

**TOWN OF LUTHER, OKLAHOMA**

**Report on Audit of Financial Statements**

**For the period ending June 30, 2016**

## TABLE OF CONTENTS

### **Financial Section**

Independent Auditor's Report .....	1-2
Basic Financial Statements	
Statement of Net Position - Modified Cash Basis .....	3
Statement of Activities - Modified Cash Basis .....	4
Balance Sheet - Modified Cash Basis - Governmental Funds.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis - Governmental Funds.....	6
Statement of Net Position - Modified Cash Basis - Proprietary Funds .....	7
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds .....	8
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds .....	9
Notes to Financial Statements.....	10-19

### **Required Supplementary Information**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	20-21
Schedule of Current & Prior Findings and Responses .....	22-25

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## Independent Auditor's Report

To the Board of Trustees  
Town of Luther, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Luther, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position 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, 2016, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## **Other Matters**

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2017, on our consideration of the Town of Luther's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Luther's internal control over financial reporting and compliance.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with the respect to this matter.

*Russell + Williams CPA's, P.C.*

Oklahoma City, Oklahoma  
March 2, 2017

**Town of Luther, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Totals
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	95,492.84	42,351.52	137,844.36
Restricted - Cash and Cash Equivalents	-	62,067.02	62,067.02
Due from Other Funds	17,323.71	-	17,323.71
<b>Total Current Assets</b>	<u>112,816.55</u>	<u>104,418.54</u>	<u>217,235.09</u>
<b>NONCURRENT ASSETS</b>			
Net Capital Assets	622,345.27	477,365.14	1,099,710.41
<b>Total Noncurrent Assets</b>	<u>622,345.27</u>	<u>477,365.14</u>	<u>1,099,710.41</u>
<b>TOTAL ASSETS</b>	<u>\$ 735,161.82</u>	<u>\$ 581,783.68</u>	<u>\$ 1,316,945.50</u>
<b>CURRENT LIABILITIES</b>			
Due to Other Funds	-	17,323.71	17,323.71
Current Portion of Long Term Debt	-	31,035.97	31,035.97
Meter Deposits	-	21,668.63	21,668.63
<b>Total Current Liabilities</b>	<u>-</u>	<u>70,028.31</u>	<u>70,028.31</u>
<b>NONCURRENT LIABILITIES</b>			
Notes Payable	44,381.49	122,182.71	166,564.20
<b>Total Noncurrent Liabilities</b>	<u>44,381.49</u>	<u>122,182.71</u>	<u>166,564.20</u>
<b>TOTAL LIABILITIES</b>	<u>44,381.49</u>	<u>192,211.02</u>	<u>236,592.51</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	577,963.78	324,146.46	902,110.24
Restricted for Debt Service	-	62,067.02	62,067.02
Unrestricted	112,816.55	3,359.18	116,175.73
<b>TOTAL NET POSITION</b>	<u>690,780.33</u>	<u>389,572.66</u>	<u>1,080,352.99</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 735,161.82</u>	<u>\$ 581,783.68</u>	<u>\$ 1,316,945.50</u>

The accompanying footnotes are an integral part of these financial statements



**Town of Luther, Oklahoma**  
**Governmental Funds**  
**Balance Sheet - Modified Cash Basis**  
**June 30, 2016**

	General Fund	Special Revenue Fund	Total Governmental Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 93,812.26	\$ 1,680.58	\$ 95,492.84
Due from Other Funds	12,304.93	5,018.78	17,323.71
<b>Total Assets</b>	<b>\$ 106,117.19</b>	<b>\$ 6,699.36</b>	<b>\$ 112,816.55</b>
<b>LIABILITIES</b>			
<b>FUND BALANCES</b>			
General Fund	106,117.19	-	106,117.19
Special Revenue Funds	-	6,699.36	6,699.36
<b>Total Fund Balances</b>	<b>106,117.19</b>	<b>6,699.36</b>	<b>112,816.55</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 106,117.19</b>	<b>\$ 6,699.36</b>	<b>\$ 112,816.55</b>

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

Total Governmental Net Position	112,816.55
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	622,345.27
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(44,381.49)
Net position per the government wide financial statements	<b>\$ 690,780.33</b>

**Town of Luther, Oklahoma**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2016**

	General Fund	Special Revenue Fund	Total Governmental Fund
<b>Revenues</b>			
Taxes	\$ 479,891.52	\$ -	\$ 479,891.52
Licenses and Permits	3,305.71	-	3,305.71
Charges for Services	-	1,294.75	1,294.75
Fines and Forfeitures	251,545.62	-	251,545.62
Other Revenues	34,481.11	-	34,481.11
Interest Revenues	261.93	6.14	268.07
Grant Revenues	39,157.04	-	39,157.04
<b>Total Revenues</b>	<u>808,642.93</u>	<u>1,300.89</u>	<u>809,943.82</u>
<b>Expenditures</b>			
Personnel Services	397,173.10	-	397,173.10
Maintenance and Operations	330,296.70	-	330,296.70
Debt Service	30,840.17	-	30,840.17
Capital Outlay	65,902.08	-	65,902.08
<b>Total Expenses</b>	<u>824,212.05</u>	<u>-</u>	<u>824,212.05</u>
<b>Excess Revenues over Expenses</b>	(15,569.12)	1,300.89	(14,268.23)
<b>Other Financing Sources and Uses</b>			
Transfers In/Out	(7,590.84)	-	(7,590.84)
<b>Total Other Financing Sources and Uses</b>	(7,590.84)	-	(7,590.84)
<b>Net Change in Fund Balances</b>	<u>(23,159.96)</u>	<u>1,300.89</u>	<u>(21,859.07)</u>
Fund Balances, Beginning	129,277.15	5,398.47	134,675.62
Fund Balances, Ending	<u>\$ 106,117.19</u>	<u>\$ 6,699.36</u>	<u>\$ 112,816.55</u>

***Reconciliation 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, 2016***

<i>Net Change in Fund Balances - Total Governmental Funds</i>	(21,859.07)
<i>Monies received for the issuance of capital leases</i>	-
<i>Monies expended for capital assets recorded as an expense in the fund statements</i>	65,902.08
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the fund financial statements.</i>	(52,510.92)
<i>Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.</i>	<u>30,840.17</u>
<i>Change in Net Position per the Governmental Wide Financial Statements</i>	<u>\$ 22,372.26</u>



**Town of Luther, Oklahoma**  
**Proprietary Fund**  
**Statment of Net Position - Modified Cash Basis**  
**June 30, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	42,351.52
Restricted - Cash and cash equivalents	<u>62,067.02</u>
<b>Total Current Assets</b>	<b>104,418.54</b>

**NONCURRENT ASSETS**

Net Capital Assets	<u>477,365.14</u>
<b>Total Noncurrent Assets</b>	<b>477,365.14</b>

<b>TOTAL ASSETS</b>	<b><u><u>\$ 581,783.68</u></u></b>
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**LIABILITIES**

**CURRENT LIABILITIES**

Due To Other Funds	17,323.71
Meter Deposits	21,668.63
Current Portion of Long Term Debt	<u>31,035.97</u>
<b>Total Current Liabilities</b>	<b><u>70,028.31</u></b>

**NONCURRENT LIABILITIES**

Notes Payable	<u>122,182.71</u>
<b>Total Noncurrent Liabilites</b>	<b>122,182.71</b>

<b>TOTAL LIABILITIES</b>	<b><u>192,211.02</u></b>
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**NET POSITION**

Net Investment in Capital Assets	324,146.46
Restricted for Debt Service	62,067.02
Unrestricted	<u>3,359.18</u>
<b>TOTAL NET POSITION</b>	<b><u>389,572.66</u></b>

<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u><u>\$ 581,783.68</u></u></b>
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**Town of Luther, Oklahoma**  
**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2016**

<b>Revenues</b>	
Water	\$ 101,928.13
Sewer	40,941.45
Sanitation	134,220.94
Interest Income	357.94
Miscellaneous Revenue	<u>18,520.12</u>
<b>Total Revenues</b>	<u>295,968.58</u>
<b>Operating Expenses</b>	
Personnel Services	99,469.52
Maintenance and Operations	77,983.83
Sanitation	84,262.80
Interest Expense	2,597.42
Depreciation	<u>37,000.03</u>
<b>Total Operating Expenses</b>	<u>301,313.60</u>
<b>Transfers In/Out</b>	(7,590.84)
<b>Change in Net Position</b>	<u>2,245.82</u>
Beginning Net Position	<u>387,326.84</u>
Ending Net Position	<u><u>\$ 389,572.66</u></u>

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, 2016**

<b>Cash flows from operating activities</b>	
Receipts from customers	295,610.64
Interest Income	357.94
Payments to employees	(99,469.52)
Payments to suppliers	<u>(157,253.21)</u>
<b>Net cash provided by operating activities</b>	<b>39,245.85</b>
<b>Cash flows from capital and related financing activities</b>	
Change in meter deposits	1,883.00
Purchase of Fixed Assets	(7,500.00)
Increase (decrease) in interfund receivables/payables	(817.29)
Principal paid on debt owed	<u>(2,686.58)</u>
<b>Net cash flows from capital and related financing activities</b>	<b>(9,120.87)</b>
<b>Net increase (decrease) in cash</b>	<b>30,124.98</b>
<b>Cash, Beginning of the Year</b>	<u>74,293.56</u>
<b>Cash, End of the Year</b>	<u><u>\$ 104,418.54</u></u>

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

Change in Net Position	2,245.82
Adjustments to reconcile change in net assets to net cash provided	
Depreciation	<u>37,000.03</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 39,245.85</u></u>

**TOWN OF LUTHER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The Town of Luther, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities 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, 2016, the Town had one component units, the Luther Public Works Authority.

**1.B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds

within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

### **Governmental Funds**

#### **General Fund**

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

#### **Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Cemetery Care.

### **Proprietary Funds**

#### **Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Luther PWA.

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

### **MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an 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 position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

### BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

## **1.D. FINANCIAL POSITION**

### **CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

### **INVESTMENTS**

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

### **CAPITAL ASSETS**

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

### **Government-Wide Statements**

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

### **Fund Financial Statements**

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

## LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

## NET POSITION/FUND BALANCE CLASSIFICATIONS

### Government-Wide Statements

Net Position is classified and displayed in three components:

*Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

*Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

*Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### Fund Financial Statements

#### **Governmental Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

**Nonspendable.** Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.



**Restricted.** Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

**Committed.** Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

**Assigned.** Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

**Unassigned.** The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

### **Proprietary Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

## **1.E. REVENUES, EXPENDITURES, AND EXPENSES**

### PROGRAM REVENUES

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

### OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services.

They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

### GASB 34 IMPLEMENTATION

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

### **1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

### **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

### **NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS**

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, 2016, 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.

### **A. 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, 2016 cash restricted for debt service was \$31,704 and cash restricted for customer deposits was \$30,363.

**B. 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, 2016, cash and investments included \$30,363 available for refund of customer deposits, while the liability to customers was \$21,669.

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, 2016, \$-0- was being held that was subject to refund.

**NOTE 4. CAPITAL ASSETS AND DEPRECIATION**

Capital asset balances and activities for the year ended June 30, 2016 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Funds</b>				
Land	70,235	-	-	70,235
Buildings	447,948	-	-	447,948
Equipment	457,798	65,902	-	523,700
Improvements	464,686	-	-	464,686
Total capital assets	1,440,667	65,902	-	1,506,569
Accumulated Depreciation	(831,712)	(52,511)	-	(884,223)
Net Assets	<u>\$ 608,955</u>			<u>\$ 622,346</u>
<b>Business-type activities</b>				
Land	82,000	-	-	82,000
Water system	649,255	-	-	649,255
Water equipment	49,254	7,500	-	56,754
Sewer system	647,770	-	-	647,770
Sewer equipment	33,750	-	-	33,750
Total capital assets	1,462,029	7,500	-	1,469,529
Accumulated Depreciation	(955,164)	(37,000)	-	(992,164)
Net Assets	<u>\$ 506,865</u>			<u>\$ 477,365</u>

**NOTE 5. NOTES PAYABLE**

Long-term liabilities of the Town of Luther as of June 30, 2016, 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

\$ 147,678

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

Year Ending June 30,	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2017	25,496	6,208
2018	26,801	4,903
2019	28,172	3,532
2020	29,613	2,091
2021	37,596	2,679
Totals	\$ 147,678	\$ 19,413

The second note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to pay of debt. The balance of this note as of June 30, 2016 was \$5,540 and matures in May 2017. The Luther PWA paid \$6,850 in principal and \$428 in interest on this obligation for the year ending June 30, 2016. Payments on this note are \$633 per month.

	Principal	Interest		
2016/2017	5,540	178	Balance, Beginning of Year	\$ 12,703
	\$ 5,540	\$ 178	Principal Paid During Year	(7,163)
			Balance, End of Year	\$ 5,540

#### 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, 2016 was \$13,145 and matures in March 2017. The Town of Luther paid \$12,595 in principal and \$908 in interest on this obligation for the year ending June 30, 2016. Payments on this note are \$1,221 per month.

	Principal	Interest		
2016/2017	13,145	216	Balance, Beginning of Year	\$ 25,740
Total	\$ 13,145	\$ 216	Principal Paid During Year	(12,595)
			Balance, End of Year	\$ 13,145

The second note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to purchase buildings. The balance of this note as of June 30, 2016 was \$7,387 and matures in May 2017. The Town of Luther paid \$7,081 in principal and \$510 in interest on this obligation for the year ending June 30, 2016. Payments on this note are \$633 per month.

	Principal	Interest		
2016/2017	7,387	178	Balance, Beginning of Year	\$ 14,468
	\$ 7,387	\$ 178	Principal Paid During Year	(7,081)
			Balance, End of Year	\$ 7,387

The third note payable to the First Bank & Trust carries an interest rate of 4.5%. These monies were used to build a fire station. The balance of this note as of June 30, 2016 was \$23,850 and

matures in March 2018. The Town of Luther paid \$11,164 in principal and \$1,004 in interest on this obligation for the year ending June 30, 2016. Payments on this note are \$1,014 per month.

	Principal	Interest		
2016/2017	11,480	684	Balance, Beginning of Year	\$ 35,014
2017/2018	12,370	168	Principal Paid During Year	(11,164)
	<u>\$ 23,850</u>	<u>\$ 853</u>	Balance, End of Year	<u>\$ 23,850</u>

#### **NOTE 6. 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.

#### **NOTE 7. EMPLOYEE NOTES RECEIVABLES**

During the year ending June 30, 2016, it was determined that an employee had been improperly overpaid due to a payroll miscalculation which had occurred earlier in the year. An agreement was reached between the employee and the Town/LPWA for repayment of this overpayment of \$2,832.47. On January 31, 2017, the employee fully reimbursed the amounts that were owed to the Town/LPWA.

On September 21, 2015, the Town was given notice from the State of Oklahoma Firefighters Pension and Retirement System (OFPRS) that no paid contribution had been withheld or paid to the System and that the employer contribution had also not been paid to the System. OFPRS required that the full balance owed by the Town and the employee be paid immediately. On October 8, 2015, the Town paid the full balance of \$32,757.88 owed to OFPRS. The employees portion was \$12,623.04. The employee entered into a promissory agreement with the LPWA to repay the \$12,623.04. The employee has agreed to repay a portion of this note back to the LPWA each pay period. If the employee should seek employment elsewhere he will still be liable for the balance owed to the LPWA.

#### **NOTE 8. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 2, 2017, which is the date the financial statements were issued.

## Russell & Williams CPA's, P.C.

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### INDEPENDENT AUDITOR'S 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

We have audited, in accordance with the 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, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Luther, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Luther's basic financial statements, and have issued our report thereon dated March 2, 2017.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Luther's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Luther's internal control. Accordingly, we do not express an opinion on the effectiveness of Luther's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2016-1, 2016-2, 2016-3, 2016-4, & 2016-7.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Luther's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-2, 2016-3, 2016-5, 2016-6, 2016-7 & 2016-8.

### **Town of Luther's Response to Findings**

Town of Luther's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Luther's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Russell + Williams CPAs, P.C.*

Oklahoma City, Oklahoma  
March 2, 2017

## **Schedule of Current Findings and Responses**

### **2016-1 Lack of Segregation of Duties (Repeat Finding)**

CONDITION: During our review of the internal control structure, we noted that several procedures lack 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.

CRITERIA: Proper internal control requires a separation of record keeping from the associated assets or a system of management oversight to compensate for the lack of separation.

CAUSE OF CONDITION: Limited personnel and the ability of one person to have absolute access.

EFFECT OF CONDITION: The Town is subject to embezzlement.

RECOMMENDATION: An outside CPA should be hired to help strengthen internal controls.

MANAGEMENT RESPONSE: All checks now require three signatures whether there are three signature lines or not. All debit card and/or credit card will require board approval. An outside CPA has been hired to help reconcile matters on a monthly basis so that internal controls can be stronger.

### **2016-2 Purchases Lack Proper Documentation**

CONDITION: During our review of expenses, we noted that several purchases approved by the board lacked proper documentation to validate such expenses. 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, all invoices must be maintained for a minimum period of 5 years.

CRITERIA: 11 O.S. Sec. 22-131 & 132 requires that purchasing records be properly maintained for a period of 5 years.

CAUSE OF CONDITION: The Town Clerk/Treasurer was not properly maintaining invoices for the required time period.

EFFECT OF CONDITION: Proper auditing procedures could not be performed without reviewing proper invoices related to purchases. The Town/LPWA is not only in violation of state statute but without proper documentation they have subjected themselves to the possibility of embezzlement.

RECOMMENDATION: Because the Town has had such a high turn-over in office personnel for several years, it is recommended that the Board implement proper policy and procedures to ensure that all invoices are properly maintained for the required time period. We suggest that the Treasurer review the purchasing records each month to ensure that they are being properly maintained. We also suggest that a copy of the invoice, the individual check stub, and a copy of the signed check be stapled together and maintained in a designated file.

MANAGEMENT RESPONSE: Most of this issue was caused by a former clerk. The current office staff has been maintaining the purchasing records as recommended. The current clerk has also trained the other office staff in this policy as well. The board will designate a member to review the purchase files monthly so that all documentation is properly maintained.

### **2016-3 Cemetery Revenues**

CONDITION: The Town is required to transfer 12.5% of cemetery lots sales into the "Cemetery Care Fund". This transfer had not been done as of June 30, 2016.

CRITERIA: 11 O.S. Sec. 26-109 requires that at least 12.5% of revenue from sales of cemetery lots and interments be placed in a segregated fund known as of "Cemetery Care Fund".



CAUSE OF CONDITION: The Town Clerk was unaware that a transfer needed to be made.

EFFECT OF CONDITION: The Town has not properly maintained its "Cemetery Care Fund" by not making the required transfer of lot sales.

RECOMMENDATION: It is recommended that the required 12.5% be transferred into the Cemetery Care checking account as soon as the cemetery plot is sold. Alternatively, each June the Clerk could make one lump transfer into the cemetery checking for its portion of the plot sales. As of June 30, 2016, the Town owes the Cemetery Fund \$5,018.78 which has been recorded as a "Due To/From" on the financials. It is recommended that the Town transfer this amount into the Cemetery Fund checking account.

MANAGEMENT RESPONSE: The Town will transfer the required amount into the Cemetery Care checking and will ensure that the 12.5% is transferred for plot sales.

#### **2016-4 LEDA Account Activity Not Documented**

CONDITION: During our review of expenses of the LEDA account, we noted that several purchases lacked proper documentation to validate such expenses. 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, all invoices must be maintained for a minimum period of 5 years. Furthermore, the LEDA account has a debit card which requires no approval by board members before using.

CRITERIA: 11 O.S. Sec. 22-131 & 132 requires that purchasing records be properly maintained for a period of 5 years.

CAUSE OF CONDITION: LEDA was not properly maintaining invoices for the required time period.

EFFECT OF CONDITION: Proper auditing procedures could not be performed without reviewing proper invoices related to purchases. LEDA is not only in violation of state statute but without proper documentation they have subjected themselves to the possibility of embezzlement.

RECOMMENDATION: Debit card and/or credit cards should no longer be allowed. Furthermore, all invoices for expenses associated with LEDA should be properly maintained in the Clerks office.

MANAGEMENT RESPONSE: The Town Board will look further into this matter.

#### **2016-5 Budget Deadlines**

CONDITION: During our review of the budget procedures, the town failed to prepare the required budgets within the required deadlines mandated by state statute.

CRITERIA: State statute requires budgets be submitted for all funds to the governing body before the start of the budget year.

CAUSE OF CONDITION: The town has not adopted formal budget procedures in regards to the preparation of their annual budget.

EFFECT OF CONDITION: The Town was not in compliance with state statute regarding budgets.

RECOMMENDATION: The Town should review and adopt budget requirements required by state statute.

MANAGEMENT RESPONSE: We understand the need for preparing budget forms before the start of the fiscal year and will strive to prepare budgets according to the required deadlines.

#### **2016-6 Debt Payments**

CONDITION: During our review of the financials, it was discovered that only one monthly loan payment had been made to the USDA Rural Development Loan.

CRITERIA: The loan agreement with the USDA requires monthly payments in the amount of \$2,642 be made each month.

CAUSE OF CONDITION: The LPWA failed to make the required monthly debt payments

EFFECT OF CONDITION: The LPWA was not in compliance with loan agreement.

RECOMMENDATION: The LPWA should consider setting this payment up as an automatic draft.

MANAGEMENT RESPONSE: We will look into setting this payment up as an automatic draft or take steps to ensure that this does not happen again.

### **2016-7 Deposits Not Made Daily**

CONDITION: During our review of the bank deposits, it was discovered that bank deposits are not being made daily as required by state statute.

CRITERIA: 11 O.S. 12-110 and 62 O.S. Sec. 517.3 requires that the treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office, in one or more financial institutions that have been designated as either state or county depositories, or both, and the acceptance of any such deposit from any such treasurer shall be tantamount to adoption, in relation thereto, of the same privileges and conditions, other than collateral security, as are now provided by law in acceptance of designation as state or county depositories.

CAUSE OF CONDITION: The Treasurer has not been making deposits daily.

EFFECT OF CONDITION: The Town is not in compliance with state statute.

RECOMMENDATION: The Board should implement a policy that if the Treasurer cannot make the deposits daily then another Town official will make sure that the deposits are taken to the bank in the required time period.

### **2016-8 Treasurer Not Bonded and/or Certified with the County**

CONDITION: During our review of the general fund revenue items, it was discovered that the Town has not been receiving their share of Motor Vehicle and Alcohol Beverage Tax from the County. The County has been withholding these taxes because the required form S.A.&I. 127 has not been submitted to the County Clerk/Treasurer.

CRITERIA: 11 O.S. 8-105 states that the municipal governing body shall require the municipal treasurer, any officer or employee designated by ordinance to sign municipal warrants or municipal checks, and any other officers and employees as the governing body may designate by ordinance, to give bond for the faithful performance of his duties within ten (10) days after his election or appointment, in such amount and form as the governing body shall prescribe. The municipality shall pay the premiums on such bonds.

Furthermore, each year the Town Treasurer is required to submit form S.A.&I. 127 to the County Clerk/Treasurer to certify that they are bonded as required by state statute.

CAUSE OF CONDITION: The Treasurer is not bonded and has not submitted the required form to the County.

EFFECT OF CONDITION: The County is holding in excess of \$28,000 of the Town's funds. Furthermore, the Town is at risk of losing these funds permanently if not remedied soon.

RECOMMENDATION: The Board is in the process of resolving this matter.

## **Schedule of Prior Year Findings and Responses**

**2015-1 Not All Activity Is Being Accounted For In The General Ledger (Resolved)**

**2015-2 Lack of Segregation of Duties (Repeat Finding)**

**2015-3 Bank Reconciliations (Resolved)**