

FILED

DEC 29 2011

State Auditor & Inspector

AUDIT REPORT

TOWN OF MCCURTAIN, OKLAHOMA & MCCURTAIN MUNICIPAL AUTHORITY

RECEIPT #
30087

JUNE 30, 2011



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2011

TABLE OF CONTENTS

INTRODUCTORY SECTION:	<u>PAGE</u>
LIST OF PRINCIPAL OFFICERS	4 4
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	5-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	8
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS MODIFIED CASH BASIS	9
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10-11
EXHIBIT E STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	13
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	14
NOTES TO THE FINANCIAL STATEMENTS	15-28

TOWN OF MCCURTAIN, OKLAHOMA
JUNE 30, 2011

REQUIRED SUPPLEMENTARY INFORMATION:

EXHIBIT H BUDGETARY COMPARISON SCHEDULE 29

NOTES TO BUDGETARY COMPARISON SCHEDULE 30

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 31-32

SCHEDULE OF FINDINGS 33-36

OTHER SUPPLEMENTARY INFORMATION:

EXHIBIT I COMBINING BALANCE SHEET - NONMAJOR
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS 37

EXHIBIT J COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
- NONMAJOR GOVERNMENTAL FUNDS - MODIFIED
CASH BASIS 38

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

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
HARVEY WAY	CHAIRMAN	4/2013
DAVID FOX	VICE CHAIRMAN	4/2015
DAWNA FOX	TRUSTEE	4/2013
JOYCE ADAMS	TRUSTEE	4/2015
PATRICIA SHAFFER	TRUSTEE	4/2013

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of McCurtain, 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 McCurtain, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town of McCurtain, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of McCurtain, 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 Note 1, 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 financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described above.

Items identified in the bank statements for the McCurtain Municipal Authority were not evidenced in the financial statements within QuickBooks. Significant errors,

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

omissions and duplications of deposits and expenditures were noted. Management retained the services of a bookkeeper to correct these problems. However, the correction did not include the July thru October 2010 accounting period.

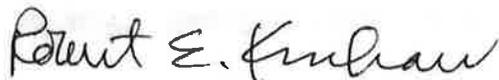
In my opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the business-type activities of the Town of McCurtain, Oklahoma, as of June 30, 2011, and the changes in 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 December 19, 2011, on my consideration of the Town of McCurtain, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 and the notes to the budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 McCurtain 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 McCurtain'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, CPA
December 19, 2011

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

	Governmental Activities	Business-Type Activities	2011 Total	Memo Only 2010 Total
ASSETS				
Current Assets:				
Cash, Including Time Deposits	\$ 2,716	\$ 4,743	\$ 7,459	\$ 16,043
Total Current Assets	2,716	4,743	7,459	16,043
Restricted Assets:				
Cash, Including Time Deposits	-	62,088	62,088	25,243
Total Restricted Assets	-	62,088	62,088	25,243
Capital Assets:				
Sewer Improvements	-	1,854,574	1,854,574	1,802,824
Equipment	-	53,454	53,454	53,454
Less: Accumulated Depreciation	-	(430,944)	(430,944)	(384,189)
Total Capital Assets	-	1,477,084	1,477,084	1,472,088
TOTAL ASSETS	2,716	1,543,914	1,546,631	1,513,374
LIABILITIES				
Current Liabilities:				
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
Notes Payable - Current Portion	-	9,306	9,306	8,932
Accrued Interest Payable	-	-	-	-
Total Current Liabilities	-	9,306	9,306	8,932
Long-Term Liabilities:				
Due to Depositors	-	35,819	35,819	32,765
Note Payable - OWRB	-	27,867	27,867	29,799
Note Payable - RD	-	452,236	452,236	459,252
Less: Notes Payable - Current Portion	-	(9,306)	(9,306)	(8,932)
Lease Purchase Obligations	-	-	-	-
Total Long-Term Liabilities	-	506,616	506,616	512,884
TOTAL LIABILITIES	-	515,922	515,922	521,816
NET ASSETS				
Invested in capital assets, net of related debt	-	996,981	996,981	983,037
Restricted for:				
Debt Service	-	62,088	62,088	25,243
Other Purposes	-	-	-	-
Unrestricted	2,716	(31,076)	(28,360)	(16,722)
TOTAL NET ASSETS	\$ 2,716	\$ 1,027,992	\$ 1,030,709	\$ 991,558

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Govt. & Public Safety:					
General Government	\$ 66,731	\$ -	\$ -	\$ -	\$ (66,731)
Public Safety	102,697	103,667	-	-	969
Parks & Recreation	807	-	-	-	(807)
Streets & Highways	3,246	-	-	-	(3,246)
Total Governmental Activities	173,481	103,667	-	-	(69,814)
Business-type activities:					
Water	117,568	102,699	-	-	(14,870)
Sewer	33,993	66,274	-	105,092	137,373
Sanitation	52,010	26,481	-	-	(25,529)
Miscellaneous	46,755	1,367	-	-	(45,387)
Total Business-type Activities	250,325	196,821	-	105,092	51,587
Total	\$ 423,807	\$ 300,488	\$ -	\$ 105,092	\$ (18,227)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (69,814)	\$ 51,587	\$ (18,227)
General revenues:			
Taxes:			
Sales Tax	34,087	-	34,087
Tobacco Tax	502	-	502
Franchise Tax	7,852	-	7,852
Intergovernmental:			
Alcoholic Beverage Tax	7,045	-	7,045
Gasoline Excise Tax	886	-	886
Motor Vehicle Tax	3,335	-	3,335
Royalty Income	1,997	-	1,997
Rental Income	400	-	400
Investment Income	5	44	49
Miscellaneous	1,823	-	1,823
Transfers - Internal Activity	2,898	(2,898)	-
Total general revenues & transfers	60,829	(2,854)	57,975
Changes in net assets	(8,985)	48,733	39,748
Net assets - beginning	11,702	979,856	991,558
Net assets - prior year adjustment	-	(597)	(597)
Net assets - ending	\$ 2,716	\$ 1,027,992	\$ 1,030,709

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

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,139	\$ -	\$ 577	\$ 2,716
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	\$ 2,139	\$ -	\$ 577	\$ 2,716
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Governments	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	577	577
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	2,139	-	-	2,139
TOTAL FUND BALANCES	2,139	-	577	2,716
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,139	\$ -	\$ 577	-

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 \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.

-

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

\$ 2,716

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

TOWN OF MCCURTAIN, 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	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 34,087	\$ -	\$ -	34,087
Tobacco Tax	502	-	-	502
Franchise Tax	7,852	-	-	7,852
Intergovernmental:				
Alcoholic Beverage Tax	7,045	-	-	7,045
Gasoline Excise Tax	886	-	-	886
Motor Vehicle Tax	3,335	-	-	3,335
Grants	-	-	-	-
Fines & Forfeitures	94,671	-	8,996	103,667
Royalty Income	1,997	-	-	1,997
Rental Income	400	-	-	400
Miscellaneous Income	1,823	-	-	1,823
Interest Income	5	-	-	5
TOTAL REVENUES	152,602	-	8,996	161,598
EXPENDITURES:				
Fire Department:				
Maintenance & Operations	8,769	-	-	8,769
Debt Service	-	-	-	-
Parks & Recreation:				
Maintenance & Operations	807	-	-	807
Police Department:				
Personal Services	42,044	-	-	42,044
Maintenance & Operations	41,543	-	10,341	51,884
Street & Alley:				
Maintenance & Operations	3,246	-	-	3,246
General Government:				
Personal Services	25,700	-	-	25,700
Maintenance & Operations	41,031	-	-	41,031
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	163,140	-	10,341	173,481
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,538)	-	(1,345)	(11,883)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	7,168	-	-	7,168
Operating Transfers Out	(4,270)	-	-	(4,270)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,898	-	-	2,898
NET CHANGES IN FUND BALANCES	(7,640)	-	(1,345)	(8,985)
FUND BALANCE - BEGINNING OF YEAR	9,780	-	1,922	11,702
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 2,139	\$ -	\$ 577	2,716

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

**TOWN OF MCCURTAIN, 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 \$ (8,985)

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 -

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 -

 Depreciation expense -

Change in Net Assets of Governmental Activities \$ (8,985)

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

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

	<u>McCurtain Municipal Authority Enterprise Fund June 30, 2011</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 4,743
Restricted cash and cash equivalents	62,088
Due from other governments	-
Total Current Assets	66,831
Noncurrent Assets:	
Restricted cash and cash equivalents	-
Land and construction-in-progress	-
Other capital assets, net of accumulated depreciation	1,477,084
Total Noncurrent Assets	1,477,084
TOTAL ASSETS	1,543,914
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Due to Other Governments	-
Payroll Taxes Payable	-
Notes Payable - Current Portion	9,306
Accrued Interest Payable	-
Total Current Liabilities	9,306
Noncurrent Liabilities:	
Due to Depositors	35,819
Note Payable - OWRB	27,867
Note Payable - RD	452,236
Less: Notes Payable - Current Portion	(9,306)
Lease Purchase Obligations	-
Total Noncurrent Liabilities	506,616
TOTAL LIABILITIES	515,922
NET ASSETS:	
Invested in capital assets, net of related debt	996,981
Restricted for debt service	62,088
Unrestricted	(31,076)
TOTAL NET ASSETS	\$ 1,027,992

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

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

	McCurtain Municipal Authority Enterprise Fund June 30, 2011
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 102,699
Sanitation Fees	26,481
Sewer Fees	66,274
Taps	700
Service Fees	-
Miscellaneous Income	667
TOTAL OPERATING REVENUES	196,821
<u>OPERATING EXPENSES:</u>	
Water	117,568
Sanitation	52,010
Sewer	12,585
Miscellaneous	-
Depreciation	46,755
TOTAL OPERATING EXPENSES	228,917
NET OPERATING INCOME (LOSS)	(32,096)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	44
Interest Expense	(21,408)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(21,365)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(53,461)
Capital Contributions	105,092
Transfers in	4,270
Transfers out	(7,168)
CHANGE IN NET ASSETS	48,733
TOTAL NET ASSETS - BEGINNING	979,856
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	(597)
TOTAL NET ASSETS - ENDING	\$ 1,027,992

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

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

	June 30, 2011
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 196,821
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(182,163)
Receipts of Customer Utility Deposits, Net of Refunds	3,054
Net Cash Provided (Used) by Operating Activities	17,713
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	(7,168)
Transfers from other funds	4,270
Net Cash Provided (Used) by Non-Capital Financing Activities	(2,898)
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	105,092
Additions to Capital Assets	(51,750)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(8,949)
Principal paid on Lease Purchase Obligations	-
Interest paid	(21,408)
Net Cash Provided (Used) by Capital & Related Financing Activities	22,984
Net Cash Flows from Investing Activities:	
Interest Income	44
Net Cash Provided (Used) by Investing Activities	44
Net Increase (Decrease) in Cash and Cash Equivalents	37,843
Cash & Cash Equivalents, Beginning of Year	29,584
Cash & Cash Equivalents, Prior Year Adjustment	(597)
Cash & Cash Equivalents, End of Year	\$ 66,831
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ (32,096)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	46,755
Increase(Decrease) in Due to Depositors	3,054
Increase(Decrease) in Payroll Taxes Payable	-
Net Cash Provided (Used) by Operating Activities	\$ 17,713

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town operates under the "Town Board of Trustees" form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services. The following is a summary of the more significant accounting policies of the Town.

REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government: Town of McCurtain
Component Units: McCurtain Municipal Authority (MMA)

For financial reporting purposes, the Town complies with Governmental Accounting Standards Board (Statement No. 14); in defining the Town's financial reporting entity. The public trust listed below was determined to be part of the Town of McCurtain's reporting entity based on the degree of oversight responsibility exercised by the Town. Manifestations of oversight responsibility include, but are not limited to (1) selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, (4) accountability for fiscal matters and (5) scope of public service.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the Town's Board of Trustees or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town's by appropriate fund type to compromise the primary government presentation.

The component unit that is blended into the primary government's fund types of the Town's report is presented below:

INCLUDED COMPONENT UNITS

McCurtain Municipal Authority

The McCurtain Municipal Authority (MMA) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961 Section 176 to 180, on November 17, 1967, for the use and benefit of the McCurtain Municipal Authority. The Trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water, sewage, garbage, trash disposal recreation and industrial facilities, or other forms or types of public and municipal services within or without the corporate boundaries of the McCurtain Municipal Authority.

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

The MMA is empowered to lease, acquire, or construct the properties necessary to provide and maintain these services. It is also empowered to obtain funds for these purposes and in so doing, to incur indebtedness whether unsecured or secured by all or any part of the Trust Estate and its revenues. The MMA is also permitted to transfer monies to the Town of McCurtain for the use of the Town. The Board of Trustees of the Town of McCurtain acts as Trustees of the MMA.

In order to fulfill these functions, the MMA has leased from the Town its sewer system, its rights to all improvements thereto, its rights to any and all municipal services and revenues there from.

FUND ACCOUNTING

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund types as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted in another fund.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The McCurtain Municipal Authority is accounted for as the Town's Enterprise Fund.

McCurtain Municipal Authority

Accounts for the activities of the public trust in providing water and sewer services to the public.

MEMORANDUM TOTALS

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only. The totals do not fairly present financial

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

position or results of operations for the governmental unit as a whole in conformity with generally accepted accounting principles.

BASIS OF ACCOUNTING

Basis of accounting refers to the time when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurement made, regardless of the measurement focus applied.

The cash basis of accounting is followed by all funds of the Town, which is not in accordance with generally accepted accounting principles. Under this cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, governmental fund types would utilize the modified accrual basis of accounting while proprietary type funds would use the accrual basis of accounting.

If the books of the governmental fund types and the similar trust fund were maintained on the basis of accounting required by generally accepted accounting principles, revenues would be recorded when susceptible to accrual (i.e. both measurable) and available and expenditures would be recorded when the current liability is incurred. If the books of the proprietary fund types and similar trust funds were maintained on the basis of accounted required by generally accepted accounting principles, revenues would be recognized when earned and expenses would be recorded when the liability is incurred.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end, if any, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, and open-ended mutual funds.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portions) are reported as "advances from and to other funds". See

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

Note 8 for details of interfund transactions, including receivables and payables at yearend.

ACCOUNTS RECEIVABLE

As a result of the use of the cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

INVENTORIES

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

FIXED ASSETS

Expenditures for property and equipment of governmental funds and expendable trust funds are recorded as fund expenditures; however, no detail fixed asset records are maintained for such assets still in service. Therefore, fixed assets of the Governmental Activities required by generally accepted accounting principles (GAAP) cannot be presented.

Fixed assets acquired by the Enterprise Funds are capitalized as property and equipment within the Funds. Property, plant and equipment are stated at cost. Where cost can be determined from the available records, estimated historical cost is used to record the estimated value of the assets.

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheet. Depreciation has provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Sewer System	40 years
Equipment	5-7 years

Capitalization Policy

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

RESERVES

Reserves are recorded to signify that a portion of the fund equity is segregated from future use and is not available for appropriation or expenditure.

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

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.

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

The Town does not have any Major Special Revenue Funds

REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax received is recorded as sales tax revenue within the following funds:

- 2.5 cents General Fund

Of the two and one-half cents collected in the General Fund, one-half cents is required to be transferred to the McCurtain Municipal Authority in accordance with Ordinance No. 97-1 approved by the voters on April 1, 1997, for the purpose of sanitary Sewer Department Improvement and operation.

Property Tax

For the year ended June 30, 2011, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

- Governmental Fund Types - By Character: Current (further classified by activity) Capital Outlay
- Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

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

ACCUMULATED VACATION AND SICK LEAVE

Under Town personnel policies, Town employees are granted vacation and sick leave in varying amounts as approved by the board. In the event of termination, an employee will receive any compensatory time accumulated.

GASB NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Town has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

Memorandum Totals

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

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

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;

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

2. Maintenance and Operations; and
3. Capital Outlay

By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

NOTE 3 - 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 5, the Town was not in compliance with the reserve requirement of the Rural Development and OWRB loan agreements.

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 2, the Town prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations.

NOTE 4 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2011, the Town held deposits of approximately \$69,547 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.

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

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.).

Carrying Value Reconciliation to Statement of Net Assets

Cash, Including Time Deposits:	
General Government	\$ 2,716
Enterprise	4,743
Restricted Cash: Enterprise Fund	<u>62,088</u>
 Total Carrying Value	 \$ 69,547

NOTE 5 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$27,540), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

The loan agreement with the Oklahoma Water Resources Board (OWRB) requires the Authority to allocate funds to the Reserve Fund in the amount of 10% of the monthly installment each month until there is accumulated in that account the amount of the annual installment, after which deposits may be suspended.

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

As of June 30, 2011 the account balance for the reserve account was \$16,390.89, which does not comply with the covenants of the loan agreements.

NOTE 6 - CAPITAL ASSETS

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 Improvements	\$1,802,824	\$ 51,750	\$ -	\$1,854,574
Equipment & Vehicles	53,454	-	-	53,454
Subtotal	1,856,278	51,750	-	1,908,028
Less: Accum. Depreciation	(384,189)	(46,755)	-	(430,944)
Total Capital Assets (Net of Depreciation)	<u>\$1,472,088</u>	<u>\$(42,512)</u>	<u>\$ -</u>	<u>\$1,477,084</u>

Depreciation expense for the year ended June 30, 2011, aggregating \$46,755, has been computed on assets with a cost basis totaling \$1,908,028.

NOTE 7 - RESTRICTED ASSETS

General Fund cash and equivalents are restricted in accordance with Town Resolution 101 recognizing a \$15,000 gift for the purpose of building a recreational center. Due to the inability to comply with such bequest at present, the council has restricted the use of principal until such time when financially feasible. The interest earned is deposited into the General Fund.

Municipal Authority revenue bonds - Cash and investments are held by the trustee bank in accordance with the bond indenture reserve requirement and for the capital improvements project.

Components of Restricted Assets:

Meter Deposits	\$ 4,647
Debt Reserve	16,391
OWRB Emergency Grant	41,050
	<u>\$62,088</u>

NOTE 8 - VOLUNTEER FIREFIGHTERS PENSION FUND

The Town volunteer firemen participate only in the Oklahoma State Firefighters Pension and Retirement System which is a defined contributions plan applying only to the Town's volunteer firefighters. Eligibility to participate includes all full-time or voluntary firefighters or a participating municipality if they are hired before

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

age 45. The State Statute gives the authority to establish contribution obligations and benefits. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The eligibility and benefits for distribution for volunteer firemen is 20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.

Contributions are made by the Town at the rate of \$60 per volunteer firefighter per year. The total contribution for 2010/2011 was \$780 and covered 13 volunteers.

NOTE 9 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

The governmental funds currently have no long-term debt.

MCCURTAIN MUNICIPAL AUTHORITY

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2011

Promissory Note to the Rural Utilities Service in the Amount \$500,000 with an initial interest rate of 4.50%. The note is being retired through monthly payment of \$2,295 including principal and interest beginning September 12, 2003 until the note matures on July 12, 2041. The note is for the purpose of financing the construction of a sewage collection and treatment facility.

\$ 452,236

Promissory Note to the Oklahoma Water Resources Board in the amount of \$41,931 with an initial interest rate of 2.237%. The payment schedule is set semiannually at a rate set by the water resources board. The note was for the purpose of providing \$41,931 in loan funds to make sanitary sewer system improvements. Semiannual Payments began on September 15, 2003 in The amount of \$1,048.

27,866

Total Notes Payable Outstanding

\$ 480,102

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

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

	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011
Note Payable - RD	\$ 459,252	\$ -	\$ (7,016)	\$ 452,236
Note Payable - OWRB	29,799	-	(1,933)	27,867
	<u>\$ 489,051</u>	<u>\$ -</u>	<u>\$ (8,949)</u>	<u>\$ 480,102</u>

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

Year Ending June 30,	Note Payable - RD		Note Payable - OWRB		Total
	Principal	Interest	Principal	Interest	
2012	\$ 7,321	\$ 20,219	\$ 1,985	\$ 762	\$ 30,287
2013	7,657	19,883	2,042	704	30,287
2014	8,009	19,531	2,100	647	30,287
2015	8,377	19,163	2,158	589	30,287
2016	8,762	18,778	2,217	530	30,287
2017-2021	50,229	87,471	12,057	1,677	151,434
2022-2025	62,876	74,824	5,308	186	143,194
2026-2031	78,708	58,992	-	-	137,700
2032-2035	98,526	39,174	-	-	137,700
2036-2041	121,772	14,773	-	-	136,545
Total	<u>\$ 452,236</u>	<u>\$ 372,810</u>	<u>\$ 27,867</u>	<u>\$ 5,094</u>	<u>\$ 858,006</u>

Pledged Revenue - One-half cent sales tax revenue from General Funds is required to be transferred to the McCurtain Municipal Authority for the purpose of sewer system improvements and debt service.

NOTE 10 - INTERFUND TRANSACTIONS

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

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
McCurtain Municipal Authority	\$ 7,168	\$ 4,270
Total General	<u>7,168</u>	<u>4,270</u>
ENTERPRISE FUNDS:		
McCurtain Municipal Authority:		
General Fund	4,270	7,168
Total Enterprise Funds	<u>4,270</u>	<u>7,168</u>
GRAND TOTALS	<u>\$11,438</u>	<u>\$11,438</u>

NOTE 11 - FUND EQUITY

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

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

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 7 above.

Fund Balances

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

	General Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:			
Restricted for:			
Police Fees	\$ -	\$ 577	\$ 577
Unassigned	2,139	-	2,139
Total	<u>\$ 2,139</u>	<u>\$ 577</u>	<u>\$ 2,716</u>

NOTE 12 - 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.

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

In April 2007, The McCurtain Municipal Authority filed Chapter 9 bankruptcy and as of the fiscal year end the Plan is presently pending confirmation. An objection to the granting of relief was filed by a Creditor, Ken's Services, Inc. Should the Plan be confirmed it will make payments over a period of five (5) years, paying all of its secured debts and about 8% of its unsecured debts. There have been only two claims filed to date in the bankruptcy. Larry B. Lucas has filed a claim for \$16,539.40, which was rejected by the Bankruptcy Court. It is the attorney's understanding that this is attorney fees for representing the MMA in the state lawsuit by Ken's Services, Inc. Further the Oklahoma Water Resources Board has filed a secured claim in the sum of \$35,338.32. The MMA owes a sum of money to Rural Development for a loan granted to the Municipal Authority and that particular debt is secured. Finally, there is a debt to Ken's Services, Inc. Ken's Services, Inc. obtained judgment in February 2007, against the McCurtain Municipal Authority and at the time the Chapter 9 bankruptcy was filed, Ken's Services, Inc. was seeking costs and attorney fees. Ken's Services, Inc. has filed a claim in the area of \$350,000.00.

As of June 30, 2010, Ken's Services, Inc. has accepted and received a settlement of \$40,000.00. This settlement amount is included in the PWA financial statements as a miscellaneous expense.

COMMITMENTS

At June 30, 2011, the Town had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service. The Town's usage of the modified cash basis of accounting results in this commitment not being accrued in the financial statements.

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 19, 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.

NOTE 14 - COMMUNITY RESOURCE GROUP LOAN

The McCurtain Municipal Authority has a loan dated December 9, 2010, in the amount of \$16,600 payable to Community Resource Group, Inc. The loan is for a term of 10 years with interest at 4.5% payable in monthly installments of \$172.04. As of June 30, 2011, this loan has not been received yet. The loan is to be used for the Water Tower.

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 9,780	\$ 9,780	\$ 9,780	\$ -
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	28,722	28,722	34,087	5,365
Tobacco Tax	389	389	502	112
Franchise Tax	6,154	6,154	7,852	1,698
Intergovernmental:				
Alcoholic Beverage Tax	6,125	6,125	7,045	920
Gasoline Excise Tax	810	810	886	76
Motor Vehicle Tax	2,994	2,994	3,335	341
Grants	15,369	15,369	-	(15,369)
Fines & Forfeitures	124,915	124,915	94,671	(30,244)
Royalty Income	1,283	1,283	1,997	714
Rental Income	135	135	400	265
Miscellaneous Income	3,934	3,934	1,823	(2,111)
Interest Income	19	19	5	(14)
Transfers In	-	-	7,168	7,168
Amounts available for appropriation	<u>200,629</u>	<u>200,629</u>	<u>169,550</u>	<u>(31,079)</u>
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	66,000	66,000	67,744	(1,744)
Maintenance & Operations	115,000	115,000	95,396	19,604
Capital Outlay	4,629	4,629	-	4,629
Debt Service	-	-	-	-
Transfers	15,000	15,000	4,270	10,730
Total Charges to Appropriations	<u>200,629</u>	<u>200,629</u>	<u>167,411</u>	<u>33,218</u>
Prior Year Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,139</u></u>	<u><u>2,139</u></u>

TOWN OF MCCURTAIN, 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.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 McCurtain, 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 McCurtain, 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 December 19, 2011, which was qualified for the effect on the basic financial statements of the omission of capital assets for the governmental activities, each major fund and the aggregate remaining fund information and was adverse for the business-type activities because of the discrepancies in the Municipal Authority's financial statements. The Town of McCurtain 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 McCurtain'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 McCurtain's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of McCurtain'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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

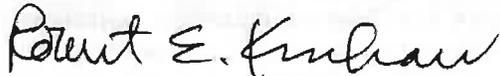
Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01, 11-02, 11-03, 11-04 and 11-05. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of McCurtain'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are included in the Schedule of Findings as Item 11-06. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

The Town of McCurtain's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit the Town of McCurtain'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 McCurtain, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

December 19, 2011

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

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 11-01: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: I recommend the governing body and management take appropriate action to direct the staff to initiate this project and provide funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town has expressed interest in developing and maintaining detail general fixed asset records.

Item 11-02: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

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

Response: The Board continues to be actively involved in the operations of the Town.

Item 11-03: Meter Deposits

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

Condition: The Town does not keep a ledger regarding the balance of customer meter deposits.

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. The Town is aware of the problem and has already taken steps to correct the situation.

Response: The Town is aware of the problem. However, the condition still exists.

Item 11-04: Bank Reconciliation

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: Personnel of the McCurtain Municipal Authority did not consistently and accurately perform monthly bank reconciliations during the audit year. Reconciliations were not prepared from July 2010 thru October 2010. In addition, the MMA reserve account, MMA money market account, MMA meter account, MMA grant account, OSBI account and CLEET account have not been reconciled.

Cause/Effect: The financial statements may contain misstatements and omit financial information.

Recommendation: Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements.

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

Response: The Authority experienced employee turnover during the year. Beginning in November 2010, bank reconciliations for the water and sewer operations accounts are being prepared monthly by the new bookkeeper.

Item 11-05: Revenue Classifications & Documentation

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, regulations and laws, and promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The MMA did not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, the revenue for the year was not properly divided into categories. Revenue documentation needed to perform some audit procedures was not adequately maintained. However, other evidence including bank statements and previous year's comparisons were used in audit procedures which show that if there were any discrepancy in total revenue it is of an immaterial amount.

Recommendation: All revenue should be properly classified and documented. The Board should continue to be actively involved in the operations of the District.

Response: The Authority has experienced employee turnover, resulting in management being unfamiliar with proper classifications. Beginning in November 2010, the new bookkeeper was able to begin properly classifying and documenting income and expenses.

SIGNIFICANT DEFICIENCIES OF COMPLIANCE

Item 11-06: Reserve Requirements

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$27,540), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

Condition: The Authority has a loan reserve account with a balance of \$16,390.89.

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

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement. During the previous year, the Authority withdrew \$60,412.57 from the account with approval from the USDA to remove \$40,000.00 to settle outstanding litigation. This authorized withdrawal left an insufficient balance in the account. The Authority made one deposit in the amount of \$5,318.42 in the account. However, no other deposits have been made. The Authority must begin making deposits into the account until the balance is sufficient to cover the reserve requirement.

Response: The Authority is aware of the situation.

TOWN OF MCCURTAIN, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
ASSETS			
Cash and cash equivalents	\$ 256	\$ 321	\$ 577
Investments	-	-	-
Due from General Fund	-	-	-
Due from other governments	-	-	-
TOTAL ASSETS	\$ 256	\$ 321	\$ 577
LIABILITIES & FUND EQUITY			
LIABILITIES:			
Due to Other Governments	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Restricted	256	321	577
TOTAL FUND BALANCES	256	321	577
TOTAL LIABILITIES AND FUND BALANCES	\$ 256	\$ 321	\$ 577

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

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

	<u>SPECIAL REVENUE FUNDS</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>CLEET Fund</u>	<u>OSBI Fund</u>	
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	-	-	-
Grants	-	-	-
Fines & Forfeitures	4,262	4,734	8,996
Miscellaneous Income	-	-	-
Interest Income	-	-	-
TOTAL REVENUES	4,262	4,734	8,996
<u>EXPENDITURES:</u>			
Current:			
Personal Services	-	-	-
Maintenance & Operations	4,707	5,634	10,341
Capital Outlay	-	-	-
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	4,707	5,634	10,341
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(445)	(900)	(1,345)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGES IN FUND BALANCES	(445)	(900)	(1,345)
FUND BALANCE - BEGINNING OF YEAR	701	1,221	1,922
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 256	\$ 321	\$ 577

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