

**TOWN OF LUTHER, OKLAHOMA**

**Report on Audit of Financial Statements**

**For the period ending June 30, 2013**

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## Independent Auditor's Report

To the Board of Trustees  
Town of Luther, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Luther, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Luther, as of June 30, 2013, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## **Other Matters**

### **Required Supplementary Information**

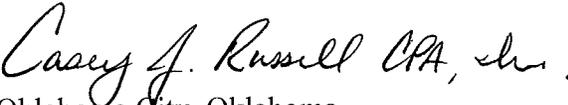
Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2013, on our consideration of the Town of Luther's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Luther's internal control over financial reporting and compliance.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with the respect to this matter.

  
Oklahoma City, Oklahoma  
December 8, 2013

**Town of Luther, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2013**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	53,663.19	49,771.26	103,434.45
Restricted - Cash and Cash Equivalents	-	89,165.06	89,165.06
Due from Other Funds	34,141.00	-	34,141.00
<b>Total Current Assets</b>	<u>87,804.19</u>	<u>138,936.32</u>	<u>226,740.51</u>
<b>NONCURRENT ASSETS</b>			
Net Capital Assets	727,311.36	561,740.93	1,289,052.29
<b>Total Noncurrent Assets</b>	<u>727,311.36</u>	<u>561,740.93</u>	<u>1,289,052.29</u>
<b>TOTAL ASSETS</b>	<u>\$ 815,115.55</u>	<u>\$ 700,677.25</u>	<u>\$ 1,515,792.80</u>
<b>CURRENT LIABILITIES</b>			
Accrued Liabilities	65,385.76	12,238.96	77,624.72
Due to Other Funds	-	34,141.00	34,141.00
Current Portion of Long Term Debt	-	24,255.31	24,255.31
Meter Deposits	-	29,484.84	29,484.84
<b>Total Current Liabilities</b>	<u>65,385.76</u>	<u>100,120.11</u>	<u>165,505.87</u>
<b>NONCURRENT LIABILITIES</b>			
Notes Payable	267,678.58	135,735.38	403,413.96
<b>Total Noncurrent Liabilities</b>	<u>267,678.58</u>	<u>135,735.38</u>	<u>403,413.96</u>
<b>TOTAL LIABILITIES</b>	<u>333,064.34</u>	<u>235,855.49</u>	<u>568,919.83</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	459,632.78	401,750.24	861,383.02
Restricted for Debt Service	-	89,165.06	89,165.06
Unrestricted	22,418.43	(26,093.54)	(3,675.11)
<b>TOTAL NET POSITION</b>	<u>482,051.21</u>	<u>464,821.76</u>	<u>946,872.97</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 815,115.55</u>	<u>\$ 700,677.25</u>	<u>\$ 1,515,792.80</u>

**Town of Luther, Oklahoma**  
**Statement of Activities - Modified Cash Basis**  
**For the Year Ending June 30, 2013**

Functions/Programs	Net (expense) revenue and Changes in net position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities						
General Government	415,403.99	44,428.28	75,292.19	(295,683.52)	-	(295,683.52)
LEDA	45,097.13	-	-	(45,097.13)	-	(45,097.13)
Public Safety	441,364.42	299,002.74	-	(142,361.68)	-	(142,361.68)
Fire Department	60,478.91	-	-	(60,478.91)	-	(60,478.91)
Total Governmental Activities	962,344.45	343,431.02	75,292.19	(543,621.24)	-	(543,621.24)
Business-Type Activities						
Luther Public Works Authority	261,324.76	263,067.40	-	-	1,742.64	1,742.64
Total Business-Type Activities	261,324.76	263,067.40	-	-	1,742.64	1,742.64
Total Primary Government	\$1,223,669.21	\$ 606,498.42	\$ 75,292.19	\$ (543,621.24)	\$ 1,742.64	\$ (541,878.60)
		General Revenues				
		Sales Taxes	280,190.40	-	-	280,190.40
		Other Taxes	70,562.19	-	-	70,562.19
		Interest Income	210.96	421.05	421.05	632.01
		Total General Revenue	350,963.55	421.05	421.05	351,384.60
		Transfer In/Out	69,410.97	(69,410.97)	-	-
		Change in Net Position	(123,246.72)	(67,247.28)	(190,494.00)	(190,494.00)
		Net Assets Beginning	605,297.93	532,069.04	1,137,366.97	1,137,366.97
		Net Assets Ending	\$ 482,051.21	\$ 464,821.76	\$ 946,872.97	\$ 946,872.97

**Town of Luther, Oklahoma  
Governmental Funds  
Balance Sheet - Modified Cash Basis  
June 30, 2013**

	General Fund	Special Revenue Fund	Total Governmental Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 40,618.25	\$ 13,044.94	\$ 53,663.19
Due from Other Funds	34,141.00	-	34,141.00
<b>Total Assets</b>	<b>\$ 74,759.25</b>	<b>\$ 13,044.94</b>	<b>\$ 87,804.19</b>
<b>LIABILITIES</b>			
Accrued Liabilities	65,385.76	-	65,385.76
<b>Total Liabilities</b>	<b>65,385.76</b>	<b>-</b>	<b>65,385.76</b>
<b>FUND BALANCES</b>			
General Fund	9,373.49	-	9,373.49
Special Revenue Funds	-	13,044.94	13,044.94
<b>Total Fund Balances</b>	<b>9,373.49</b>	<b>13,044.94</b>	<b>22,418.43</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 74,759.25</b>	<b>\$ 13,044.94</b>	<b>\$ 87,804.19</b>

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

Total Governmental Net Position	22,418.43
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	727,311.36
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(267,678.58)</u>
Net position per the government wide financial statements	<u><u>\$ 482,051.21</u></u>

**Town of Luther, Oklahoma**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2013**

	General Fund	Special Revenue Fund	Total Governmental Fund
<b>Revenues</b>			
Taxes	\$ 350,752.59	\$ -	\$ 350,752.59
Licenses and Permits	18,284.67	-	18,284.67
Charges for Services	4,550.00	918.75	5,468.75
Fines and Forfeitures	299,002.74	-	299,002.74
Other Revenues	20,674.86	-	20,674.86
Interest Revenues	144.88	66.08	210.96
Grant Revenues	75,292.19	-	75,292.19
<b>Total Revenues</b>	<u>768,701.93</u>	<u>984.83</u>	<u>769,686.76</u>
<b>Expenditures</b>			
Personnel Services	390,818.82	-	390,818.82
Maintenance and Operations	463,257.36	-	463,257.36
Debt Service	31,070.19	-	31,070.19
Capital Outlay	136,732.60	-	136,732.60
<b>Total Expenses</b>	<u>1,021,878.97</u>	<u>-</u>	<u>1,021,878.97</u>
<b>Excess Revenues over Expenses</b>	(253,177.04)	984.83	(252,192.21)
<b>Other Financing Sources and Uses</b>			
Capital Financing	78,487.20	-	78,487.20
Transfers In/Out	68,093.97	1,317.00	69,410.97
<b>Total Other Financing Sources and Uses</b>	<u>146,581.17</u>	<u>1,317.00</u>	<u>147,898.17</u>
Extraordinary Items - Fraud Loss	28,746.64	-	28,746.64
<b>Net Change in Fund Balances</b>	<u>(135,342.51)</u>	<u>2,301.83</u>	<u>(133,040.68)</u>
Fund Balances, Beginning	144,716.00	10,743.11	155,459.11
Fund Balances, Ending	<u>\$ 9,373.49</u>	<u>\$ 13,044.94</u>	<u>\$ 22,418.43</u>

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2013***

<i>Net Change in Fund Balances - Total Governmental Funds</i>	(133,040.68)
<i>Monies received for the issuance of capital leases</i>	(78,487.20)
<i>Monies expended for capital assets recorded as an expense in the fund statements</i>	136,732.60
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the fund financial statements.</i>	(79,521.63)
<i>Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.</i>	<u>31,070.19</u>
<i>Change in Net Position per the Governmental Wide Financial Statements</i>	<u>\$ (123,246.72)</u>

**Town of Luther, Oklahoma**  
**Proprietary Fund**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	49,771.26
Restricted - Cash and cash equivalents	<u>89,165.06</u>
<b>Total Current Assets</b>	<b>138,936.32</b>

**NONCURRENT ASSETS**

Net Capital Assets	<u>561,740.93</u>
<b>Total Noncurrent Assets</b>	<b>561,740.93</b>

<b>TOTAL ASSETS</b>	<b><u><u>\$ 700,677.25</u></u></b>
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**LIABILITIES**

**CURRENT LIABILITIES**

Accrued Liabilities	12,238.96
Due To Other Funds	34,141.00
Meter Deposits	29,484.84
Current Portion of Long Term Debt	<u>24,255.31</u>
<b>Total Current Liabilities</b>	<b><u>100,120.11</u></b>

**NONCURRENT LIABILITIES**

Notes Payable	<u>135,735.38</u>
<b>Total Noncurrent Liabilities</b>	<b>135,735.38</b>

<b>TOTAL LIABILITIES</b>	<b><u>235,855.49</u></b>
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**NET POSITION**

Net Investment in Capital Assets	401,750.24
Restricted for Debt Service	89,165.06
Unrestricted	<u>(26,093.54)</u>
<b>TOTAL NET POSITION</b>	<b><u>464,821.76</u></b>

<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u><u>\$ 700,677.25</u></u></b>
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**Town of Luther, Oklahoma**  
**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2013**

<b>Revenues</b>	
Water	\$ 103,175.08
Sewer	40,209.34
Sanitation	114,379.89
Interest Income	421.05
Miscellaneous Revenue	<u>5,303.09</u>
<b>Total Revenues</b>	<u>263,488.45</u>
<b>Operating Expenses</b>	
Personnel Services	76,659.27
Maintenance and Operations	63,648.65
Sanitation	75,722.13
Interest Expense	8,629.23
Depreciation	<u>36,665.48</u>
<b>Total Operating Expenses</b>	<u>261,324.76</u>
<b>Transfers In/Out</b>	69,410.97
<b>Change in Net Position</b>	<u>(67,247.28)</u>
Beginning Net Position	<u>532,069.04</u>
Ending Net Position	<u><u>\$ 464,821.76</u></u>

**Town of Luther, Oklahoma**  
**Proprietary Fund**  
**Statement of Cash Flows - Modified Cash Basis**  
**For the Year Ending June 30, 2013**

<b>Cash flows from operating activities</b>	
Receipts from customers	263,067.40
Interest Income	421.05
Payments to employees	(64,420.31)
Payments to suppliers	<u>(217,410.98)</u>
<b>Net cash provided by operating activities</b>	<b>(18,342.84)</b>
<b>Cash flows from capital and related financing activities</b>	
Change in meter deposits	8,485.00
Principal paid on debt owed	<u>(23,407.66)</u>
<b>Net cash flows from capital and related financing activities</b>	<b>(14,922.66)</b>
<b>Net increase (decrease) in cash</b>	<b>(33,265.50)</b>
<b>Cash, Beginning of the Year</b>	<u>172,201.82</u>
<b>Cash, End of the Year</b>	<u><u>\$ 138,936.32</u></u>

*Reconciliation of operating income (loss) to net cash provided (used)  
by operating activities:*

Change in Net Position	(67,247.28)
Adjustments to reconcile change in net assets to net cash provided	
Depreciation	36,665.48
Increase (decrease) in accrued liabilities	<u>12,238.96</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ (18,342.84)</u></u>

**TOWN OF LUTHER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The Town of Luther, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2013, the Town had one component units, the Luther Public Works Authority.

**1.B. BASIS OF PRESENTATION**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds

within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

## **Governmental Funds**

### **General Fund**

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

### **Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Cemetery Care.

## **Proprietary Funds**

### **Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Luther PWA.

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

### **MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

#### BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

## **1.D. FINANCIAL POSITION**

### CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

### INVESTMENTS

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

### CAPITAL ASSETS

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

### **Government-Wide Statements**

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

### Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

## LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

## NET POSITION/FUND BALANCE CLASSIFICATIONS

### Government-Wide Statements

Net Position is classified and displayed in three components:

*Net investment in capital assets.* 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

*Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

*Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### Fund Financial Statements

#### **Governmental Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

**Nonspendable.** Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

**Restricted.** Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

**Committed.** Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

**Assigned.** Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

**Unassigned.** The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

### **Proprietary Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

## **1.E. REVENUES, EXPENDITURES, AND EXPENSES**

### PROGRAM REVENUES

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

### OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services.

They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

### GASB 34 IMPLEMENTATION

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

#### **1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

#### **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

#### **NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS**

Deposits and investments made by the Town are summarized below. The deposits are classified as to credit risk within the following three categories:

- Category 1 Insured or collateralized, with securities held by the Town or its agent in the Town's name.
- Category 2 Collateralized with securities held by the pledging financial institution’s trust department or agent in the Town's name.
- Category 3 Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Town's name.)

For the year ending June 30, 2013, the Town and its component units had category one deposits up to the FDIC insurance limits. The remaining account balances for the Town and its component units were category three.

#### **A. Restricted Assets**

The Luther Public Works Authority note payable to Rural Development includes restricted cash and investments for a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available to make debt service payments in a timely manner. Additionally, cash and investments held for refund to customers for water deposits are included as restricted assets. As of June 30, 2013 cash restricted for debt service was \$55,817 and cash restricted for customer deposits was \$33,348.

## B. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2013, cash and investments included \$33,348 available for refund of customer deposits, while the liability to customers was \$29,485.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the Town general fund as fines. As of June 30, 2013, \$-0- was being held that was subject to refund.

## NOTE 4. CAPITAL ASSETS AND DEPRECIATION

Capital asset balances and activities for the year ended June 30, 2013 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Funds</b>				
Land	70,235	-	-	70,235
Buildings	356,770	112,733	-	469,503
Equipment	433,798	24,000	-	457,798
Improvements	464,686	-	-	464,686
Total capital assets	1,325,489	136,733	-	1,462,222
Accumulated Depreciation	(655,389)	(79,522)	-	(734,910)
Net Assets	<u>\$ 670,100</u>			<u>\$ 727,311</u>
<b>Business-type activities</b>				
Land	82,000	-	-	82,000
Water system	649,255	-	-	649,255
Water equipment	42,436	-	-	42,436
Sewer system	647,770	-	-	647,770
Sewer equipment	23,750	-	-	23,750
Total capital assets	1,445,211	-	-	1,445,211
Accumulated Depreciation	(846,805)	(36,665)	-	(883,470)
Net Assets	<u>\$ 598,406</u>			<u>\$ 561,741</u>

## NOTE 5. NOTES PAYABLE

Long-term liabilities of the Town of Luther as of June 30, 2013, are summarized as follows:

### Business-type activities

No. 91-01 USDA Rural Development dated May 25, 1982, with an original amount of \$537,900 used for construction of water facilities. The note is due and payable at \$2,642 per month, including principal and interest at 5%, with the final payment due July 25, 2020. The Note is secured with a leasehold mortgage and first lien on the facilities and a pledge of the gross revenues of the water system

\$ 159,991

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2014	24,255	7,449
2015	25,496	6,208
2016	26,801	4,903
2017	28,172	3,532
2018-2019	55,267	2,679
Totals	\$ 159,991	\$ 24,771

### Governmental-type activities

The first note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to purchase police cars. The balance of this note as of June 30, 2013 was \$49,143 and matures in March 2017. The Town of Luther paid \$12,991 in principal and \$2,013 in interest on this obligation for the year ending June 30, 2013. Payments on this note are \$1,221 per month.

	Principal	Interest		
2013/2014	12,619	2,027	Balance, Beginning of Year	\$ 38,012
2014/2015	13,199	1,447	Loan Proceeds	24,122
2015/2016	13,806	841	Principal Paid During Year	<u>(12,991)</u>
2016/2017	9,519	216	Balance, End of Year	<u>\$ 49,143</u>
Total	<u>\$ 49,143</u>	<u>\$ 4,530</u>		

The second note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to purchase buildings. The balance of this note as of June 30, 2013 was \$165,590 and matures in July 2021. The Town of Luther paid \$16,659 in principal and \$7,904 in interest on this obligation for the year ending June 30, 2013. Payments on this note are \$2,046.89 per month.

	Principal	Interest		
2013/2014	17,537	7,025	Balance, Beginning of Year	\$ 182,249
2014/2015	18,343	6,220	Principal Paid During Year	<u>(16,659)</u>
2015/2016	19,186	5,377	Balance, End of Year	<u>\$ 165,590</u>
2016/2017	20,046	4,516		
2017/2018	21,076	3,595		
2018/2021	69,402	4,828		
Total	<u>\$ 165,590</u>	<u>\$ 31,561</u>		

The third note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to build a fire station. The balance of this note as of June 30, 2013 was \$52,945 and matures in March 2018. The Town of Luther paid \$1,420 in principal and \$607 in interest on this obligation for the year ending June 30, 2013. Payments on this note are \$1,014 per month.

	<u>Principal</u>	<u>Interest</u>		
2013/2014	10,033	2,131	Balance, Beginning of Year	\$ -
2014/2015	10,494	1,671	Loan Proceeds	54,365
2015/2016	10,976	1,188	Principal Paid During Year	<u>(1,420)</u>
2016/2017	11,480	684	Balance, End of Year	<u>\$ 52,945</u>
2017/2018	9,961	168		
Total	<u>\$ 52,945</u>	<u>\$ 5,843</u>		

**NOTE 6. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has insurance for the major risks such as property and general liability, workers' compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to Town buildings and mobile equipment. Judgments against the Town may be paid by a property tax assessment over a three-year period.

**NOTE 7. EXTRAORDINARY ITEMS**

The Town was subject to fraud during the course of the year which is estimated to be \$47,834 as of the date of the audit. Of this amount \$28,747 of fraud occurred during year ending June 30, 2013 and is recorded on the financial statements as an extraordinary item.

**NOTE 8. SUBSEQUENT EVENTS**

During the course of the audit, it was determined that the Town had not been remitting its payroll taxes. The tax liability as of June 30, 2013 is reflected in the financial statements as accrued liabilities of \$65,385 in the general fund and \$12,239 in the LPWA. However, the Town and LPWA also owe an additional \$36,248 as of the date of the audit report. The total amount owed in taxes amounted to \$113,873 as of December 8, 2013. This amount does not encompass any penalties or interest that may be assessed by the respective taxing agencies.

Subsequent events have been evaluated through December 8, 2013, which is the date the financial statements were issued.

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
Town of Luther

We have audited, in accordance with the 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, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Luther, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Luther's basic financial statements, and have issued our report thereon dated December 8, 2013.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Luther's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Luther's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Luther's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a

timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2013-1, 2013-2, & 2013-3.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. 2013-4.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Luther's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-5.

### **Town of Luther's Response to Findings**

Town of Luther's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Luther's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma  
December 8, 2013

## **Schedule of Current Findings and Responses**

### **2013-1 Bank Reconciliations**

**CONDITION:** During our review of the accounting records we noted that the Town's bank accounts were not being reconciled at the end of each month.

**CRITERIA:** Proper internal control and accounting procedures require that all bank accounts be reconciled on a regular basis. Bank reconciliations are essential to verify that all transactions have been properly recorded into the general ledger system. Proper reconciliations can also insure that only items that have been approved by the board are actually being paid to help eliminate the chance of embezzlement.

**CAUSE OF CONDITION:** Personnel was not properly recording all transactions into the accounting software. Furthermore, they were not properly reconciling the bank statements with the general ledger at the end of each month.

**EFFECT OF CONDITION:** Due to the accounts not being reconciled the bank accounts and various revenue and expense accounts were misstated. There were large numbers of debit card transactions that were never recorded to the general ledger. This has caused a misstatement in expenses.

**RECOMMENDATION:** All bank accounts should be reconciled on a monthly basis.

**MANAGEMENT RESPONSE:** The Town is currently in the process of hiring an outside CPA to help with reconciling the accounts on a monthly basis.

### **2013-2 Not All Activity Is Being Accounted For In The General Ledger**

**CONDITION:** The Town has several checking accounts whose activities are not being properly recorded in the accounting software.

**CRITERIA:** In order for the accounting records to be accurate all transactions and activity should be accounted for in a common and centralized accounting system.

**CAUSE OF CONDITION:** The Clerk is responsible for inputting all revenue and expense activity into the accounting system and has failed to do so.

**EFFECT OF CONDITION:** Incomplete and inaccurate accounting records allows for embezzlement to occur and go undetected.

**RECOMMENDATION:** All accounting activity should be properly inputted into the system as they occur. Furthermore, the board members should be comparing the bank statements to the actual checks that they have approved during the meetings on a periodic basis. This will help reduce the likelihood of embezzlement.

**MANAGEMENT RESPONSE:** The Town is currently in the process of hiring an outside CPA to help with reconciling the accounts on a monthly basis. The Mayor and Vice-Mayor will start comparing the accounting activity to the bank statements.

### **2013-3 Lack of Segregation of Duties (Repeat Finding)**

**CONDITION:** During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the town and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that the town clerk has access to a debit card which requires no approval by board members before using.

**CRITERIA:** Proper internal control requires a separation of record keeping from the associated assets or a system of management oversight to compensate for the lack of separation.

CAUSE OF CONDITION: Limited personnel and the ability of one person to have absolute access.

EFFECT OF CONDITION: The Town has been subjected to embezzlement.

RECOMMENDATION: Debit card and/or credit card should no longer be allowed. An outside CPA should be hired to help strengthen internal controls.

MANAGEMENT RESPONSE: All checks now require three signatures whether there are three signature lines or not. Debit card and/or credit card will no longer be allowed. An outside CPA is being hired to help reconcile matters on a monthly basis so that internal controls can be stronger.

#### **2013-4 Lack of Segregation of Duties (Repeat Finding)**

CONDITION: Currently, the Utility Billings Clerk and the Court Clerk is the same person. They not only input the monthly readings into the utility software and ticket system but also collect the payments that come into the office. They also have the ability to make adjustments to any account. This individual also prepares the deposit slips to be taken to the bank.

CRITERIA: Proper internal control requires a separation of record keeping from the associated assets or a system of management oversight to compensate for the lack of separation.

CAUSE OF CONDITION: Limited personnel and the ability of one person to have absolute access.

EFFECT OF CONDITION: The Town is susceptible to having errors or fraud occur with regard to utility billings and ticket fine collections.

RECOMMENDATION: The Town should separate the billing function, collection function and the recording of payments received. The alternative would be for management to establish a system of oversight where daily collections are reconciled to funds recorded as received in the software. Another alternative would be for the town to institute a policy of not accepting cash at town hall. This alternative would significantly reduce the likely of fraud or error from occurring.

#### **2013-5 Payroll Tax Payments**

CONDITION: The payroll tax reports for the various quarters of the fiscal year ending June 30, 2013 was not filed in a timely fashion. The monies that were withheld and the matching payroll obligations for the various quarters were not remitted on time.

CRITERIA: Payroll tax reports and the resulting taxes that have been withheld are required by law to be filed and remitted in a timely fashion.

CAUSE OF CONDITION: The Clerk was not remitting payments.

RECOMMENDATION: An outside CPA should be hired to handle all payroll activity to insure that all taxes and reports are filed in a proper manner.

CLIENT RESPONSE: The board will evaluate the situation and at the very least bring the Town into compliance.