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THE TOWN OF LOCUST GROVE, OKLAHOMA

AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2011

JUSTIN W. COWAN

CERTIFIED PUBLIC ACCOUNTANT

LOCUST GROVE, OKLAHOMA

TOWN OF LOCUST GROVE, OKLAHOMA
AUDITED BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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JUSTIN W. COWAN
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK PH: 918-479-6136

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
Town of Locust Grove, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Locust Grove, Oklahoma as of the year ended June 30, 2011, 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 of Locust Grove, Oklahoma's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

In my opinion, except for the effects, if any, on the financial statements of incomplete capital asset record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Locust Grove, Oklahoma as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 2, 2011 on my consideration of the Town of Locust Grove, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis on pages 4 through 8, and the budgetary comparison information on page 29 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Justin W. Cowan
Certified Public Accountant

September 2, 2011

TOWN OF LOCUST GROVE
P.O. BOX 246
LOCUST GROVE, OK 74352

Office of the Town Clerk 918-479-5102

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Locust Grove's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2011. Please read it in conjunction with the Town's financial statements, which begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of Net Assets and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operations in more detail than the government-wide statements. For governmental funds, these statements tell how services were financed in the short term as well as what remains for future spending.

REPORTING THE TOWN AS A WHOLE

Our analysis of the Town as a whole begins on page four. One of the most important questions asked about the Town's finances is "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. You can think of the Town's net assets – the difference between assets, what the Town owns, and liabilities, what the Town owes – as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's tax base and the condition of the Town's roads and other capital assets to access the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into the following two kinds of activities:

Governmental activities – Most of the Town's basic services are reported here, including fire, streets, community building, library, public safety, and general government administration. Sales taxes and franchise fees finance most of these activities.

Business-type activities – The Town charges a fee to customers to cover the costs of certain services it provides. The Town's Sewer, trash, and water services are reported here.

REPORTING THE TOWN'S FUNDS

Our analysis of the Town's funds begins on page six, and the fund financial statements begin on page eleven. Fund financial statements do not provide information on the Town as a whole as do the government-wide statements, but provide more detailed information. Some funds are required to be established by state law, while some funds can be established to control and manage money for particular purposes.

The Town maintains only three funds, Two Governmental and one proprietary. The Town's funds represent two different fund types and use two different accounting approaches.

1 Government funds – Most of the Town's basic services are reported in its general fund, which is a governmental fund. Governmental funds focus on how money flows into and out of each fund and the balances left at year-end available for spending. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship or differences between governmental activities reported in the government-wide statements and the governmental fund statements in a reconciliation at the bottom of the governmental fund financial statements.

2. Proprietary funds – Profit-motivated services provided by the Town to customers for a specific charge are reported in the government-wide financial statements. The proprietary fund statements present the same information reported in the business-type activities section but in more detail and with additional information, such as cash flows.

THE TOWN AS A WHOLE

At June 30, 2011, net assets were as follows:

	Governmental Activities	Business-type Activities	Total
Current & Other Assets	269682	411330	681012
Restricted Assets	0	212764	212764
Capital Assets (Net)	1120121	5629402	6749523
Total Assets	1389803	6253496	7643299
Long-term Debt	0	1921809	1921809
Other Liabilities	105123	147963	253086
Total Liabilities	105123	2069772	2174895
Net Assets:			
Invested in Capital Assets, Net of Debt	1120121	3707593	4827714
Restricted	0	212764	212764
Unrestricted	164559	263367	427926
Total Net Assets	1284680	4183724	5468404

For the year ended June 30, 2011, changes in net assets were as follows:

	Governmental Activities	Business-type Activities	Total
Revenues			
Program Revenues:			
Charges for Services	27045	735700	762745
Other – Grants & Donations	7242	0	7242
General Revenues:			
Sales and Use Taxes	838683	0	838683
Other Taxes	73793	0	73793
Other General Revenues	202980	30042	233022
Total Revenues	1149743	765742	1915485
Program Expenses:			
General Government	393855	0	393855
Fire	13159	0	13159
Streets	4066	0	4066
Public Safety	316926	0	316926
Utility Administration	0	366314	366314
Sewer, Trash, Water	0	644437	644437
Total Expenses	728006	1010751	1738757
Excess (Deficiency) Before Transfers	421736	(245009)	176727
Transfers	(342655)	342697	42
Increase (Decrease) in Net Assets	79081	97688	176769

The Town's Funds

The fund financial statements provide detailed information about the Town's activities using a different accounting approach than that used in the government-wide financial statements. We describe the relationship or differences between governmental activities reported in the government-wide statements and the governmental fund statements in a reconciliation at the bottom of the governmental fund financial statements.

The schedules below show the percentage of total for revenues and expenditures.

	Governmental Revenues	Percent of Total
Taxes	912476	80%
Charges for Services	27045	3%
Other	202980	16%
Grants & Donations	7242	1%
Total Revenues	1149743	100%
	Governmental Expenditures	Percent of Total
General Government	393855	55%
Fire	13159	2%
Streets	4066	11%
Public Safety	316926	42%
Total Expenditures	728006	100%

General Fund Budgetary Highlights

The Town's budget for general government was amended during the year due to increased revenues from sales taxes. This increase was used to fund and repair the streets in the town.

Capital Asset and Debt Administration

At June 30, 2011, the Town had the following capital assets:

	Governmental Activities	Business-Type Activities	Totals
Land	66850	114246	181096
Buildings & Streets	601176	120000	721176
Equipment	452095	362454	814549
Utility Systems	0	6693226	6693226
Total	1120121	7289926	8410047

Debt

At year-end the Town had the following Debt:

	Outstanding Debt	Current Year	Prior Year
Governmental		0	0
Business-Type	Note payable secured by water revenues	1921809	2073634
Total		1921809	2073634

Economic Factors and Next Years Budgets and Rates

The Town's elected and appointed officials consider many factors when setting the budget for fiscal year 2011-12 including close monitoring of expenses.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Clerk/Treasurer's office at Locust Grove Town Hall, P.O. Box 246, Locust Grove, OK 74352.

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Demand Deposits	203394	270170	473564
Accounts Receivable (Net)	66288	46751	113039
Internal Balances	0	0	0
Grants Receivable	0	0	0
Total Current Assets	269682	316921	586603
Restricted Assets (BOK)	0	212764	212764
Capital Assets			
Depreciable Property & Equipment	1293271	7175680	8468951
Less Accumulated Depreciation	(240000)	(1660524)	(1900524)
Land	66850	114246	181096
Total Capital Assets	1120121	5629402	6749523
Deferred Charges & Other			
Deferred loan Costs (Net)	0	80962	80962
Parts Inventory and Deposits	0	13448	13448
Total Deferred Charges & Other	0	94410	94410
TOTAL ASSETS	1389804	6253496	7643300
LIABILITIES			
Current Liabilities:			
Accounts Payable	105123	94860	199983
Current Portion of Notes Payable	0	97249	97249
Total Current Liabilities	105123	192109	297232
Non-current Liabilities:			
Meter Deposits Refundable	0	53103	53103
Notes Payable – Less Current Part	0	1824560	1824560
Total Non-current Liabilities	0	1877663	1877663
TOTAL LIABILITIES	105123	2069772	2174895
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1120121	3707593	4827714
Restricted for Debt & Deposits	0	212764	212764
Unrestricted	164559	263367	427926
TOTAL NET ASSETS	1284680	4183724	5468404
Total Liabilities and Net Assets	1389803	6253496	7643299

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

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities
Governmental Activities:							
General Government	393855	0		7242	(386613)		(386613)
Fire	13159	27045		0	13886		13886
Streets	4066	0		0	(4066)		(4066)
Public Safety	316926	124549		0	(192377)		(192377)
Total Governmental Activities	728006	151594		7242	(569170)		(569170)
Business-type Activities:							
Administration	366314			0		(366314)	(366314)
Sewer, Trash, & Water	644437	764224		0		119787	119787
Total Business-type Activities	1010751	764224		0		(246527)	(246527)
Total All Activities	1738757	915818		7242	(569170)	(246527)	(815697)

General Revenues:	Governmental Activities	Business-type Activities	Total
Taxes:			
Sales and Use Taxes Levied for General Purposes	851030		951030
Sales and Use Taxes Levied for Specific Purposes	27729		27729
Franchise and Public Service Taxes	33717		33717
Investment Income	1387	1518	2905
Miscellaneous	77044		77044
Transfers	(342656)	342697	(41)
Total General Revenues and Transfers	648251	343875	1082384
Change in Net Assets	79080	97688	176768
Beginning Net Assets	1205600	4086038	5291638
Ending Net Assets	1284680	4183726	5468406

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

TOWN OF LOCUST GROVE, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Other Governmental Funds Street & Alley	Total Governmental Funds
ASSETS:			
Cash and Demand Deposits	165210	38185	203395
Revenue Receivable	49652	16635	66287
To Be Provided for Debt	0	0	0
Due From Other Funds (Net)	0	0	0
TOTAL ASSETS	214862	54820	269682
LIABILITIES:			
Accounts Payable	105123	0	105123
Current Portion of Debt	0	0	0
Due to Other Funds	0	0	0
TOTAL LIABILITIES	105123	0	105123
FUND BALANCES:			
General Fund	109739		109739
Other Funds	0	54820	54820
TOTAL FUND BALANCES	109739	54820	164559
TOTAL LIABILITIES & FUND BALANCES	199370	54820	269682

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

TOWN OF LOCUST GROVE, OKLAHOMA
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Total Fund Balance		$ 164559
Accounts reported in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources		
And therefore are not reported as assets in the governmental funds.		
Capital assets	1360121	
Accumulated depreciation	(240000)	1120121
Total net assets		$ 1284680

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

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Other Governmental Funds – Street & Alley	Total Governmental Funds
REVENUES:			
Taxes	912476	0	912476
Intergovernmental	0	0	0
Charges for Services	0	0	0
Interest	525	862	1387
Other	99375	0	99375
Grants & Donations	7242	0	7242
TOTAL REVENUE	1019618	862	1020480
EXPENDITURES:			
General Government	393855	0	393855
Fire Department	13159	0	13159
Street Department	0	4066	4066
Public Safety	316926	0	316926
Debt Service	0	0	0
Capital Outlay - Streets	0	350000	350000
TOTAL EXPENDITURES	723940	354066	1078006
REVENUES OVER (UNDER) EXPENDITURES	295678	(353204)	(57526)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	0	0	0
Sales Tax Transfers	(471919)	129263	(342656)
TOTAL OTHER FINANCING SOURCES (USES)	(471919)	129263	(342656)
NET CHANGE IN FUND BALANCES	(176241)	(223941)	(400182)
BEGINNING FUND BALANCE	285980	278761	564741
ENDING FUND BALANCE	109739	54820	164559

TOWN OF LOCUST GROVE, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances – total governmental funds		$ (400182)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in		
governmental funds as expenditures. However, for governmental		
activities those costs are shown in the combined statement of net assets		
and allocated over their estimated useful lives as annual depreciation in the		
statement of activities. This is the amount by which capital outlay exceeds		
depreciation outlay in the period.		
Depreciation Expense	(40000)	
Capital outlay	439263	479263
Change in net assets		$ 79081

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

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Locust Grove Public Works Authority
ASSETS	
Current Assets:	
Cash and Demand Deposits	270170
Accounts and Other Receivables (Net)	46751
Total Current Assets	316921
Restricted Assets (BOK)	212764
Non-current Assets:	
Land	114246
Depreciable Property and Equipment	7175680
Less Accumulated Depreciation	(1660524)
Total Non-current Assets	5629402
Other Assets:	
Deferred Loan Costs (Net)	80962
Parts & Deposits	13448
Total Other Assets	94410
TOTAL ASSETS	6253496
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	94860
Current Portion of Notes Payable	97249
Total Current Liabilities	192109
Non-current Liabilities:	
Meter Deposits Refundable	53103
Notes Payable, less Current Portion	1824560
Total Non-current Liabilities	1877663
TOTAL Liabilities	2069772
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3707593
Restricted for Debt	212764
Unrestricted	263367
Total Net Assets	4183724
Total Liabilities and Net Assets	6253496

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

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Locust Grove Public Works Authority
OPERATING REVENUES	
Water, Sewer, and Trash Services	735700
Other Income	28524
Total Operating Revenues	764224
OPERATING EXPENSES	
Administrative Department	366314
Plant and Distribution Expenses	578115
Total Operating Expenses	944429
Operating Income (Loss)	(180205)
Non-operating Revenues (Expenses)	
Interest Income	1518
Interest Expense	(66322)
INCOME (LOSS) BEFORE TRANSFERS	(245009)
TRANSFERS IN (OUT)	342697
NET INCOME (LOSS)	97688
NET ASSETS BEGINNING OF YEAR	4086038
NET ASSETS END OF YEAR	4183726

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

TOWN OF LOCUST GROVE, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Locust Grove Public Works Authority
Cash Flows From Operations:	
Cash Received From:	
Customers	763350
Cash Payments for:	
Goods and Services	535985
Employees & Related Costs	288970
Net Cash Provided From Operations	(61605)
Cash Flows From Capital Financing Activities:	
Loan Reductions	(151825)
Transfers Net	342697
Asset Purchases	(0)
Net Cash From Capital Financing Activities	190872
Cash Flows From Investing Activities:	
Interest Received	1518
Interest Paid	(66322)
Prior Period Adjustments	0
Net Increase (Decrease) in Cash	64463
Beginning Cash	418471
Ending Cash	482934
Reconciliation of Income From Operations to Net Cash From Operations:	
Operating Income (Loss)	(180205)
Adjustments to Income From Operations:	
Depreciation	75000
Change in Assets and Liabilities:	
(Increase) Decrease in Receivables	(874)
(Increase) Decrease in Prepaid Expenses	1265
Increase (Decrease) in Payables	35871
Increase (Decrease) in Meter Deposits	7338
Net Cash Provided by Operations	(61605)

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

TOWN OF LOCUST GROVE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011

The accounting methods and procedures adopted by the Town of Locust Grove, Oklahoma, conform to generally acc epted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Town's Basic Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless they conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

1A. FINANCIAL REPORTING ENTITY The Town of Locust Grove operates under an elected Mayor/Council form of government. The Town's major operations include public safety, fire protection, and general administrative services. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Town of Locust Grove (the primary government) and its component unit. The component unit discussed below is included in the Town's reporting entity because of the significance of its operation and financial relationships with the Town.

1B. COMPONENT UNIT In conformity with generally accepted accounting principles, the financial statements of the Locust Grove Public Works Authority have been included in the financial reporting entity as a blended component unit, as both entities have the same board of trustees.

Additionally, the PWA is financially dependent upon the Town as a major source of its revenues is sales tax which can only be assessed by the Town.

1C. BASIC FINANCIAL STATEMENTS The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's police, fire, park, streets, library and general administration are classified as governmental activities. The Town's water, sewer, and trash services are classified as business-type activities.

1D. GOVERNMENT-WIDE FINANCIAL STATEMENTS The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, fines, and other miscellaneous revenues. Business-type activities are financed by charges for services.

1E. FUND FINANCIAL STATEMENTS The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The following fund types are used by the Town:

Governmental Funds The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available expendable resources are presented an their operating statements. Fund balance is used as their measure of available expendable resources at the end of the period.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specific purposes.

Proprietary Funds This fund accounts for operations that are organized to be self-supporting through user charges. The fund included in this category is the Enterprise Fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Type This fund accounts for assets held by the Town as an agent for a governmental unit. This fund consist of the C.L.E.E.T. Agency Fund which was established to provide for police officer training and other police related activities.

1F. 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.

Accrual Basis – Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis - The governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectable within the current period or within thirty days after year-end. Expenditures are generally recognized when the related liability is incurred.

1G. BUDGETARY DATA Formal budgetary accounting is employed as a management control for the general fund of the Town. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required. The basis of accounting for budgetary purposes for this fund is the modified accrual, i.e., revenues are recognized when received and expenditures are recognized when encumbered. The proprietary fund, Locust Grove Public Works Authority, also adopts a budget and revenues are recognized when earned and billed and expenditures are recognized when encumbered.

The budget method authorized by Oklahoma Statute adopted by the Town for its general fund places a limit on the amount that can be budgeted. The amount to be budgeted for the next fiscal year is the unreserved fund balance at the end of the fiscal year plus 90% of its revenues for the year just ended.

All unencumbered budget appropriations lapse at the end of each fiscal year. None of the other governmental fund types budgeted their funds.

1H. CASH AND CASH EQUIVALENTS Cash consist of monies deposited into demand deposit and time deposit accounts.

Cash equivalents consist of interest bearing certificates of deposit with a maturity of one year or less. These are considered cash equivalents as they are readily converted to cash.

1I. ACCOUNTS RECEIVABLE All receivables are reported at their net value. The Locust Grove Public Works Authority bills customers for utility usage during the month. Accordingly, the estimated unbilled revenues are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

1J. DUE TO AND FROM OTHER FUNDS Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

1K. INTEREST RECEIVABLE Interest on investments and certain receivables are recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

1L. INVENTORIES Inventory of the Locust Grove Public Works Authority consists of utility materials and supplies that will be expenses when used for repairs and/or capitalized when used for improvements and many of the items are in the nature of a back-up to parts of the utility system. Thus, many of the inventory items will not be used in the next fiscal year. Accordingly, inventory has not been classified as a current asset.

Inventory is stated at the value as of June 30, 2011. The value of the inventory on hand does not fluctuate much from year-to-year, and it is the auditor's opinion that the change in inventory would not likely be material.

1M. RESTRICTED ASSETS The Locust Grove Public Works Authority, based on certain loan agreements, is required to fund and maintain prescribed amounts of cash which can be used only to service outstanding debt and unforeseen contingencies. These amounts are included in the reserves for debt retirement, both current and reserve. Also included in restricted assets and reserves are amounts for meter deposits held for customers, reserves for water and sewer improvements, reserves for emergencies and equipment replacement and reserves for capital construction.

1N. CAPITAL ASSETS - Capital assets purchased or acquired with an original cost of $500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives of the assets:

Buildings	30 years
Utility Systems	40 years
Equipment	5 to10 years

The Town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

1O. DEFERRED LOAN COSTS Deferred loan costs represent charges assessed to the PWA to enable the Authority to receive its loan for the water treatment plant construction. These charges, as listed in Note 8, must be amortized over the life of the loan, which is 27.75 years.

1P. LONG-TERM DEBT Long-term obligations of the Town are reported in the Enterprise Fund.

1Q. PENSIONS The provision for pension cost is recorded on an accrual basis, and the Town's policy is to fund pension costs as they accrue.

1R. REVENUES AND EXPENDITURES/EXPENSES When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements 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. In proprietary funds, operating revenues and expenses result from providing goods and services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are non-operating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

1S. COMPENSATED ABSENCES Town employees are entitled to certain compensated absences based on their length of employment. These are treated as current liabilities, as the Town's policy has been to allow employees cash in unused vacation time, in lieu of time off, and the time is likely to be used or paid for within the next fiscal year.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

State statues require that the Town's and the Locust Grove Public Works Authority's deposits exceeding $100,000 in a financial institution be collateralized by securities. As of June 30, 2011 the institution was in compliance with this requirement for both the Town and the Public Works Authority.

3. ACCOUNTS RECEIVABLE

All customers have meter deposits with the Authority. However, a reserve has been established for accounts exceeding 90 days past due, as these amounts are unlikely to be collected. Meter deposits are often insufficient to fully fund these past due amounts.

4. PROPERTY, PLANT, AND EQUIPMENT

Activity for general fixed assets which are capitalized by the Town are summarized below:

	Balances July 1, 2010	Additions	Deletions	Balances June 30, 2011
Land	$ 66850	$ --	$ --	$ 66850
Buildings & Other	461394	139782	-	601176
Equipment	452095	--	--	452095
Totals	$980339	$ 139782	$ --	$ 1120121

A summary of property, plant, and equipment by method of valuation is presented below:

Estimate of Original Cost	$ 1094394
Value at Date of Donation for Donated Assets	25727
	$ 1120121

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets normally are not movable and of value only to the Town. Therefore, the purpose of stewardship for capital expenditures is satisfied without capitalizing these assets. No depreciation has been provided on general fixed assets.

A summary of property, plant, and equipment of the proprietary fund is presented in the combining balance sheet of such fund.

The following table presents for the PWA the range of lives, depreciation method, and accumulated depreciation for each class of depreciable asset.

	Assigned Range of Lives	Method	Accumulated Depreciation
Distribution System	40 Years	Straight Line	$ 1332700
Buildings & Improvements	30-40 Years	Straight Line	120000
Equipment	5-10 years	Straight Line	221973
			$ 1660524

5. DEFINED BENEFIT PENSION PLANS

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, sections 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 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 made the required contribution to the System for the year ended June 30, 2011.

6. DEFERRED LOAN COSTS

Deferred loan costs are charges associated with obtaining the financing of the loan for the construction of the water treatment facility and the extinguishment of existing indebtedness. The charges must be capitalized and amortized over the length of the loan. The total deferred loan costs of $95754 are reported net of accumulated amortization of $14792 on the Authority's balance sheet.

A summary of the deferred loan costs is as follows:

	Water Loan	Sewer Loan
Bond Council Fees	$ 21854	$ 23400
PWA Council Fees	10000	11000
Financial Consultant Fees	16000	11000
OWRB Rating Fee	2500	--
Total Deferred Loan Costs	50354	45400
Less: Accumulated Amortization	7930	6862
Deferred Loan Costs, Net of Amortization	$ 42424	$ 38538

7. LONG-TERM DEBT

The following is a summary of the Authority's long-term debt at June 30, 2011:

Variable rate (ranging 3.922% - 4.172%) note payable secured by first mortgages on revenues derived from water and sewer services and/or proceeds of sales tax authorized by Ordnance No. 80-2 Town of Locust Grove, dated August 7, 1980. Payable in semiannual installments through August 2023

Long-term Portion	$ 1824560
Current Portion	97249
Total	$ 1921809

The annual debt service requirements on the water loan, including interest, are as follows. The interest included is estimated at the current 3.922% but is subject to fluctuation as market interest rates change.

FYE June 30,	Amount
2012	103,673
2013	106,177
2014	108,652
2015	111,444
2016	114,515
2017	117,936
2018	121,317
2019	125,212
2020	129,404
2021	134,014
2022	138,772
2023	144,000
2024	74,114

The annual debt service requirements on the sewer loan, including interest, are as follows. The interest included is estimated at the current 2.981% but is subject to fluctuation as market interest rates change.

FYE June 30,	Amount
2011	127,152
2012	127,152
2013	127,152
2014	127,152
2015	127,152
2016	127,152
2017	127,152
2018	127,152
2019	63,576

8. RESTRICTED ASSETS, CUSTOMER METER DEPOSITS, AND RESERVED RETAINED EARNINGS

The following is a summary of the restricted assets, which consist of cash and the related liability and reserve:

Amount Reserved for Debt Service (Reserve)	
Cash and Cash Equivalents	$ 206723
Amount Reserved for Debt Service (Current)	
Cash and Cash Equivalents	6042
Total Reserved from Net Assets	212765
Liability for Customer Meter Deposits	
Cash and Cash Equivalents	53103
Total Restricted Assets	$ 265868

The Source and purpose of restricted assets is as follows:

(a) Reserve for Debt Service (Reserve) - This reserve was established and fully funded at the issuance of the $1,675,000 indebtedness for the retirement of existing indebtedness and the construction of a new water plant. The reserve was fully funded with a portion of the loan proceeds in an amount established by the Oklahoma Water Resources Board (ORWB). This amount was $204,640 and the balance as of June 30, 2011 is $206,723. The initial funding amount c an only be used in the event the Authority cannot meet its current loan obligations, and the funds must be replenished within 12 months of such usage. Any interest earned on the initial funding balance can be used to make current loan payments. See (b) below.

(b) Reserve for Debt Service (Current) - Payments on the water system/debt refinancing loan are made on a semi-annual basis from this fund; however, the PWA is required to fund this reserve on a monthly basis. The amount of monthly funding is determined every six months by the OWRB, and as of June 30, 2011 this amount is $6,042. Interest revenue from the debt service reserve (a) and this reserve can be used to lower the funding requirements of the Authority, and are used in the OWRB calculations. The balance of this reserve as of June 30, 2011 is $6,042.

(d) Reserve for Water and Sewer Improvements - This reserve was created in 1980 for the purpose of funding improvements to the water system and is funded by a 1/2 cent sales tax. Funds can be used only for improvements to the water and sewer treatment and distribution systems.

This reserve was required to fund payment of the former indebtedness of the PWA. When the indebtedness was retired, this reserve was no longer a requirement. The new loan agreements secure as collateral the entire 1.5 cents sales tax received by the PWA, but there are no provisions for the reservation of said sales tax.

(e) Reserve for Emergency and Equipment Replacement - This reserve was created by the Board in 1988 to provide for future emergencies and equipment replacement. Funding of this reserve is at the discretion of the Board.

(f) Customer Meter Deposits - This represents deposits required from utility customers and is reported as a liability.

9. FUND EQUITY

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund accounts are summarized below.

RESERVED RETAINED EARNINGS Reservations of retained earnings of the Locust Grove Public Works Authority represents restricted assets that cannot be used to pay for operating activities.

10. RELATED PARTY TRANSACTIONS

The Locust Grove Public Works Authority, a related party, provides water, sewer, and trash services for the Town of Locust Grove and operates as a component unit of the Town.

JUSTIN W. COWAN
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK PH: 918-479-6136

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Council
Town of Locust Grove, Oklahoma

I have audited the basic financial statements of the Town of Locust Grove, Oklahoma, as of and for the year ended June 30, 2011, and have issued my report thereon dated September 2, 2011. I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. The management's discussion and analysis and budgetary comparison information on pages four through eight and twenty-nine 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion in it.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Locust Grove's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Locust Grove's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Town of Locust Grove's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

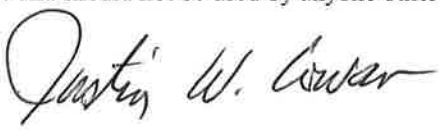
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Locust Grove's financial statements are free of material

misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, and the Oklahoma State Auditor, and is not intended to be and should not be used by anyone other than these specified parties



Justin W. Cowan
Certified Public Accountant

September 2, 2011

TOWN OF LOCUST GROVE, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
(NON-GAAP BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED

	Budget	Actual	Variance
Revenues			
Sales Tax	$ 900,000	$ 878,769	$ (21,231)
Other Taxes	32,000	33,717	1,717
Fines and Forfeits	120,000	138,957	18,957
Fees and Services	20,000	15,438	(4,562)
Grants	10,000	7,242	(2,758)
Miscellaneous	50,000	75,620	25,620
Total Revenues	1,132,000	1,149,743	17,743
Expenditures			
General Government	400,000	393,855	6,145
Public Safety	300,000	316,926	(16,926)
Fire Protection	50,000	13,159	36,841
Streets & Capital Outlay for Streets	10,000	4,066	5,934
Other Miscellaneous	6,000	0	6,000
Total Expenditures	766,000	728,006	37,994
Excess of Revenues Over (Under) Expenditures	$ 16,000	$ 421,737	
Less Transfers to PWA		(342,656)	
Net Change in Net Assets		79,081	