

Town of Langston City, Oklahoma

**Financial Statements and Report
of Independent Accountants**

**As of and For the Year Ending
June 30, 2012**

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Report of Independent Accountants

To the Board of Trustees
Town of Langston City, 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 the Town of Langston City, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 opinion.

The Town prepares its annual financial statements and schedules on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Langston City, Oklahoma, as of June 30, 2012, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year 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 January 25, 2013 on our consideration of the Town'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.

Management has not presented the management discussion and analysis or the required budget to actual information that governmental 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.


January 25, 2013

Town of Langston City
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash in Bank - Unrestricted	17,947.00	11,197.09	29,144.09
Cash in Bank - Restricted - UDSA	-	24,057.64	24,057.64
Cash in Bank - Restricted	<u>270,684.56</u>	<u>8,841.64</u>	<u>279,526.20</u>
Total Current Assets	288,631.56	44,096.37	332,727.93
PROPERTY AND EQUIPMENT			
Capital Assets, net	<u>621,506.64</u>	<u>2,880,036.32</u>	<u>3,501,542.96</u>
TOTAL ASSETS	<u>\$ 910,138.20</u>	<u>\$ 2,924,132.69</u>	<u>\$ 3,834,270.89</u>
CURRENT LIABILITIES			
Accounts Payable	67,728.00	-	67,728.00
Deferred Liabilities	131,321.00	-	131,321.00
Current Portion of Long Term Debt	-	26,880.70	26,880.70
Meter Deposits	-	<u>11,428.92</u>	<u>11,428.92</u>
Total Current Liabilities	<u>199,049.00</u>	<u>38,309.62</u>	<u>237,358.62</u>
LONG-TERM LIABILITIES			
Notes Payable and Capital Lease	-	<u>1,328,741.68</u>	<u>1,328,741.68</u>
TOTAL LIABILITIES	<u>199,049.00</u>	<u>1,367,051.30</u>	<u>1,566,100.30</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	621,506.64	1,524,413.94	2,145,920.58
Restricted for Debt Service	-	24,057.64	24,057.64
Restricted for Other Purposes	270,684.56	11,428.92	282,113.48
Unrestricted	<u>(181,102.00)</u>	<u>(2,819.11)</u>	<u>(183,921.11)</u>
TOTAL NET ASSETS	<u>711,089.20</u>	<u>1,557,081.39</u>	<u>2,268,170.59</u>
TOTAL LIABILITIES AND NET ASSE	<u>\$ 910,138.20</u>	<u>\$ 2,924,132.69</u>	<u>\$ 3,834,270.89</u>

Town of Langston City
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and Changes in net assets		Total
		Charges for Services	Capital Grants	Primary Government Governmental Activities	Business-Type Activities	
Primary Government						
Governmental Activities						
General Government	119,793.00	24,860.49	382,417.09	287,484.58	-	287,484.58
Police Department	162,416.00	138,703.12	-	(23,712.88)	-	(23,712.88)
Fire Department	39,414.13	-	-	(39,414.13)	-	(39,414.13)
Streets Department	109,692.00	-	-	(109,692.00)	-	(109,692.00)
Total Governmental Activities	431,315.13	163,563.61	382,417.09	114,665.57	-	114,665.57
Business-Type Activities						
Water Department	371,167.53	333,857.94	-	-	(37,309.59)	(37,309.59)
Total Business-Type Activities	371,167.53	333,857.94	-	-	(37,309.59)	(37,309.59)
Total Primary Government	<u>\$ 802,482.66</u>	<u>\$ 497,421.55</u>	<u>\$ 382,417.09</u>	<u>\$ 114,665.57</u>	<u>\$ (37,309.59)</u>	<u>\$ 77,355.98</u>
		General Revenues				
				230,078.10	-	230,078.10
				35,644.47	-	35,644.47
				14,413.07	-	14,413.07
				11,794.43	-	11,794.43
				291,930.07	-	291,930.07
				406,595.64	(37,309.59)	369,286.05
				304,493.56	1,594,390.98	1,898,884.54
				<u>\$ 711,089.20</u>	<u>\$ 1,557,081.39</u>	<u>\$ 2,268,170.59</u>

The accompanying footnotes are an integral part of these financial statements

**Town of Langston City
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2012**

	General Fund	Total Governmental Fund
ASSETS		
Cash in Bank - Unrestricted	17,947.00	17,947.00
Cash in Bank - Restricted	<u>270,684.56</u>	<u>270,684.56</u>
Total Assets	<u>\$ 288,631.56</u>	<u>\$ 288,631.56</u>
LIABILITIES		
Accounts Payable	67,728.00	67,728.00
Deferred Liabilities	<u>131,321.00</u>	<u>131,321.00</u>
Total Liabilities	199,049.00	199,049.00
NET ASSETS		
Restricted Fund Balance	261,280.56	261,280.56
Committed Fund Balance	9,404.00	9,404.00
Unassigned Fund Balance	<u>(181,102.00)</u>	<u>(181,102.00)</u>
TOTAL NET ASSETS	<u>89,582.56</u>	<u>89,582.56</u>
TOTAL LIABILITIES AND NET AS	<u>\$ 288,631.56</u>	<u>\$ 288,631.56</u>

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

Total Governmental Fund Balances	\$ (89,582.56)
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.	<u>(621,506.64)</u>
Net Assets of Governmental Activities	<u>\$ 711,089.20</u>

**Town of Langston City
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012**

	General Fund	Total Governmental Funds
Revenues		
Taxes	291,930.07	\$ 291,930.07
Fines	138,703.12	138,703.12
Grants	382,417.09	382,417.09
Other Revenues	24,860.49	24,860.49
Total Revenues	837,910.77	837,910.77
Expenditures		
Personal Services	162,978.00	162,978.00
Other Services and Charges	61,841.00	61,841.00
Maintenance and Operations	206,496.13	206,496.13
Capital Outlay	391,701.64	391,701.64
Total Expenditures	823,016.77	823,016.77
Excess revenues over (under) expenditures	14,894.00	14,894.00
Fund Balance at beginning of year	74,688.56	74,688.56
Fund Balance at end of year	\$ 89,582.56	\$ 89,582.56

***Reconciliation of Fund Financial Statements to
Governmental Wide Financial Statements***

Change in Net Assets, Fund Financial Statements	14,894.00
Capital Outlay included in the expenditures of the fund financial statements but capitalized as a fixed asset in the government wide financial statements	391,701.64
Change in Net Assets per the Governmental Wide Financial Statements	\$ 406,595.64

Town of Langston City
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2012

ASSETS

Current Assets:

Cash in Bank - Unrestricted	11,197.09
Cash in Bank Restricted - USDA	24,057.64
Cash in Bank - Restricted	<u>8,841.64</u>
Total Current Assets	44,096.37

Noncurrent Assets

Capital Assets, net	<u>2,880,036.32</u>
Total Noncurrent Assets	<u>2,880,036.32</u>
TOTAL ASSETS	<u>\$ 2,924,132.69</u>

LIABILITIES

Current Liabilities:

Meter Deposits	11,428.92
Current Portion of Long Term Debt	<u>26,880.70</u>
Total Current Liabilities	38,309.62

Noncurrent Liabilities:

Notes Payable and Capital Lease	<u>1,328,741.68</u>
Total Noncurrent Liabilities	<u>1,328,741.68</u>
TOTAL LIABILITIES	1,367,051.30

NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,524,413.94
Restricted for Debt Service	24,057.64
Restricted for Other Purposes	11,428.92
Unrestricted - Net Assets	<u>(2,819.11)</u>
TOTAL NET ASSETS	<u>1,557,081.39</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,924,132.69</u>

Town of Langston City
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012

Operating Revenues:	
Water, Sewer and Trash Fees	333,857.94
Total Operating Revenues	333,857.94
 Operating Expenditures:	
Personnel Services	77,409.43
Other Services and Charges	31,526.69
Maintenance and Operations	262,231.41
Total Operating Expenditures	371,167.53
Excess Revenues over Expenditures	(37,309.59)
 Net Assets at beginning of year	
	1,594,390.98
Net Assets at end of year	\$ 1,557,081.39

**Town of Langston City
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2012**

Cash flows from operating activities	
Receipts from customers	\$ 333,857.94
Payments to suppliers	(208,651.42)
Payments to employees	<u>(77,409.43)</u>
Net cash provided by operating activities	47,797.09
 Cash flows from capital and related financing activities	
Change in meter deposits	4,103.63
Change in fixed assets	(69,112.32)
Principal paid on long term debt	<u>26,899.38</u>
Net cash flows from capital and related financing activities	(38,109.31)
 Net increase (decrease) in cash	 9,687.78
 Cash, Beginning of the Year	 <u>34,408.59</u>
Cash, End of the Year	<u>\$ 44,096.37</u>
 <i>Reconcilement of change in net assets to net cash provided by operations</i>	
Change in Net Assets	(37,309.59)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Prior period adjustment	28,587.68
Depreciation	<u>56,519.00</u>
Net cash provided by operating activities	<u>\$ 47,797.09</u>

Town of Langston City, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

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

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town had only one component unit, the Langston Public Works 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 funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012, the Town had governmental funds of general fund, street and alley fund, and volunteer fire department fund. The proprietary funds consisted of the Langston Public Works 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 modified cash basis of accounting. Revenues are recognized when collected and expenses are recognized when paid. This is the same approach used in the preparation of the proprietary fund financial statements. The fund financial statements also use the modified cash basis of accounting. The government-wide statements record fixed assets and long-term debt as assets and liabilities. The fund financial statements record fixed assets as expenditures. The fund financial statements records the proceeds of long term debt as a revenue and the repayment of long term debt as an expenditures. Therefore, governmental fund financial statements include a 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 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 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.

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 for the date of acquisition. Restricted cash consists of monies held in conjunction with the Langston City Public Works Authority's meter deposits requirements and restricted county sales tax proceeds for the Langston City Volunteer Fire Department.

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.

Budget

In accordance with Oklahoma Statutes, Title 11, Section 3002, the Town Council 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 Budget Act.

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.

Government-wide Proprietary Fund Net Assets

Government-wide and proprietary fund net assets are divided into three components:

- a. Invested in capital assets, net of related debt- consist of the historical cost of capital assets, loan proceeds that have not been spent less accumulated depreciation and less any debt that remains.
- b. Restricted net assets, consist of net assets that are restricted by the Town's creditors, by the state enabling legislation, by grantors and by other contributors.
- c. Unrestricted, all other net assets are reported in this category.

Governmental Fund Balances

- a. Nonspendable, amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted, amounts that can be spent only for specific purposes because of the Town's ordinances, state or federal law, or externally imposed conditions by grantors or creditors.
- c. Committed, amounts that can be used only for specific purposes determined by a formal action by Board of Trustee's resolution.
- d. Assigned, amounts that are designated by the Board of Trustees

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets) the Town's policy is to first apply the expense toward the restricted resources and then toward unrestricted resources. In governmental funds, the town's policy is to first apply the expenditure toward restricted fund balances and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Note 2-Deposits with Financial Institutions

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Langston City is considered a separate entity from the Langston Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Langston City's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Langston Public Works Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

Capital Asset activity for the year ended June 30, 2012 was as follows:

Governmental Funds

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	\$ -	24,670	-	\$ 24,670
Construction in Process	205,135	391,702	-	596,837
Total	\$ 205,135	416,372		\$ 621,507
Accumulated Depreciation	-	-	-	-
Net Assets	<u>\$ 205,135</u>			<u>\$ 621,507</u>

As of June 30, 2012, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. No depreciation was charged to government assets for the year ending June 30, 2012.

Public Works Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles and Equipment	\$ -	69,112	-	\$ 69,112
Water & Sewer System	3,093,800	-	-	3,093,800
Total	\$ 3,093,800			\$ 3,162,912
Accumulated Depreciation	(226,357)	(56,519)	-	(282,876)
Net Assets	<u>\$ 2,867,443</u>			<u>\$ 2,880,036</u>

As of June 30, 2012, the Public Works Authority had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$56,519 for the Public Works Authority was recorded as follows: Water & Sewer System.

Note 4- Notes Payable

As of June 30, 2012 the Langston Public Works Authority had two obligations payable to the United States Department of Agriculture.

The first note payable had an outstanding balance of \$627,232 as of June 30, 2012. This note carries an interest rate of 4.125% and requires monthly payment of \$2,827. Collateral for this loan are the revenues generated by the utility system.

The second note payable had an outstanding balance of \$682,342 as of June 30, 2012. This note carries an interest rate of 4.250% and requires monthly payment of \$3,133. Collateral for this loan are the revenues generated by the utility system.

Principal and interest required to amortize these loans to maturity is as follows:

	Note One		Note Two	
	Principal	Interest	Principal	Interest
2012/2013	8,205	25,719	8,636	28,960
2013/2014	8,550	25,375	9,010	28,586
2014/2015	8,909	25,015	9,401	28,195
2015/2016	9,283	24,641	9,808	27,788
2016/2017	9,674	24,250	10,233	27,363
2017/2022	54,822	114,798	58,215	129,765
2022/2027	67,355	102,265	71,971	116,009
2027/2032	82,755	86,865	88,979	99,002
2032/2037	101,674	67,946	110,004	77,976
2037/2042	124,920	44,700	135,998	51,982
2042/2047	151,086	16,139	168,134	19,846
2047/2048	-		4,952	18
Totals	\$ 627,233	\$ 557,713.00	\$ 685,341	\$ 635,490

Principal paid on the two obligations during the year ending June 30, 2012 was as follows:

	Note One	Note Two
Balance, Beginning of Year	634,789	693,934
Principal Paid During Year	(7,556)	(8,593)
Balance, End of Year	\$ 627,233	\$ 685,341

As of June 30, 2012 the Town of Langston City had a capital lease obligation outstanding. The lease was for the purchase of equipment for use in the Town's street department and public works authority. The amount financed was \$52,842 which was the total cost of the equipment. The lease carries an interest rate of 4.55% with twenty quarterly payments of \$2,936. Collateral for this obligation is the equipment purchased. The balance on this obligation as of June 30, 2012 was \$43,048.

Principal and interest required to amortize this obligation to maturity is as follows:

	Principal	Interest
2012/2013	10,040	1,707
2013/2014	10,507	1,240
2014/2015	10,995	752
2015/2016	11,507	241
	\$ 43,048	\$ 3,940

Principal paid on this obligation for the year ending June 30, 2012 was as follows:

Beginning Balance	52,842
Principal Paid	(9,794)
Ending Balance	<u>\$ 43,048</u>

Note 5-Subsequent Events

Subsequent events have been evaluated through January 25, 2013, which is the date the financial statements were issued.

Note 6-Compensated Absences

It is the Town's Policy to permit employees earned but unused vacation time. Full-time regular employees are granted vacation and sick leave benefits in varying amounts to specified maximum depending on tenure with the Town. At June 30, 2012 the Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

Note 7-Prior Period Adjustments

For the year ending June 30, 2012 the net assets of the governmental funds in the government wide financial statements were increase by \$193,138. The Town did not present accounts payable in the prior year nor was the monies held by Logan County for the benefit of the Town's fire department presented these changes resulted in a decrease in net assets of \$11,997. However, grant monies used for the remodeling of town hall and for a street light project were reclassified into capital assets, this change resulted in an increase in net assets of \$205,135.

The net assets of the general fund in the fund financial statements were decreased by \$11,997.

For the year ending June 30, 2012 the net assets of the Langston Public Works Authority was increased by \$8,585 to adjust for various corrections.

Note 8- Grant Activity with Matching.

Two of the Town's grant programs required matching. For fiscal year ending June 30, 2010 thru June 30, 2013 the Town's matching requirements are and will be as follows:

	FYE 6/30/10	FYE 6/30/11	FYE 6/30/12	Proposed FYE 6/30/13
Town Hall				
Cash	-	5,000	151,975	51,375
In-Kind Match	-	6,093	8,937	4,281
Totals	\$ -	\$ 11,093	\$ 160,912	\$ 55,656
Street Lights				
Cash		150,050	4,350	
In-Kind Match	3,105	10,887		
Totals	\$ 3,105	\$ 160,937	\$ 4,350	

The two grant programs above are funded by the Oklahoma Department of Commerce. The proposed column represents monies that will be provided to the town and the matching obligation. Fiscal years 2010 to 2012 activity above has been presented in the current or prior year financial statements. The 2013 data is for informational purposes only.

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

To the Board of Trustees
Town of Langston City, 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 Langston City, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated July 31, 2012. Our report was a qualified report because of the use of the modified cash basis of accounting. 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

Management of Town of Langston City, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Langston City'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 Langston City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Langston City'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1, 2012-2 and 2012-4. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 result of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-3.

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

This report is intended solely for the information and use of management, Town Council, others within the entity, 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.

Handwritten signature of Casey J. Russell, CPA, Inc. in cursive script.

January 25, 2013

Schedule of Findings and Questioned Costs

2012-1 Fixed Asset Accounting

CONDITION: During our audit we observed that the Town was not maintaining a depreciation schedule nor was the Town's outside accounting firm tracking fixed assets.

CRITERIA: Fixed assets represent a significant public investment and accounting standards require the recording of depreciation.

CAUSE OF CONDITION: Historically governmental entities use the current resources measurement focus of accounting. The emphasis was on current year resource inflows and outflows. Since the emphasis is on current outflows the purchase of capital assets is often times expensed in the accounting records and not capitalized as is required by accounting principles

EFFECT OF CONDITION: Without a detail listing of assets the accurate tracking of depreciation is not possible. The absence of a detail list leaves the Town open to having assets misappropriated.

RECOMMENDATION: The Town should develop a fixed asset list.

MANAGEMENT RESPONSE: Management is in the process of developing a detail fixed asset list.

2012-2 Meter Deposit Accounting

CONDITION: During our audit we observed that the Town is not maintaining a detail list of customers who have deposits with the Langston Public Works Authority. These funds are the deposits the customers give the Town when the customer commences utility service.

CRITERIA: Sound accounting polices dictate that all liabilities have adequate detail to support the balances.

CAUSE OF CONDITION: The meter deposit function that is available in the utility billing software has not been fully updated and utilized.

EFFECT OF CONDITION: The Town does not have an accurate accounting of who is due money and what the amount should be.

RECOMMENDATION: The Town staff develop a detail list of individuals and the amounts due to each individual.

MANAGEMENT RESPONSE: Management is developing a plan to accumulated the needed funds.

2012-3 Meter Fund Cash Accounts Not Adequate

CONDITION: During our audit we observed that the dedicated bank accounts did not have adequate funds for the liability that needed to be funded.

CRITERIA: State law requires the meter monies collected as deposits for commencement of service be deposited into a separate banking accounts and only be used to refund customers or pay final bills.

CAUSE OF CONDITION: Deposit monies have not been deposited as required and or monies have been removed from the account and used for purposes not allowed.

EFFECT OF CONDITION: The deposit account is not adequate to cover the liability and the Town might have to use operating monies to pay customers.

RECOMMENDATION: The Town shift monies from other unrestricted resources to fully fund the meter cash account.

MANAGEMENT RESPONSE: Management is in the process of loading the required information into the utility billing software.

2013-4 Grant Contracts

CONDITION: During the years ending June 30, 2011 and 2012 the Town received substantial amounts of grant monies. During the course of our exam the Town was unable to produce copies of the grant documents.

CRITERIA: In order to properly administer and audit the Town's grant revenues contracts are required to be available.

CAUSE OF CONDITION: The Town has had different individuals and organizations administer the programs.

EFFECT OF THE CONDITION: The management of the Town cannot effectively administer the program and or Provide oversight of the programs.

RECOMMENDATION: Town management should create individual files for each grant program.

MANAGEMENT RESPONSE: Management is implementing policies and procedure to correct this issue.