

FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS

THE TOWN OF FARGO
For the years ended
JUNE 30, 2012 and 2011

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet – Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenue over Expenditures and Changes in Retained Earnings Proprietary Fund Type	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Independent Auditor's Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16

dwg, inc. Certified Public Accountant and Consultant

Independent Auditor's Report

To the Board of Trustees
Town of Fargo, Oklahoma

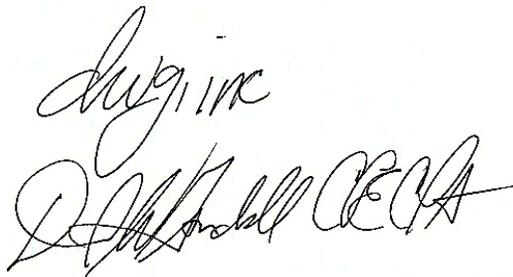
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Fargo, as of and for the years ended June 30, 2012 and 2011 which collectively comprise the Town of Fargo's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Fargo's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type activities and the aggregate fund information for the Town of Fargo, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2013 on our consideration of the Town of Fargo'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The board and management of the Town of Fargo has elected to omit The Management's Discussion and Analysis and other required supplementary information which are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

Handwritten signature in black ink, appearing to read "Eugene D. Marshall CPA". The signature is written in a cursive style with a horizontal line above the name.

Oklahoma City, Oklahoma
August 1, 2013

Town of Fargo
Statement of Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>			<u>2011</u>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
ASSETS						
Cash and investments	\$ 40,449	\$ 198,379	\$ 238,828	\$ 20,806	\$ 200,315	\$ 221,121
Accounts receivable		20,768	20,768		19,875	19,875
Allowance for doubtful accounts		(9,180)	(9,180)		(6,277)	(6,277)
Taxes receivable	11,296		11,296	11,695		11,695
Prepaid expenses	690		690	1,544		1,544
Due from other funds	0		0	33,518		33,518
Restricted Cash		2,316	2,316		2,660	2,660
Investments		8,765	8,765		8,840	8,840
Depreciable capital assets	405,318	682,103	1,087,421	405,318	643,603	1,048,921
Accumulated depreciation	(263,972)	(331,683)	(595,655)	(251,156)	(308,466)	(559,622)
Total Assets	<u>193,781</u>	<u>571,468</u>	<u>765,249</u>	<u>221,725</u>	<u>560,550</u>	<u>782,275</u>
LIABILITIES						
Accounts payable	8,546	3,906	12,452	9,899	5,067	14,966
Payroll payable	1,223		1,223	1,490		1,490
Refundable fees and deposits		7,660	7,660		7,555	7,555
Current loans payable		6,800	6,800		8,550	8,550
Long-term debt		26,000	26,000		32,800	32,800
Due to general fund		0	0		33,518	33,518
Total Liabilities	<u>9,769</u>	<u>44,366</u>	<u>54,135</u>	<u>11,389</u>	<u>87,490</u>	<u>98,879</u>
NET ASSETS						
Invested in capital assets, net of related deb	141,346	317,620	458,966	154,162	293,787	447,949
Restricted		32,800	32,800		41,350	41,350
Unrestricted	42,666	176,682	219,348	56,174	137,923	194,097
Total Liabilities and Fund Balance	<u>\$ 193,781</u>	<u>\$ 571,468</u>	<u>\$ 765,249</u>	<u>\$ 221,725</u>	<u>\$ 560,550</u>	<u>\$ 782,275</u>

The accompanying notes are an integral part of these financial statements.

Town of Fargo
Statement of Activities
For the Years Ended June 30, 2012 and 2011

2012		Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities
Functions/Programs	Expenses						
Governmental activities:							
General government	\$ (94,930)	\$ 9,297		\$ 38,500	\$ (47,133)	0	\$ (47,133)
Economic development				0	0	0	0
Rents		3,902			3,902	0	3,902
Other Income		0			0	0	0
Total governmental activities	(94,930)	13,199	0	38,500	(43,231)	0	(43,231)
Business-type activities:							
Utility administration	(9,988)	10,156			0	168	168
Sewer	(10,370)	19,431			0	9,061	9,061
Trash	(22,823)	30,288			0	7,465	7,465
Water	(54,174)	47,776			0	(6,398)	(6,398)
Total business-type activities	(97,355)	107,651	0	0	0	10,296	10,296
Total all activities	(192,285)	120,850	0	38,500	(43,231)	10,296	(32,935)
Interest expensed in:				General revenues:			
Sewer				Sales and use taxes	31,338	12,761	44,099
Water	1,263			Franchise taxes	10,479	0	10,479
Total interest expensed	\$ 1,263			Tobacco taxes	557	0	557
				Alcohol beverage taxes	14,375	0	14,375
				State gasoline taxes	748	0	748
				Commercial vehicle taxes	0	0	0
				Investment income	67	291	358
				Transfers	(45,047)	45,047	0
				Total general revenues and transfers	12,517	58,099	70,616
				Change in net assets	(30,714)	68,395	37,681
				Beginning net assets	41,013	473,060	514,073
				Prior period adjustments	4,389	0	4,389
				Ending net assets	\$ 14,688	\$ 541,455	\$ 556,143

2011		Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities
Functions/Programs	Expenses						
Governmental activities:							
General government	\$ (88,607)	\$ 6,238		\$ 30,351	\$ (52,018)		\$ (52,018)
Economic development							-
Rents							-
Other Income							-
Total governmental activities	(88,607)	6,238	-	30,351	(52,018)	-	(52,018)
Business-type activities:							
Utility administration	(15,442)	2,618				(12,824)	(12,824)
Sewer	(963)	19,263				18,300	18,300
Trash	(24,437)	28,288				3,851	3,851
Water	(47,734)	57,496				9,762	9,762
Total business-type activities	(88,576)	107,665	-	-	-	19,089	19,089
Total all activities	(177,183)	113,903	0	30,351	(52,018)	19,089	(32,929)
Interest expensed in:				General revenues:			
Sewer				Sales and use taxes	32,465	13,512	45,977
Water	696			Franchise taxes	10,761	0	10,761
Total interest expensed	\$ 696			Tobacco taxes	607	0	607
				Alcohol beverage taxes	13,185	0	13,185
				State gasoline taxes	408	0	408
				Commercial vehicle taxes	0	0	0
				Investment income	41	271	312
				Transfers	(2,178)	2,178	0
				Total general revenues and transfers	55,289	15,961	71,250
				Change in net assets	3,271	35,050	38,321
				Beginning net assets	37,742	438,010	475,752
				Prior period adjustments			
				Ending net assets	\$ 41,013	\$ 473,060	\$ 514,073

**Town of Fargo
Balance Sheet
Governmental Fund
As of June 30, 2012 and 2011**

General/Governmental Fund

ASSETS	<u>2012</u>	<u>2011</u>
Cash and investments	\$ 40,449	\$ 20,806
Taxes receivable	11,296	11,695
Prepaid expenses	690	1,544
Due from other funds	0	33,518
	<u>52,435</u>	<u>67,563</u>
LIABILITIES		
Accounts payable	8,546	9,899
Payroll payable	1,223	1,490
TOTAL LIABILITIES	<u>9,769</u>	<u>11,389</u>
FUND BALANCES		
General Fund Unreserved	42,666	56,174
TOTAL FUND BALANCES	<u>42,666</u>	<u>56,174</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 52,435</u>	<u>\$ 67,563</u>

Reconciliation of general fund balance to net assets of governmental activities:

Capital Assets	141,346	154,162
Net assets of governmental activities	\$ 193,780	\$ 221,725

Town of Fargo
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Years Ended June 30, 2012 and 2011

	<u>General/Governmental Fund</u>	
	2012	2011
REVENUES		
Sales and use taxes	\$ 31,338	32,466
Franchise taxes	10,479	10,761
Other taxes	15,680	14,200
Investment	67	41
Rental	3,902	0
Grants	38,500	30,351
Other revenues	9,297	6,238
TOTAL REVENUES	<u>109,263</u>	<u>94,057</u>
EXPENDITURES		
Personal services	18,068	29,530
Maintenance & supplies	6,945	7,936
Other goods & services	57,101	32,593
TOTAL EXPENDITURES	<u>82,114</u>	<u>70,059</u>
 REVENUES OVER (UNDER) EXPENDITURES FROM OPERATIONS	 27,150	 23,998
OTHER FINANCING SOURCES (USES)		
Capital Outlay	-	(6,480)
Transfers-in (out)	(45,047)	(2,178)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,047)</u>	<u>(8,658)</u>
 NET CHANGE IN FUND BALANCE	 (17,898)	 15,340
BEGINNING FUND BALANCE	56,174	40,834
Prior period adjustment See Note 8	4,389	
ENDING FUND BALANCE	<u>\$42,666</u>	<u>\$ 56,174</u>

Reconciliation of the net change in fund balance to the change in net assets of governmental activities:

Net change in fund balance	(17,898)	15,340
Principal payments		
Capital asset purchases capitalized		6,480
Depreciation expense	(12,816)	(18,549)
Change in net assets of governmental activities	<u>\$ (30,714)</u>	<u>\$ 3,271</u>

The accompanying notes are an integral part of these financial statements.

Town of Fargo
Statement of Net Assets
Proprietary Fund
As of June 30, 2012 and 2011

	<u>Proprietary Fund</u>	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 198,379	\$ 200,315
Utility billing receivables	20,768	19,875
Allowance for doubtful accounts	<u>(9,180)</u>	<u>(6,277)</u>
Total current assets	209,967	213,913
Noncurrent Assets		
Restricted cash	2,316	2,660
Investments	8,765	8,840
Depreciable capital assets	682,103	643,603
Accumulated depreciation	<u>(331,683)</u>	<u>(308,466)</u>
Net capital assets	<u>350,420</u>	<u>335,137</u>
TOTAL ASSETS	<u>571,468</u>	<u>560,550</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	3,906	5,067
Due to other funds	0	33,518
Current portion of long-term debt	<u>6,800</u>	<u>8,550</u>
Total current liabilities	10,706	47,135
Noncurrent liabilities		
Meter deposits refundable	7,660	7,555
Long-term debt, less current portion	<u>26,000</u>	<u>32,800</u>
Total noncurrent liabilities	<u>33,660</u>	<u>40,355</u>
TOTAL LIABILITIES	<u>44,366</u>	<u>87,490</u>
NET ASSETS		
Invested in capital assets, net of debt	317,620	293,787
Restricted for:		
Debt service	32,800	41,350
Unrestricted	<u>176,682</u>	<u>137,923</u>
TOTAL NET ASSETS	<u><u>\$ 527,102</u></u>	<u><u>\$ 473,060</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Fargo
Statement of Revenues, Expenses, and Changes in Fund Balances
Proprietary Fund
For the years ended June 30, 2012 and 2011

	<u>Proprietary Fund</u>	
	<u>2012</u>	<u>2011</u>
Operating income		
Water Charges	\$ 47,776	\$ 57,496
Sewer Charges	19,431	19,263
Trash Charges	30,288	28,288
Late Charges	5,110	2,425
Sales Tax Revenue	12,761	13,512
Total Revenues	<u>115,365</u>	<u>120,984</u>
Operating expenses		
Personal services	20,645	14,761
Materials & supplies	18,234	13,626
Other services & charges	48,347	40,992
Total operating expenses	<u>87,226</u>	<u>69,379</u>
Excess operating revenue (deficit)	28,139	51,605
Other income (expense)		
Other income (expense)	5,045	193
Depreciation Expense	(23,217)	(18,501)
Interest Expense	(1,263)	(696)
Interest Income	291	271
Total other income (expense)	<u>(19,144)</u>	<u>(18,733)</u>
Income before transfers	8,995	32,872
TRANSFERS (OUT)	45,047	2,178
NET INCOME	<u>54,042</u>	<u>35,050</u>
BEGINNING NET ASSETS	473,060	438,010
ENDING NET ASSETS	<u>\$ 527,102</u>	<u>\$ 473,060</u>

The accompanying notes are an integral part of these financial statements.

**Town of Fargo
Statement of Cash Flows
Proprietary Fund
For the years ended June 30, 2012 and 2011**

	<u>Proprietary Fund</u>	
	<u>2012</u>	<u>2011</u>
Cash flows from operations:		
Customers	\$109,660	\$101,629
Sales tax	12,761	13,512
Interest income	291	271
Cash payments for:		
Salaries and benefits	(20,645)	(14,761)
Goods and services	(68,903)	(49,732)
Interest paid on long term debt	(1,263)	(696)
Net cash provided from operations	<u>31,901</u>	<u>50,223</u>
Cash flows from investing activities:		
Capital grants		
Capital expenditures	(38,500)	
Net cash provided (used) from investing activities	<u>(38,500)</u>	-
Cash flows from capital financing activities:		
Transfers from general fund	6,413	2,718
Long Term Debt Paid	(1,750)	(7,850)
Net cash from capital financing activities	<u>4,663</u>	<u>(5,132)</u>
Net increase (decrease) in cash	(1,936)	45,091
Beginning cash	200,315	155,224
Ending cash	<u><u>198,379</u></u>	<u><u>200,315</u></u>
Reconciliation of income from operations		
to net cash from operations:		
Operating income (loss)	8,995	16,681
Adjustments to income from operations:		
Depreciation and amortization	23,217	18,501
Transfers from general fund	45,047	(2,718)
Change in assets and liabilities:		
(Increase) decrease in receivables	(894)	(6,036)
Increase (decrease) in due to other funds	(41,658)	20,814
Increase (decrease) in payables	(1,161)	2,281
Increase (decrease) in current portion of debt	(1,750)	700
Increase (decrease) in refundable deposits	105	-
Net cash provided by operations	<u><u>\$ 31,901</u></u>	<u><u>\$ 50,223</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

GASB 34

The Town complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in a subsequent subsection of this note.

Financial Reporting Entity

The Town of Fargo, Oklahoma is a statutory town government under Oklahoma Statutes. The Town provides the following services: sanitation collection, water and sewer infrastructure.

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, 2012 & 2011, the City had one component unit: Fargo Utilities Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types: general and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012 & 2011, the Town consisted of one governmental general fund. The proprietary fund consisted of the Fargo Utilities Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues

Note 1 - Summary of Significant Accounting Policies (continued)

include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects is accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, is recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Cash and Cash Equivalents

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 short-term investments with original maturities of three months or less from the date of acquisition. Restricted cash consists of meter deposits.

Note 1 - Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2012 or 2011.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 2483, the Town Board of Trustees formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

Estimates

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

Accounts Payable

The Town is responsible for outstanding obligations to vendors and others for operating materials, services or other charges.

Note 2 - Property, Plant and Equipment

Fixed assets used in governmental fund type operations are accounted for in the Government Wide Financial statements and the Proprietary Fund Financial statements. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges are not capitalized. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the financial statements.

Property, plant and equipment acquired for proprietary funds are capitalized at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. Estimated useful lives have been estimated as follows:

Buildings	25 - 50 years
Machinery & equipment	3 - 20 years

Note 2 - Property, Plant and Equipment (continued)

A summary of fixed assets are included below:

	6/30/11		6/30/12
	Balance	Additions	Deletions Balance
<u>Fargo General Fund</u>			
Buildings	65,936		65,936
Equipment	36,982		36,982
Fire Equipment	302,400		302,400
Total Fixed Assets	<u>405,318</u>		<u>405,318</u>
Accumulated Depreciation	(251,156)	(12,816)	(263,972)
Net Fixed Assets	<u>154,162</u>		<u>141,346</u>

	6/30/11		6/30/12
	Balance	Additions	Deletions Balance
<u>Fargo Utility Authority</u>			
Buildings	2,295		2,295
Equipment	79,384	38,500	117,884
Utility Plant	561,924		561,924
Total Fixed Assets	<u>643,603</u>		<u>682,103</u>
Accumulated Depreciation	(308,466)	(23,217)	(331,683)
Net Fixed Assets	<u>335,137</u>		<u>350,420</u>

Note 3 - Cash and Investments

Deposits and investments made by the City 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 City 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 years ending June 30, 2012 and 2011, the City and its component units had category 1 deposits up to the FDIC insurance limits.

Note 4 - Long-term Debt

Proprietary Funds

The Fargo Utilities Authority executed a 25 year term, \$125,000 promissory note with the Oklahoma Resources Board (OWRB) October 11, 1990, for water and sewer system improvements. The note is secured by operating revenues of the FUA, 1% of the Town of Fargo's 3% sales tax, and a mortgage on certain real properties of the Town of Fargo. The note carries a variable annual rate, which changes September 1 and March 1 of each year. Principal and interest payments are made on August 15, November 15, February 1 and May 15 of each year, with the final payment being due August 15, 2015. The note also requires that the FUA maintain sufficient utility rates so that net revenues, including the 1% sales tax shall meet or exceed 125% of the maximum annual debt service of all debt of the FUA. For the fiscal year ended June 2012, the FUA met this requirement. Principal and interest required till maturity in August 2015 (fiscal year 2016) is as follows:

Note Payable

Fiscal Year	Principal	Interest
2013	6,800	101
2014	9,800	-
2015	10,600	-
2016	5,600	-
	<u>\$ 32,800</u>	<u>\$ 101</u>

Note 5 - Defined Benefit Pension Plans

The Town participates in one employee pension system as follows:

Oklahoma Firefighters Pension and Retirement System

Plan Description. The Town contributes to the Oklahoma Firefighters Pension and Retirement System (the System); a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, Section 48-101 et seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy. Paid firefighters are required to contribute 8% of covered payroll, with the Town contributing 13% of covered payroll. Volunteer firefighters are not required to contribute, but the Town is required to contribute \$60 per volunteer, per year. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The Town's contribution to the System for the years ended June 30, 2012 and 2011 was \$1,140 and \$960 respectively, equal to the required contribution for the years.

Note 6 - Risk Management

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year ended June 30, 2012.

Note 7 - Subsequent Events

The Town has adopted FASB ASC 855-10-50, formerly SFAS No. 165, *Subsequent Events*, which is effective for periods ending after June 15, 2009. The standard reflects the existing principles of current subsequent event accounting guidance and requires disclosure of the date through which subsequent events have been evaluated. Management performed an evaluation of the Town's activity through August 1, 2013 the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

Note 8 – Prior Period Adjustment

The Town discovered an additional bank account for fire department funds during the course of the audit. The account did not have any revenue or expenditure activity for the year, yet the total amount of funds were added to the Town's restricted cash account.

dwg, inc. Certified Public Accountant and Consultant

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Fargo
Fargo, 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 The Town of Fargo, as of and for the years ended June 30, 2012 & 2011 which collectively comprise the Town of Fargo's basic financial statements and have issued our report thereon dated August 1, 2013. 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 the Town of Fargo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Fargo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Fargo's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course

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

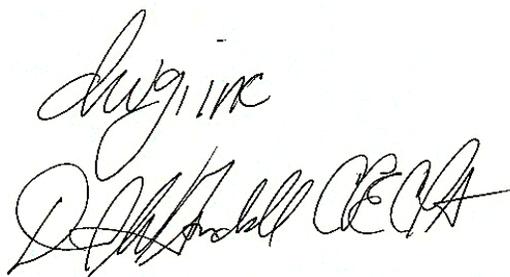
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not encounter any deficiencies, or significant deficiencies for the current year. We have updated the status of prior year's findings in the attached schedule of prior year findings.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fargo'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 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 responses as items.

The Town of Fargo's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town of Fargo's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



dwg, inc.
David W. Gandall, CFE, CPA
August 1, 2013

2009-1

Criteria

Utility billings should be reconciled on a monthly basis.

Condition

Utility billings and reports are not reconciled on a monthly basis.

Cause

The Town's management and board did not require monthly presentation of the utility billing records or the necessary adjustments.

Effect

Utility billing records are not complete. Records are insufficient to determine the validity of adjustments. Inner governmental usage is not removed from the receivable account on a monthly basis which results in the overstatement of receivables.

Recommendation

The Town Board of Trustees should require that the utility clerk present monthly utility billing reports. These reports should present all adjustments for the board's approval. These reports should present to the board, for management purposes, the amount of inner government utility billings, and the removal of such billings should be approved by the board and recorded in the board minutes.

Management's Response

The Town of Fargo's board and management will work to adopt the auditor's recommendations.

Status

This finding has been cleared

**Town of Fargo
Status of Previous Findings and Responses
Years Ended June 30, 2012 & 2011**

2010-1

Criteria

The management of the Town of Fargo should expect accurate financial statements to be presented at each trustee meeting.

Condition

The financial statements presented for audit had numerous miss-statements, which required adjustment for the financial statements to be accurate. Cash, accounts receivable, note payable, utility revenue, grant revenue and transfers between the funds all required adjustments to be presented to the Town's accounting staff.

Cause

Previous year's audit adjustments, while accepted by the Town's management, were not made by the Town's staff. Note payments were not taken against the note payable account, sales tax revenue transferred in was not taken to the sales tax revenue account and the claims paid from the OMAG reserve account were not deducted from the asset.

Recommendation

We recommend that the board of trustees require the financial statements be updated to reflect the audit adjustments and that each month the reconciled bank statements and financial statements be presented at the board's monthly meetings.

Management's Response

The Town of Fargo's board and management will work to adopt the auditor's recommendations.

Status

This finding has been cleared

**Town of Fargo
Status of Previous Findings and Responses
Years Ended June 30, 2012 & 2011**

2011-1

Criteria

Checks should be voided in QuickBooks, rather than deleted.

Condition

Payments which need to be voided, that are made with bank checks, should be voided in QuickBooks, rather than deleted.

Effect

The procedure of deleting checks from QuickBooks, rather than voiding checks, does not provide a proper paper trail. Also, this creates a cause for concern because when a missing checks report is run in QuickBooks, it appears that the deleted checks are actually missing.

Recommendation

When bank checks need to be voided, the checks should be voided from QuickBooks, rather than deleted. The Town's management and personnel should review proper accounting procedures for the QuickBooks accounting software.

Management's Response

Management will instruct staff to adopt the auditor's recommendation

Status

This finding has been cleared

2011-2

Criteria

Purchase orders and invoices should be approved and paid in an accurate and methodical manner.

Condition

Numerous duplicate payments are being made to vendors.

**Town of Fargo
Status of Previous Findings and Responses
Years Ended June 30, 2012 & 2011**

Effect

Vendor could receive duplicate payments and not return the funds to the Town. In our audit work, we found all duplicate payments were returned to the Town.

Recommendation

For recurring vendor payments, purchase orders should be placed in a folder which is specific for that particular vendor. Occasional vendor payments should be grouped and filed according to budget categories, i.e., personnel services, capital outlay, OS & C.

Management's Response

The board will instruct management to adopt the auditor's recommendation.

Status

This finding has been cleared

2011-3

Criteria

Mail received should be opened and sorted by personnel other than those handling the Town's bookkeeping and recordkeeping.

Condition

Only one employee opens the mail received by the Town.

Effect

Having the same employee open and sort mail received, as well as keeping the books related to the mail received, provides an opportunity for the employee to commit fraudulent activity.

Recommendation

The Town's management should require that separate individuals open and sort and process the mail received.

**Town of Fargo
Status of Previous Findings and Responses
Years Ended June 30, 2012 & 2011**

Management's Response

The board will instruct the staff to adopt the auditor's recommendations.

Status

This finding has been cleared