

TOWN OF SOUTH COFFEYVILLE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
JUNE 30, 2012

TOWN OF SOUTH COFFEYVILLE
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CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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INDEPENDENT AUDITOR'S REPORT

Town Council
Town of South Coffeyville
South Coffeyville, OK

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Coffeyville, State of Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town of South Coffeyville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of South Coffeyville, State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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. 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Coffeyville, State of Oklahoma, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Management has omitted 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Coffeyville, State of Oklahoma's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2014, on our consideration of the Town of South Coffeyville, State of Oklahoma'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 South Coffeyville, State of Oklahoma's internal control over financial reporting and compliance.

Respectfully submitted,



WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

MARCH 23, 2014

TOWN OF SOUTH COFFEYVILLE
STATEMENT OF NET ASSETS
 JUNE 30,

	2012		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash, including time deposits	\$ 253,103	\$ 370,100	\$ 623,203
Taxes receivable	15,884	-	15,884
Prepaid expenses	2,325	11,479	13,804
Grants Receivable	-	143,395	143,395
Interest Receivable	-	252	252
Accounts receivable, net	-	200,453	200,453
Due from other funds	-	2,358	2,358
Total current assets	<u>271,312</u>	<u>728,037</u>	<u>999,349</u>
Noncurrent assets:			
Restricted assets			
Cash	-	136,767	136,767
Bond issuance costs	-	53,032	53,032
Capital assets, net of accumulated depreciation	558,402	663,873	1,222,275
Total noncurrent assets	<u>558,402</u>	<u>853,672</u>	<u>1,412,074</u>
Total Assets	<u>829,714</u>	<u>1,581,709</u>	<u>2,411,423</u>
Liabilities			
Current liabilities:			
Accounts payable	3,419	28,395	31,814
Current portion of long term debt	-	-	-
Accrued wages and taxes	8,390	3,779	12,169
Accrued interest	-	7,188	7,188
Accrued contingencies	-	-	-
Sales tax payable	-	10,755	10,755
Due to other funds	2,358	-	2,358
Total current liabilities	<u>14,168</u>	<u>50,117</u>	<u>64,284</u>
Noncurrent liabilities:			
Utility deposits	-	70,028	70,028
Notes payable, less current portion	-	575,000	575,000
Accrued compensated absences	-	4,719	4,719
Total noncurrent liabilities	<u>-</u>	<u>649,746</u>	<u>649,747</u>
Total Liabilities	<u>14,168</u>	<u>699,863</u>	<u>714,031</u>
Net assets			
Invested in capital assets, net of related debt	515,617	97,741	613,358
Restricted	-	66,739	66,739
Unrestricted	299,929	717,366	1,017,295
Total net assets	<u>\$ 815,546</u>	<u>\$ 881,846</u>	<u>\$ 1,697,392</u>

TOWN OF SOUTH COFFEYVILLE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30,

	2012						
	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
General government	\$ 76,975	\$ 37,003	\$ 5,000	\$ 9,292	\$ (25,680)	\$ -	\$ (25,680)
Public safety and judiciary	204,539	10,315	-	-	(194,224)		(194,224)
Public works	61,192	-	-	-	(61,192)		(61,192)
Total governmental activities	<u>342,705</u>	<u>47,317</u>	<u>5,000</u>	<u>9,292</u>	<u>(281,096)</u>	<u>-</u>	<u>(281,096)</u>
Business-type activities:							
Water	905,862	935,359	-	-	-	29,497	29,497
Sewer	180,213	145,871	-	143,395	-	109,054	109,054
Total business-type activities	<u>1,086,074</u>	<u>1,081,229</u>	<u>-</u>	<u>143,395</u>	<u>-</u>	<u>138,550</u>	<u>138,551</u>
Total	<u>\$ 1,428,779</u>	<u>\$ 1,128,547</u>	<u>\$ 5,000</u>	<u>\$ 152,687</u>	<u>\$ (281,096)</u>	<u>\$ 138,550</u>	<u>\$ (142,545)</u>
Net (expense)/revenue							
General revenues:					\$ (281,096)	\$ 138,551	\$ (142,545)
Taxes:							
Sales and use					87,149	-	87,149
Alcohol					9,146	-	9,146
Cigarette					1,247	-	1,247
Vehicle					5,955	-	5,955
Gasoline					888	-	888
Fines and forfeitures					117,330	-	117,330
Licenses and permits					80	-	80
Interest income/(expense)					1,147	3,209	4,356
Miscellaneous					12,651	26,872	39,522
Transfer of funds (net)					99,809	(99,809)	-
Total general revenues and transfers					<u>335,401</u>	<u>(69,729)</u>	<u>265,673</u>
Change in net assets					54,305	68,822	123,128
Net assets, beginning					761,241	813,024	1,574,265
Net assets, ending					<u>\$ 815,546</u>	<u>\$ 881,846</u>	<u>\$ 1,697,394</u>

TOWN OF SOUTH COFFEYVILLE
BALANCE SHEET -- GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30,

	2012				Total
	General Fund	Street and Alley Fund	Fireman's Special Fund	State and Local Assistance Fund	Governmental Funds
Assets					
Cash, including time deposits	\$ 104,213	\$ 117,700	\$ 18,825	\$ 12,365	\$ 240,738
Taxes receivable	14,660	1,224	-	-	15,884
Prepays	2,322	3	-	-	2,325
Total assets	<u>121,195</u>	<u>118,927</u>	<u>18,825</u>	<u>12,365</u>	<u>258,947</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	3,330	89	-	-	3,419
Accrued expenses	8,390	-	-	-	8,390
Due to other funds	2,358	-	-	-	2,358
Total liabilities	<u>14,078</u>	<u>89</u>	<u>-</u>	<u>-</u>	<u>14,168</u>
Fund balances:					
Assigned		92,677	2,905	2,365	95,582
Unassigned	145,812	-	-	-	145,812
Total fund balances	<u>145,812</u>	<u>92,677</u>	<u>2,905</u>	<u>2,365</u>	<u>241,394</u>
Total liabilities and fund balances	<u>\$ 159,890</u>	<u>\$ 92,767</u>	<u>\$ 2,905</u>	<u>\$ 2,365</u>	<u>\$ 255,562</u>

Total fund balance, governmental funds 241,394

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

574,152

Net assets of governmental activities in the Statement of Net Assets

\$ 815,546

TOWN OF SOUTH COFFEYVILLE

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

YEAR ENDED JUNE 30,

	2012				Total Governmental Funds
	General Fund	Street and Alley Fund	Fireman's Special Fund	State & Local Assistance Fund	
Revenues:					
Sales and use tax	\$ 87,149	\$ -	\$ -	\$ -	\$ 87,149
Commercial vehicle tax	-	5,955	-	-	5,955
Alcohol and cigarette tax	10,393	-	-	-	10,393
Gasoline tax	-	888	-	-	888
Fines and forfeitures	117,330	-	-	-	117,330
Interest	811	313	23	-	1,147
Grants	-	-	-	5,000	5,000
Charges for services	37,003	-	-	-	37,003
Fire	-	-	10,315	-	10,315
Capital contributions	4,500	-	4,792	-	9,292
Licenses and permits	80	-	-	-	80
Miscellaneous	3,317	-	6,198	5,000	14,515
Total revenues	260,583	7,156	21,327	10,000	299,066
Expenditures					
Current:					
General government:					
Administrative and accounting	73,360	-	-	-	73,360
Public Safety (Police, Fire)	228,727	-	2,686	-	231,414
Public works	-	77,995	-	-	77,995
Capital outlay	-	-	2,721	-	2,721
Total expenditures	302,087	77,995	5,407	-	385,490
Excess (deficiency) of revenues over expenditures	(41,504)	(70,839)	15,920	10,000	(86,424)
Other financing sources (uses)					
Transfers	2,809	97,000	-	-	99,809
Total other financing sources (uses)	2,809	97,000	-	-	99,809
Net change in fund balances	(38,695)	26,161	15,920	10,000	13,385
Fund balances - beginning	145,811	92,678	2,905	2,365	243,759
Fund balances - ending	107,116	118,839	18,825	12,365	257,144

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

Net change in fund balances – total governmental funds	<u>2012</u> \$ (61,402)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p> <p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as an expense. The outlay is allocated over the assets estimated useful lives as depreciation expense for the period. This is the amount that depreciation in the current period exceeds the current capital outlays.</p>	
Change in net assets of governmental activities	115,707 <u>\$ 54,305</u>

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

	2012		
	Utility Fund	PWA	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 128,447	\$ 241,653	\$ 370,100
Prepaid Expenses	8,532	2,947	11,479
Accounts receivable - customers	182,781	17,671	200,453
Taxes receivable	-	-	-
Grants receivable	-	143,395	143,395
Interest receivable	252	-	252
Due from other town funds	2,358	-	2,358
Total current assets	322,370	405,667	728,037
Noncurrent assets:			
Restricted assets - cash including time deposits	70,028	66,739	136,767
Capital assets, net of accumulated depreciation	104,810	559,063	663,873
Debt issuance costs, net of accumulated amortization	-	53,032	53,032
Total noncurrent assets	174,838	678,834	853,672
Total assets	497,208	1,084,501	1,581,709
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	32,106	66	32,172
Current portion of long-term obligations	-	7,188	7,188
Accrued interest payable	-	7,188	7,188
Sales tax payable	10,755	-	10,755
Total current liabilities	42,861	7,254	50,115
Noncurrent liabilities:			
Customer deposits	70,028	-	70,028
Long-term debt, less current portion	-	575,000	575,000
Accrued compensated absences	2,875	1,865	4,741
Total noncurrent liabilities	72,903	576,865	649,768
Total liabilities	115,764	584,119	699,883
Net assets			
Invested in capital assets, net of related debt	116,838	(19,097)	97,741
Restricted:			
Debt service	-	66,739	66,739
Unrestricted	264,606	452,740	717,346
Total net assets	\$ 381,444	\$ 500,382	\$ 881,826

TOWN OF SOUTH COFFEYVILLE

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

YEAR ENDED JUNE 30,

	2012		
	Utility Fund	PWA	Total
Operating revenues			
Charges for services			
Sanitation	\$ 66,525	\$ -	\$ 66,525
Water (net of refunds/adjustments)	172,514	-	172,514
Sewer	-	145,871	145,871
Electric	696,320	-	696,320
Miscellaneous	29,040	(2,169)	26,872
Total operating revenues	<u>964,399</u>	<u>143,702</u>	<u>1,108,101</u>
Operating expenses			
Purchased water	96,341	-	96,341
Purchased sewer	143,437	87,225	230,662
Purchased sanitation	62,857	-	62,857
Purchased electric	320,305	-	320,305
Personnel benefits	239,119	72,798	311,917
Grant expenditures	6,900	-	6,900
Amortization	-	3,349	3,349
Depreciation	34,883	16,840	51,723
Total operating expenses	<u>903,843</u>	<u>180,213</u>	<u>1,084,055</u>
Net operating income (loss)	<u>60,556</u>	<u>(36,511)</u>	<u>24,046</u>
Nonoperating revenues (expenses)			
Interest income	1,525	1,683	3,209
Interest expense	19	-	19
Grants	-	143,395	143,395
Total nonoperating revenues (expenses)	<u>1,544</u>	<u>145,079</u>	<u>146,623</u>
Other financing sources (uses)			
Transfers	-	663	663
Transfers (out)	(100,270)	(203)	(100,472)
Total operating transfers	<u>(100,270)</u>	<u>461</u>	<u>(99,809)</u>
Change in net assets	<u>(38,170)</u>	<u>109,029</u>	<u>70,860</u>
Net assets, beginning	<u>421,671</u>	<u>391,353</u>	<u>813,024</u>
Net assets, ending	<u>\$ 383,501</u>	<u>\$ 500,382</u>	<u>\$ 883,884</u>

TOWN OF SOUTH COFFEYVILLE
STATEMENT OF CASH FLOWS -- UTILITY FUND
YEAR ENDED JUNE 30,

	<u>2012</u>
Cash flows from operating activities	
Receipts from customers	\$ 919,468
Payments to suppliers and employees	(921,704)
Payments to employees	(239,119)
Net cash provided (used) by operating activities	<u>(241,355)</u>
 Cash flows from capital and related financing activities:	
Interfund transfers in (out)	<u>100,270</u>
 Cash flows from investing activities	
Purchase of fixed assets	(14,339)
Interest and dividends	1,525
Net cash provided (used) by investing activities	<u>(12,814)</u>
 Net increase (decrease) in cash and cash equivalents	(153,899)
 Cash and cash equivalents, beginning	<u>229,957</u>
Cash and cash equivalents, ending	<u>\$ 76,058</u>
 Reconciliation of operating income to net	
Cash provided by operating activities	
Operating income	60,556
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation expense	34,883
Change in assets and liabilities	
(Increase) decrease in receivables, net	(44,931)
(Increase) decrease in prepaids	(6,528)
Increase (decrease) in accounts payable	(19,470)
Increase (decrease) in customer deposits	1,011
Total adjustments	<u>(35,035)</u>
Net cash provided (used) by operating activities	<u>25,521</u>

TOWN OF SOUTH COFFEYVILLE
STATEMENT OF CASH FLOWS -- PUBLIC WORKS AUTHORITY
YEAR ENDED JUNE 30,

	<u>2012</u>
Cash flows from operating activities	
Receipts from customers	\$ 135,536
Payments to suppliers and employees	(69,917)
Payments to employees	(72,798)
Net cash provided (used) by operating activities	<u>(7,179)</u>
 Cash flows from capital and related financing activities:	
Principal paid on capital debt	(20,000)
Interest paid on capital debt	(30,240)
Proceeds from capital grants	2,500
Interest expense and fiscal charges	23,052
Net cash provided by capital and related financing activities	<u>(24,688)</u>
 Cash flows from investing activities	
Interest and dividends	1,683
Net cash provided (used) by investing activities	<u>1,683</u>
 Net increase (decrease) in cash and cash equivalents	(30,184)
 Cash and cash equivalents, beginning	<u>333,427</u>
Cash and cash equivalents, ending	<u><u>\$ 303,243</u></u>
 Reconciliation of operating income to net	
Cash provided by operating activities	
Operating income	(36,511)
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation expense	16,840
Amortization expense	3,349
Change in assets and liabilities	
(Increase) decrease in receivables, net	10,335
Increase (decrease) in accounts payable	(1,193)
Total adjustments	<u>29,331</u>
Net cash provided (used) by operating activities	<u><u>\$ (7,180)</u></u>

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1- Summary of Significant Accounting Policies

Reporting Entity

The Town of South Coffeyville, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a town form of government and is governed by a five member board of trustees. The trustees elect the mayor from their own body. The Town provides the following services: general government, public safety (fire and police), streets, public works (water, sewer, trash and animal control), judicial, public improvements, and planning and zoning for the geographical area organized as the Town of South Coffeyville, Oklahoma.

As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government.

Component Units

For financial reporting purposes, the Town included all component units that are controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Town, obligation of the Town to finance any deficit which may occur, or receipt of significant subsidies from the Town. Based on the foregoing criteria, the Town of South Coffeyville Public Works Authority is blended into the Town's financial statements.

Due to restrictions of the State Constitution relating to the issuance of municipal debt, the Town created a public trust to finance Town services with revenue bonds or other non-general obligation financing. Financing services provided by the public trust are solely for the benefit of the Town. The public trust created to provide financing services is blended into the Town's primary government although retaining separate legal identity.

The Town of South Coffeyville Public Works Authority is a public trust created under authority of and pursuant to the provisions of Sections 176-180, inclusive, of Title 60, Oklahoma Statutes 1981, and the Oklahoma Trust Act, which declaration of trust is recorded in the office of the County Clerk, Nowata County, Oklahoma.

In order to facilitate the enlargement and improvement to the sanitary sewer system owned by the Town of South Coffeyville Public Works Authority, the Town leased the sewer and water distribution systems to the Authority on August 1, 1990. On September 1, 1990, the Town of South Coffeyville Public Works Authority executed an operation and maintenance agreement whereby the Town must administer, operate, and maintain and repair all facilities on a day-to-day basis on behalf of the Authority.

Government Wide Financial Statements

The statement of net assets and the statement of activities include information about the Town as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Fund Financial Statements

The Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level, the focus of government and enterprise fund financial statements is on major funds. If applicable, each major fund is presented in a separate column.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a) All governmental funds utilize a "current financial resources" measurement focus. 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.
- b) The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

The Government-Wide Financial Statements and the Proprietary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Accrual - Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

The Town defined the length of time used for "available" for purposes of revenue recognition in the Governmental Fund Financial Statements to be 60 days.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The financial statements have been prepared in accordance with relevant Governmental Accounting Standards.

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are two categories of funds: governmental and proprietary.

Governmental Funds - are used to account for the Town's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

The following are the Town's major funds:

- General Fund - Is the general operating fund of the Town. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- Special Revenue Funds - There are two (2) classifications (the Firemen's Special Revenue and the Street and Alley Fund). They account for operating funds for which revenues were derived from specific taxes, grants or other earmarked revenue sources.
- Enterprise Funds (Proprietary Funds) - are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the cost (expenses, including depreciation) of providing the goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

There are two (2) separate accounting entities: The South Coffeyville Public Works Authority and the Utility Fund. The Utility Fund accounts for revenues and expenses from the sale of electric, water and trash services, while the South Coffeyville Public Works Authority accounts for the providing of sewer service.

- Non-Current Governmental Assets/Liabilities - Non-current governmental assets and liabilities are incorporated into the Governmental column in the Government-Wide Statement of Net Assets.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. All current year infrastructure additions have been recorded at actual cost. The Town is not required to account for infrastructure assets acquired prior to July 1, 2003. Governmental fund infrastructure assets have not been recorded for the period prior to July 1, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40
Other Improvements	20
Machinery, furniture and Equipment	7
Streets	40
Vehicles	5

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments - Investments are stated at cost, which approximates market, and are principally in interest bearing checking accounts and certificates of deposit. Oklahoma Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments.

Restricted Cash - Certain funds are restricted for South Coffeyville Public Works Authority customer deposits. These deposits are used to apply to final utility bills or refunded to customers when service is disconnected.

Fair Value of Financial Instruments - The Town's financial instruments include cash and cash equivalents, and certain liabilities. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

Budgeting and Budgetary Control - A budget is prepared for the General Fund and all Special Revenue Funds. These budgets are prepared on a cash basis plus due from other funds for revenues and transfers and accrual basis plus encumbrances for expenditures. The appropriations for these funds cannot exceed the estimated revenues, including investment income, and fund balance. It is unlawful for the Town to create or authorize creation of a deficit in any fund. Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Estimates - The preparation of financial statements in conformity with Generally Accepted Accounting Principles used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories - Inventories for all funds are insignificant and purchases of such items are expensed.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds." The

Town considers receivables collected within 60 days after year end to be available and recognize them as revenues of the current year.

Compensated Absences - It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time employees who have been employed continuously for at least one year are granted vacation benefits in varying amounts to specified maximums depending on the tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Long-Term Obligations - The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are included on Governmental fund operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Equity Classifications

The Town reports governmental fund balances on the governmental fund financial statements according to the following classifications:

Nonspendable - This is the portion of the fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This is the portion of the fund balance that has constraints placed on the use of resources that are (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This is the portion of the fund balance that has been constrained by formal action of the Town Council to be used only for specific purposes. The committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. It is distinguished from *restricted* fund balance in that amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process as mentioned. Constraints imposed on the use of *committed* amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the Town Council that *commit* amounts to specific purposes is not considered to be legally enforceable.

Assigned - This is the portion of the fund balance constrained by the *intent* of the Town Council to be used for specific purposes, but is neither restricted nor committed.

Unassigned - This is the residual classification of fund balance in the *general fund*. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When an expenditure is incurred for purposes for which amounts in any of the fund balance classifications of committed, assigned or unassigned could be used, the Town considers the expenditure spent out of the committed fund balance.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

Note 2 - Cash and Investments

The Town's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Cash and certificates of deposit held by the town are fully covered.

Custodial Credit Risk - All of the Town's deposits at financial institutions were covered by either FDIC insurance or collateralized.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy limits the Town's investment portfolio to maturities of not more than two years.

Note 3 - Pension Plans

The Town's fire department is an entirely voluntary fire department. The Fireman's Pension Plan covers all of the Town's volunteer firemen. This contributory plan is operated as a part of the Oklahoma Firefighter's Pension and Retirement System. The Town pays the entire contribution, which amounts to \$60 per volunteer fireman per year, for a total of \$1,380 paid during the current fiscal year. Members of the plan become 100% vested in retirement benefits earned to date after ten years of accredited service. Normal retirement is attained upon completing twenty years of service or age 50.

The latest information concerning the system is included in the audit report on examination of financial statements for the year ended June 30, 2012, conducted by other certified public accountants. The audit and annual reports are available from the State of Oklahoma.

The Town employees participate in a SIMPLE IRA plan established under Section 408 (p) of the Internal Revenue Code. As of Fiscal Year ending June 30, 2012, the Town of South Coffeyville's cost for the retirement was \$7,021.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 4 - Property and Equipment

Capital Asset Activity - Governmental Type

Capital asset activity for governmental type activities for the year ended June 30, 2012 was as follows:

	2011	Additions	Dispositions	2012
Buildings	\$ 63,654	\$ -	\$ -	\$ 63,654
Equipment	316,665	17,846	-	334,511
Vehicles	498,252	-	-	498,252
Infrastructure	230,294	66,929	-	297,223
Total Property, Plant, and Equipment	<u>1,108,865</u>	<u>84,775</u>	<u>-</u>	<u>1,193,640</u>
Accumulated Depreciation	<u>(587,886)</u>	<u>-</u>	<u>-</u>	<u>(656,285)</u>
Net book value	<u>\$ 520,979</u>	<u>\$ 84,775</u>	<u>\$ -</u>	<u>\$ 537,355</u>

Capital Asset Activity - Business Type

Capital asset activity for business type activities for the year ended June 30, 2012 was as follows:

	2011	Additions	Dispositions	2012
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Equipment	207,559	14,339	-	221,898
Buildings	48,922	-	-	48,922
Vehicles	138,293	-	-	138,293
Sewer Plant	571,875	-	-	571,875
Infrastructure	17,734	-	-	17,734
Total	<u>995,883</u>	<u>14,339</u>	<u>-</u>	<u>1,010,222</u>
Accumulated Depreciation	<u>(275,000)</u>	<u>-</u>	<u>-</u>	<u>(346,349)</u>
Net book value	<u>\$ 720,883</u>	<u>\$ 14,339</u>	<u>\$ -</u>	<u>\$ 663,873</u>

The Authority's fixed assets are stated at cost. Depreciation is computed using the straight line method over the estimated useful life, which is; forty years for the water system, between seven and forty years for the lift station, and between five and seven years for office furniture and equipment. Expenditures for major renewals and betterments which extend the useful life of the fixed assets are capitalized Expenditures for maintenance and repairs are expensed as incurred.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 5 – Restricted Assets

Debt Service

As of June 30, 2012, the Sewer Fund (PWA) had one cash account restricted as to use. The Sewer Debt Reserve account, required by the bond indenture agreement, had \$66,739 at year end.

Utility Deposit

The Public Works Authority is holding customers' meter deposits in the amount of \$70,028 and has assets reserved to refund these deposits, as required by statute.

Note 6 – Worker's Compensation Insurance

The Town of South Coffeyville participated in the Oklahoma Municipal Assurance Group's Workman's Compensation Insurance Plan.

The Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan) became effective October 1, 1984 . The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 a. m. , July 1, in any year and ends at midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the Plan to participate in the coverage and services that the Plan offers as outlined above. Upon acceptance in the Plan, a participant has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the Plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any Loss Funds set aside for claims, which have not been paid out as benefits. The following report details the funds being held by the Group for the Town of South Coffeyville.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 6 – Worker's Compensation Insurance - Continued

These funds represent both the current and past plan year participation with the Loss Fund balances in respect to their workers' compensation retention. Comp Source Oklahoma provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of Comp Source Oklahoma to honor its obligation could result in losses to the Plan . However, OMAG's evaluation of the financial condition of Comp Source Oklahoma indicated that Comp Source Oklahoma is presently financially sound and will be able to meet its contractual obligations.

Rate Stabilization Reserve (RSR) - Reserves developed under the Premium Modification Guidelines to be applied against future premium increases.

Note 7 - Bad Debt Provision

The provision for bad debts was established at 6% of the trade Accounts Receivable balance at year end in the Utility Fund and at 3% for the Public Works Authority. Accounts Receivable in the Enterprise Funds is stated at net. This consists of gross trade Accounts Receivable of \$194,028.16 less an allowance for uncollectables of \$11,247 in the Utility Fund and \$17,671.48 accounts receivable in the Public Works Authority.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 8 - Internal Balances

Amounts reported in the fund financial statements as interfund receivables and payables, if any, are eliminated in the entity-wide governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Within the governmental fund financial statements, such amounts are equally offset by a fund balance reserve that indicated they do not constitute available spendable resources.

Note 9 - Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the outstanding capital debt less any unspent debt proceeds (held as liquid assets) and any associated unamortized cost.

Restricted Net Assets - represent liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant or granting agency) limitations on their use. The Town would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted Net Assets - represent unrestricted liquid assets.

Note 10 - Risk Management

The Town maintains insurance for claims and judgments through employee health, property and liability, workers' compensation, and unemployment insurance programs. These insurance programs are accounted for in the General Fund and the Public Works Authority Fund. The funds account for the risk financing activities of the Town but do not constitute a transfer risk from the Town.

Note 11 - Long-term Debt

The Authority's long-term debt at June 30, 2012 consists of Public Works Authority Utility System Revenue Bonds, Series 2008. The bonds were issued in 2008 in the amount of \$650,000, with 5% interest. These bonds are limited and special obligations payable solely out of utility revenues pledged for their payment. The Authority issued the bonds to provide funds for retiring certain indebtedness, capital improvements of the Authority and the Town, funding a debt reserve fund and paying the costs of issuing the bonds.

Bonds mature April 1, 2022 and April 1, 2028. Bonds maturing April 1, 2022, are subject to mandatory sinking fund redemption and payment prior to maturity on April 1, 2009, and on each April 1, thereafter through April 1, 2022, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date. Bonds maturing April 1, 2028, are subject to mandatory sinking fund redemption and payment prior to maturity on April 1, 2023 and on each April 1, thereafter through April 1, 2028, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date.

TOWN OF SOUTH COFFEYVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

Note 11 – Long-term Debt - Continued

Semi-annual interest is payable April 1 and October 1 beginning October 1,2008.

As of June 30, 2012, the Authority had \$66,739 in the debt reserve account.

	Balance <u>6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2012</u>
Rural Development	<u>\$ 595,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 595,000</u>

The Authority's maturities of long-term debt are as follows:

Year Ended <u>June 30</u>	Principal <u>Reductions</u>	<u>Interest</u>
2013	20,000	29,500
2014	20,000	28,500
2015	25,000	27,500
2016	25,000	26,250
2017-2021	150,000	111,000
Thereafter	<u>335,000</u>	<u>81,449</u>
Total	<u>\$ 68,951</u>	<u>\$ 2,649</u>

Note 12- Subsequent Events

Management has evaluated and disclosed subsequent events up to the date of the audit report.

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

108 NORTH ADAIR STREET, PRYOR, OK 74361

918-803-4868

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 South Coffeyville
South Coffeyville, State of Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of South Coffeyville, State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of South Coffeyville, State of Oklahoma's basic financial statements and have issued our report thereon dated March 23, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we identified deficiencies in internal control that we consider to be material weaknesses, as listed in the following *Schedule of Findings and Responses*. Be advised, additional material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of South Coffeyville, State of Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

MARCH 23, 2014