069
Subtotal	1,680,825	-	-	1,680,825
Less: Accum. Depreciation	(607,023)	(37,992)	-	(645,015)
Total Capital Assets (Net of Depreciation)	$1,073,802	$(37,992)	$ -	$1,035,810

Depreciation expense for the year ended June 30, 2011, aggregating $37,992, has been computed on assets with a cost basis totaling $1,680,825.

NOTE 6 - LONG-TERM DEBT

GOVERNMENTAL FUNDS

The Millerton Fire Department has a loan (in the name of the PWA) dated February 4, 2008 in the original amount of $63,196.60. The note carries interest at 5% and is due March 4, 2011. As of June 30, 2011, this loan has been paid in full.

ENTERPRISE FUND - MILLERTON PUBLIC WORKS AUTHORITY

The Millerton Public Works Authority is a component unit of the Town of Millerton. The Public Works Authority provides sewer service for the community.

The Millerton Public Works Authority is obligated to Berkadia Commercial Mortgage. (Formerly Capmark Finance, Inc. and GMAC Commercial Mortgage). This note carries a 5% annual percentage rate and requires monthly installment payments of $811 per month with final payment due February 2022. The note is dated June 23, 1982 - original amount of $165,000 and original maturity June 2022. Collateral for the note is the sewer revenue generated by the system and a mortgage on the sewer system.

Changes in Long-Term Debt

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2011:

	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011
Note Payable - Berkadia	$ 85,655	$ -	$ (5,574)	$ 80,081
	$ 85,655	$ -	$ (5,574)	$ 80,081

Debt Service Requirements to Maturity

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Note Payable - Berkadia Principal	Interest	Total
2012	$ 5,858	$ 3,874	$ 9,732
2013	6,158	3,574	9,732
2014	6,473	3,259	9,732
2015	7,386	2,346	9,732
2016	6,569	3,163	9,732
2017-2021	41,637	7,023	48,660
2022	6,000	111	6,111
Total	$ 80,081	$ 23,350	$ 103,431

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include assets related to Note 3 above.

Governmental Fund Balances

Town of Millerton
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2011

	General Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Restricted for:				
Road Maintenance	-	2,172	-	2,172
Unassigned	15,479	-	-	15,479
Total	$ 15,479	$ 2,172	$ -	$ 17,651

NOTE 8 - RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major government programs and areas.

The types of insurance coverage carried by the Town are listed below:

Type of Coverage	Provided By	Comments
Public Officials Liability	Commercial Insurance	
Commercial Property	Commercial Insurance	Coinsurance = 80%
General Liability	Commercial Insurance	General Aggregate limit - $2,000,000 Personal injury limit - $1,000,000 Each occurrence limit - $1,000,000 Fire damage limit - $100,000
Fire Department Vehicles	Oklahoma Risk Mgmt Div.	
Workers Compensation	Oklahoma State Ins. Fund	

NOTE 9 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available; currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may

become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

NOTE 10 - LEASE OF REAL ESTATE

On October 18, 2006, the Town entered into a lease agreement, with First Option to Purchase Real Estate, with Charles and Joyce McGehee. The McGehees are the owners of the following described McCurtain County, Oklahoma real estate: the west 727 feet of the east 1057 feet of Lot 1, Section 5, Township 07 south, Range 22 east Millerton, McCurtain County, Oklahoma containing 22 acres more or less and a parcel of land in Section 32, Township 06 south, Range 22 east beginning at the SE corner of the SE/4 of said Section, thence west 1057 feet thence, north 1550 feet to the south right of way line of the SL&SF railroad, thence SE along said right of way a distance of 1212 feet, thence south 957 feet to the point of beginning containing 30.48 acres more or less in Millerton, McCurtain County, Oklahoma. The lease is for a term of 20 years. Compensation for the lease is for the Town to provide approximately 1,300 linear feet of five strand barbed wire cross fence on said property with one 16 foot metal gate. The Town will install an above ground sprinkler system and protective equipment, for the discharge of water from its sewer lagoons located in the near vicinity of this real estate.

NOTE 11 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2011, were as follows:

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
GENERAL:		
Street & Alley Fund	$ -	$ 4,254.53
Grant Fund	1,000.00	-
Millerton Public Works Authority	8,818.94	4,254.53
Total General Fund	$ 9,818.94	$ 8,509.06
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	$ 4,254.53	$ -
Grant Fund:		
General Fund	-	1,000.00
Total Special Revenue Funds	$ 4,254.53	$ 1,000.00
ENTERPRISE FUNDS		
Millerton Public Works Authority:		
General Fund	$ 4,254.53	$ 8,818.94
Grant Fund	$ -	$ -
Total Enterprise Funds	$ 4,254.53	$ 8,818.94
	$ 18,328.00	$ 18,328.00

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through November 21, 2011, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

EXHIBIT H

TOWN OF MILLERTON, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance:	$ 11,542	$ 11,542	$ 11,542	$ -
Resources (Inflows):				
Taxes:				
Sales Tax	24,089	24,089	25,503	1,414
Use Tax	3,435	3,435	1,676	(1,759)
Tobacco Tax	330	330	370	41
Franchise Tax	4,707	4,707	5,934	1,227
Intergovernmental:				
Alcoholic Beverage Tax	3,101	3,101	3,567	466
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	44,999	44,999	45,270	271
Fees and Other Revenues	-	-	-	-
Miscellaneous Income & Donations	3,567	3,567	6,663	3,096
Interest Income	45	45	47	2
Capital Debt Proceeds	-	-	-	-
Transfers In	-	-	9,819	9,819
Amounts available for appropriation	95,814	95,814	110,391	14,577
Charges to Appropriations (Outflows):				
Personal Services	11,000	11,000	9,341	1,659
Maintenance & Operations	32,000	32,000	37,575	(5,575)
Capital Outlay	30,000	30,000	7,857	22,143
Debt Service	12,814	12,814	31,687	(18,873)
Transfers	10,000	10,000	8,509	1,491
Total Charges to Appropriations	95,814	95,814	94,970	844
Prior Year Adjustments to Fund Balance	-	-	58	58
Ending Budgetary Fund Balance	-	-	15,479	15,479

TOWN OF MILLERTON, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2011

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.

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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 Millerton, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Millerton, State of Oklahoma, as of June 30, 2011, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued my report thereon dated November 21, 2011, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping. The Town of Millerton was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, except that the Town did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Millerton'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 the Town of Millerton's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Millerton'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 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 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01 & 11-02. A

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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 of Millerton's financial statements are free of material misstatement, I performed tests of 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*.

The Town's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Town's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of trustees and management of the Town of Millerton, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

Robert E. Kershaw

Robert E. Kershaw, CPA

November 21, 2011

TOWN OF MILLERTON, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

Item 11-01 - Segregation of Duties

Criteria - The segregation of duties is important to have adequate control over financial assets.

Condition - The Town of Millerton has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the town's books. This is a repeat condition from the prior years.

Cause - The Town of Millerton's small size limits the amount of staffing needed to properly segregate the clerk and treasurer functions.

Effect - The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation - The lack of segregation of duties is a common deficiency in Town's the size of Millerton. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response - The board continues to be actively involved in the operations of the Town.

Item 11-02: Refundable Customer Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority keeps a ledger documenting the balance of customer deposits, however, the balance in the ledger does not reconcile to the liability account.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Authority is aware of the problem.