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TOWN OF LUTHER, OKLAHOMA

Report on Audit of Financial Statements

For the period ending June 30, 2011

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Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

3000 United Founders Blvd., Ste. 226
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Town of Luther
Luther, 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 Luther, Oklahoma (the Town) as of the and for 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'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 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 of 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 respective financial position—modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Luther, as of June 30, 2011, and the respective changes in financial position—modified cash basis, thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2011 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying combining nonmajor fund financial statements listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our

opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the accounting records concerning capital assets and related depreciation been susceptible to satisfactory audit tests, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note II C.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is requited by generally accepted accounting principles in the United States of America.

Casey J. Russell CPA Inc.

October 10, 2011

Town of Luther, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2011

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash and Cash Equivalents	238,934.18	119,266.02	358,200.20
Restricted - Cash and Cash Equivalents	-	88,307.34	88,307.34
Due from Other Funds	34,141.00	-	34,141.00
Total Current Assets	273,075.18	207,573.36	480,648.54
NONCURRENT ASSETS			
Net Capital Assets	741,533.64	597,100.65	1,338,634.29
Total Noncurrent Assets	741,533.64	597,100.65	1,338,634.29
TOTAL ASSETS	$ 1,014,608.82	$ 804,674.01	$ 1,819,282.83
CURRENT LIABILITIES			
Due to Other Funds	-	34,141.00	34,141.00
Current Portion of Long Term Debt	-	21,951.65	21,951.65
Meter Deposits	-	11,917.84	11,917.84
Total Current Liabilities	-	68,010.49	68,010.49
NONCURRENT LIABILITIES			
Notes Payable	246,377.61	182,168.90	428,546.51
Total Noncurrent Liabilities	246,377.61	182,168.90	428,546.51
TOTAL LIABILITIES	246,377.61	250,179.39	496,557.00
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	495,156.03	392,980.10	888,136.13
Restricted for Debt Service	-	88,307.34	88,307.34
Unrestricted	273,075.18	73,207.18	346,282.36
TOTAL NET ASSETS	768,231.21	554,494.62	1,322,725.83
TOTAL LIABILITIES AND NET ASSETS	$ 1,014,608.82	$ 804,674.01	$ 1,819,282.83

The accompanying footnotes are an integral part of these financial statements

Town of Luther, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (expense) revenue and Changes in net assets — Primary Government: Governmental Activities	Net (expense) revenue and Changes in net assets — Primary Government: Business-Type Activities	Total
Primary Government						
Governmental Activities						
General Government	360,765.15	31,014.92	111,224.00	(218,526.23)	-	(218,526.23)
Public Safety	273,730.09	254,777.92	-	(18,952.17)	-	(18,952.17)
Fire Department	44,331.21	-	-	(44,331.21)	-	(44,331.21)
Total Governmental Activities	678,826.45	285,792.84	111,224.00	(281,809.61)	-	(281,809.61)
Business-Type Activities						
Luther Public Works Authority	285,652.83	269,004.51	-	-	(16,648.32)	(16,648.32)
Total Business-Type Activities	285,652.83	269,004.51	-	-	(16,648.32)	(16,648.32)
Total Primary Government	$ 964,479.28	$ 554,797.35	$ 111,224.00	$ (281,809.61)	$ (16,648.32)	$ (298,457.93)
General Revenues						
Sales Taxes				232,857.25	-	232,857.25
Other Taxes				33,527.36	-	33,527.36
Interest Income				371.34	1,395.27	1,766.61
Total General Revenue				266,755.95	1,395.27	268,151.22
Transfer In/Out				24,513.20	(24,513.20)	-
Change in Net Assets				9,459.54	(39,766.25)	(30,306.71)
Net Assets Beginning				758,771.67	594,260.87	1,353,032.54
Net Assets Ending				$ 768,231.21	$ 554,494.62	$ 1,322,725.83

The accompanying footnotes are an integral part of these financial statements

Town of Luther, Oklahoma
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2011

	General Fund	Special Revenue Fund	Total Governmental Fund
ASSETS			
Cash and Cash Equivalents	$ 228,262.17	$ 10,672.01	$ 238,934.18
Due from Other Funds	34,141.00	-	34,141.00
Total Assets	$ 262,403.17	$ 10,672.01	$ 273,075.18
LIABILITIES			
NET ASSETS			
General Fund	262,403.17	-	262,403.17
Special Revenue Funds	-	10,672.01	10,672.01
Total Net Assets	262,403.17	10,672.01	273,075.18
TOTAL LIABILITIES AND NET ASSETS	$ 262,403.17	$ 10,672.01	$ 273,075.18

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

Total Governmental Net Assets	273,075.18
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.	741,533.64
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(246,377.61)
Net assets per the government wide financial statements	$ 768,231.21

The accompanying footnotes are an integral part of these financial statements

Town of Luther, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2011

	Fund	Special Fund	Total Fund
Revenues			
Taxes	$ 266,384.61	$ -	$ 266,384.61
Licenses and Permits	28,077.91	-	28,077.91
Charges for Services	2,100.00	-	2,100.00
Fines and Forfeitures	254,777.92	-	254,777.92
Other Revenues	837.01	-	837.01
Interest Revenues	269.87	101.47	371.34
Grant Revenues	111,224.00	-	111,224.00
Total Revenues	663,671.32	101.47	663,772.79
Expenditures			
Personnel Services	269,905.22	-	269,905.22
Maintenance and Operations	344,461.61	-	344,461.61
Capital Outlay	347,633.50	-	347,633.50
Total Expenses	962,000.33	-	962,000.33
Excess Revenues over Expenses	(298,329.01)	101.47	(298,227.54)
Other Financing Sources and Uses			
Capital Financing	249,497.76	-	249,497.76
Transfers In/Out	24,513.20	-	24,513.20
Total Other Financing Sources and Uses	274,010.96	-	274,010.96
Net Change in Fund Balances	(24,318.05)	101.47	(24,216.58)
Fund Balances, Beginning	286,721.22	10,570.54	297,291.76
Fund Balances, Ending	$ 262,403.17	$ 10,672.01	$ 273,075.18

Reconcilation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	(24,216.58)
Monies received for the issuance of capital leases	(249,497.76)
Monies expended for capital assets recorded as an expense in the fund statements	347,633.50
not recorded in the fund financial statements.	(64,459.62)
Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.	-
Change in Net Assets per the Governmental Wide Financial Statements	$ 9,459.54

The accompanying notes are an integral part of these financial statements

Town of Luther, Oklahoma
Proprietary Fund
Statment of Net Assets - Modified Cash Basis
June 30, 2011

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	119,266.02
Restricted - Cash and cash equivalents	88,307.34
Total Current Assets	207,573.36
NONCURRENT ASSETS	
Net Capital Assets	597,100.65
Total Noncurrent Assets	597,100.65
TOTAL ASSETS	$ 804,674.01
LIABILITIES	
CURRENT LIABILITIES	
Due To Other Funds	34,141.00
Meter Deposits	11,917.84
Current Portion of Long Term Debt	21,951.65
Total Current Liabilities	68,010.49
NONCURRENT LIABILITIES	
Notes Payable	182,168.90
Total Noncurrent Liabilites	182,168.90
TOTAL LIABILITIES	250,179.39
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	392,980.10
Restricted for Debt Service	88,307.34
Unrestricted	73,207.18
TOTAL NET ASSETS	554,494.62
TOTAL LIABILITIES AND NET ASSETS	$ 804,674.01

The accompanying footnotes are an integral part of these financial statements

Town of Luther, Oklahoma
Proprietary Funds
Statement of Activities and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2011

Revenues	
Water	$ 122,913.69
Sewer	46,252.03
Sanitation	90,782.56
Interest Income	1,395.27
Miscellanous Revenue	9,056.23
Total Revenues	270,399.78
Operating Expenses	
Personnel Services	62,783.39
Maintenance and Operations	109,549.23
Sanitation	63,548.80
Interest Expense	11,207.97
Depreciation	38,563.44
Total Operating Expenses	285,652.83
Transfers In/Out	24,513.20
Change in Net Assets	(39,766.25)
Beginning Net Assets	594,260.87
Ending Net Assets	$ 554,494.62

The accompanying notes are an integral part of these financial statements

Town of Luther, Oklahoma
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2011

Cash flows from operating activities	
Receipts from customers	269,004.51
Interest Income	1,395.27
Payments to employees	(62,783.39)
Payments to suppliers	(208,819.20)
Net cash provided by operating activities	(1,202.81)
Cash flows from capital and related financing activities	
Change in meter deposits	1,390.84
Principal paid on debt owed	(31,571.18)
Net cash flows from capital and related financing activities	(30,180.34)
Net increase (decrease) in cash	(31,383.15)
Cash, Beginning of the Year	238,956.51
Cash, End of the Year	$ 207,573.36

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

Change in Net Assets	(39,766.25)
Adjustments to reconcile change in net assets to net cash provided	
Depreciation	38,563.44
Net cash provided by operating activities	$ (1,202.81)

The accompanying notes are an integral part of these financial statements

I. ORGANIZATION

The Town of Luther, Oklahoma (the Town) operates under Town Board of Trustees form of government under Title 11 of the *Oklahoma Statutes*. The Town provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, culture and recreation, utilities and general administrative services.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board, (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied to the extent they are applied, to the extent they are applicable to the modified cash basis of accounting, unless these pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting Entity

The accompanying financial statements present the town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations. The Town's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Town.

Blended component units. The Luther Public Works Authority (the LPWA) serves all the citizens of the Town and is governed by a board appointed by the Town's elected board of trustees. The rates for user charges and debt authorizations are approved by the Town's board of trustees. The LPWA has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate utility facilities whether water, sewer, gas, electric, or other forms or types of public and municipal services within and without the corporate boundaries of the Town. The LPWA is reported as an enterprise fund.

Separate financial statements have not been prepared for the component unit.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or

segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. Revenues are recorded when received and expenses when paid, with exception of proceeds from long term debt which is recorded as a liability, and capital assets acquired, which are capitalized, with a provision for depreciation.

In the fund financial statements, the current financial resources measurement focus, as applied to the modified cash basis of accounting, is used for governmental funds, while the economic resources measurement focus is used for proprietary funds. The current financial resources measurement focus includes only current financial assets and liabilities on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period.

In the government-wide statement of net assets and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed and provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

The Town reports the following major governmental funds:

> The general fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> The OWRB - REAP grant fund was used to account for the proceeds of a grant from the State of Oklahoma and the expenditure of those grant proceeds.

The Town reports the following major proprietary funds:

> The Luther Public Works Authority accounts for the Town's water, wastewater and sanitation utility operations.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Luther Public Works Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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.

State statutes authorize the Town to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the Town, as well as for its component units are reported at fair value.

2. Restricted Assets

The Luther Public Works Authority has set aside certain resources in debt service and reserve accounts for repayment of loans, in accordance with the loan indentures. These funds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Buildings	25-50
Improvements	20-50
Furniture, Equipment, and Vehicles	5-10

4. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees may accumulate and carryover up to 10 to 20 days of annual leave and sick leave may be accumulated up to a maximum of six (6) days. Accumulated sick leave is not paid to employees upon termination. No liability for accumulated vacation and sick leave is included in the financial statements.

5. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted for all governmental funds and the Luther Public Works Authority. All unencumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not exceed the adopted budget.

Prior to June of each year, requests for appropriations are submitted to the Town Clerk so that a budget may be prepared. The Board of Trustees holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the Town Council in July, and submitted to the Oklahoma County Excise Board.

The appropriated budget is prepared for the general fund by function. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level. Object classifications include personnel services, maintenance and operations, capital outlay, and debt service.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Budgets are prepared on the budget basis of accounting, which demonstrates compliance with cash basis and budget laws of the State of Oklahoma, and is another comprehensive basis of accounting.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

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

For the year ending June 30, 2011, the Town and its component units had category one deposits up to the FDIC insurance limits. The remaining account balances for the Town and its component units were category three.

B. Restricted Assets

The Luther Public Works Authority note payable to Rural Development includes restricted cash and investments for a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available to make debt service payments in a timely manner. Additionally, cash and investments held for refund to customers for water deposits are included as restricted assets. As of June 30, 2011 cash restricted for debt service was $73,158 and cash restricted for customer deposits was $15,149.

C. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2011, cash and investments included $15,149 available for refund of customer deposits, while the liability to customers was $11,918.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the Town general fund as fines. As of June 30, 2011, $-0- was being held that was subject to refund.

D. Capital Assets

Capital asset balances and activities for the year ended June 30, 2011 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	70,235	-	-	70,235
Buildings	166,770	190,000	-	356,770
Equipment	373,230	53,917	-	427,147
Improvements	353,462	111,224	-	464,686
Total capital assets	963,697	355,141	-	1,318,838
Less accumulated depreciation for:				
Buildings	(94,503)	(5,559)	-	(100,062)
Equipment	(223,938)	(40,532)	-	(264,470)
Improvements	(194,404)	(18,368)	-	(212,772)
Total accumulated depreciation	(512,845)	(64,460)	-	(577,305)
Governmental activities capital assets, net	$ 450,852			$ 741,534
Business-type activities				
Land	82,000	-	-	82,000
Water system	608,011	-	-	608,011
Water equipment	42,436	-	-	42,436
Sewer system	647,770	-	-	647,770
Sewer equipment	23,750	-	-	23,750
Total capital assets	1,403,967	-	-	1,403,967
Less accumulated depreciation for:				
Water system	(335,217)	(16,307)	-	(351,524)
Water equipment	(25,352)	(6,062)	-	(31,414)
Sewer system	(383,984)	(16,194)	-	(400,178)
Sewer equipment	(23,750)	-	-	(23,750)
Total accumulated depreciation	(768,303)	(38,563)	-	(806,866)
Business-type activities capital assets, net	$ 635,664			$ 597,101

F. Long-term Debt

Long-term liabilities of the Town of Luther as of June 30, 2011, are summarized as follows:

Business-type activities

No. 91-01 USDA Rural Development dated May 25, 1982, with an original amount of $537,900 used for construction of water facilities. The note is due and payable at $2,642 per month, including principal and interest at 5%, with the final payment due July 25, 2020. The Note is secured with a leasehold mortgage and first lien on the facilities and a pledge of the gross revenues of the water system	$ 204,121

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

Year Ending June 30,	Business-Type Activities Notes Payable Principal	Interest
2012	26,631	9,859
2013	23,075	8,629
2014	24,255	7,449
2015	25,496	6,208
2016	26,801	4,903
2017-2019	77,863	11,114
Totals	$ 204,121	$ 48,163

Governmental-type activities

The first note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to purchase police cars. The balance of this note as of June 30, 2011 was $50,797 and matures in February 2015. The Town of Luther paid $3,125 in principal and $568 in interest on this obligation for the year ending June 30, 2011. Payments on this note are $1,230.92 per month.

	Principal	Interest
2011/2012	12,746	2,025
2012/2013	13,332	1,439
2013/2014	13,944	827
2014/2015	10,770	197
Total	$ 50,792	$ 4,488

Balance, Beginning of Year	$ 53,922
Principal Paid During Year	3,125
Balance, End of Year	$ 50,797

The second note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to buildings. The balance of this note as of June 30, 2011 was $195,580 and matures in July 2021. The Town of Luther paid $-0- in principal and $-0- in interest on this obligation for the year ending June 30, 2011. Payments on this note are $2,046.89 per month.

	Principal	Interest
2011/2012	14,722	7,794
2012/2013	16,767	7,796
2013/2014	17,537	7,025
2014/2015	18,343	6,220
2015/2016	19,186	5,377
2016/2021	109,025	12,822
Total	$ 195,580	$ 47,034

Balance, Beginning of Year	$ 195,580
Principal Paid During Year	-
Balance, End of Year	$ 195,580

G. Compensated absences

Regular full-time employees working at least 40 hours per week are entitled to annual leave at rates based on years of service as established by the board of trustees. An accrual for vacation and comp time earned but not taken as of June 30, 2011, has not been included in the accompanying financial statements.

V. Other Information

A. Risk Management

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

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

C. Subsequent Events

Subsequent events have been evaluated through October 10, 2011, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

2812 NW 57th St., Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

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

To the Board of Trustees
Town of Luther, 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 Luther, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated October 10, 2011. The report on the Town of Luther was qualified because the financial statements were prepared using the modified cash basis of accounting. Except as discussed in the preceding sentence, 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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. 2011-1. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

This report is intended for the information and use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these parties.

Carey J. Sarell CPA Inc.

October 10, 2011

Schedule of Current Findings and Responses

2011-1 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the town and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited.

Schedule of Prior Year Findings and Responses

2010-1 Fixed Asset Records

2010-2 Ticket Revenue (Lack of Segregation of Duties)

2010-3 Utility Billing Collections (Lack of Segregation of Duties)