

Town of Tryon, Oklahoma
Financial Statements and Report
of Independent Accountants
As of and For the Year Ending
June 30, 2012

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Report of Independent Accountants

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

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

Because of the inadequacy of accounting records for governmental and business-type activities and proprietary fund capital assets, we were unable to form an opinion regarding the amounts at which governmental and business-type activities capital assets are recorded in the accompanying basic financial statements as of June 30, 2012, (stated at \$227,577 and \$587,669, respectively). Additionally, no depreciation was recorded on capital assets.

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, except for the matters described above, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Tryon, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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 statements for nonmajor governmental funds listed under supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Casey J. Russell CPA, cma.
July 27, 2012

Town of Tryon, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash in bank - unrestricted	14,707.47	28,560.26	43,267.73
Cash in bank - restricted	14,412.05	35,543.80	49,955.85
Total current assets	<u>29,119.52</u>	<u>64,104.06</u>	<u>93,223.58</u>
Noncurrent assets:			
Net capital assets	227,577.12	587,669.63	815,246.75
Total noncurrent assets	<u>227,577.12</u>	<u>587,669.63</u>	<u>815,246.75</u>
Total assets	<u><u>\$ 256,696.64</u></u>	<u><u>\$ 651,773.69</u></u>	<u><u>\$ 908,470.33</u></u>
LIABILITIES			
Current liabilities:			
Meter deposits	-	14,402.00	14,402.00
Current portion long term debt	8,613.77	11,993.66	20,607.43
Total current liabilities	<u>8,613.77</u>	<u>26,395.66</u>	<u>35,009.43</u>
Noncurrent liabilities:			
Loans and capital leases	6,826.95	231,802.15	238,629.10
Total noncurrent liabilities	<u>6,826.95</u>	<u>231,802.15</u>	<u>238,629.10</u>
Total liabilities	<u>15,440.72</u>	<u>258,197.81</u>	<u>273,638.53</u>
NET ASSETS			
Invested in capital assets, net of related debt	212,136.40	343,873.82	556,010.22
Restricted	-	35,543.80	35,543.80
Assigned	3,627.53	-	3,627.53
Unrestricted	25,491.99	14,158.26	39,650.25
Total net assets	<u>241,255.92</u>	<u>393,575.88</u>	<u>634,831.80</u>
Total liabilities and net assets	<u><u>\$ 256,696.64</u></u>	<u><u>\$ 651,773.69</u></u>	<u><u>\$ 908,470.33</u></u>

**Town of Tryon, Oklahoma
Balance Sheet
Governmental Funds - Modified Cash Basis
June 30, 2012**

	General Fund	Other Governmental Fund	Total Governmental Funds
ASSETS			
Cash in bank	11,079.94	3,627.53	14,707.47
Cash in bank - Restricted	14,412.05	-	14,412.05
Total assets	<u>\$ 25,491.99</u>	<u>\$ 3,627.53</u>	<u>\$ 29,119.52</u>
LIABILITIES AND FUND			
Liabilities:			
Current Portion of Capital Lease	-	-	-
Fund Balances:			
Restricted	12,221.84	-	12,221.84
Assigned	-	3,627.53	3,627.53
Unassigned	13,270.15	-	13,270.15
Total net assets	<u>25,491.99</u>	<u>3,627.53</u>	<u>29,119.52</u>
Total liabilities and net assets	<u>\$ 25,491.99</u>	<u>\$ 3,627.53</u>	<u>\$ 29,119.52</u>

***Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
June 30, 2012***

Total Governmental Fund Balances \$ 29,119.52

*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.* 227,577.12

*Long-term liabilities are not due and payable in the
current period and therefore are not reported in funds:*

Capital lease obligations (15,440.72)

Net Assets of Governmental Activities **\$ 241,255.92**

Town of Tryon, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	82,714.86	-	82,714.86
Charges for services	2,450.00	-	2,450.00
Fines & Forfeitures	89,422.50	-	89,422.50
Interest	1.67	-	1.67
Other	-	4,115.08	4,115.08
Total revenues	<u>174,589.03</u>	<u>4,115.08</u>	<u>178,704.11</u>
Expenditures:			
Fire department	7,565.11	-	7,565.11
Library	14,752.03	5,010.91	19,762.94
General government	54,152.71	-	54,152.71
Police department	95,527.17	-	95,527.17
Total expenditures	<u>171,997.02</u>	<u>5,010.91</u>	<u>177,007.93</u>
Excess revenues over (under) expenditures	2,592.01	(895.83)	1,696.18
Transfers In (Out)	<u>15,870.84</u>	<u>-</u>	<u>15,870.84</u>
Excess revenues over (under) expenditures after Transfers	<u>18,462.85</u>	<u>(895.83)</u>	<u>17,567.02</u>
Fund balances at beginning of year	7,029.14	4,523.36	11,552.50
Fund balances at end of year	<u>\$ 25,491.99</u>	<u>\$ 3,627.53</u>	<u>\$ 29,119.52</u>

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ended June 30, 2012

<i>Net change in fund balances-total government funds</i>	\$	17,567.02
<i>Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide</i>		
<i>Capital financing payments recorded as an expense in the fund financial statements but not recorded in the in the government wide statements</i>		7,176.92
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements</i>		-
<i>Change in net assets of governmental activities</i>	<u>\$</u>	<u>24,743.94</u>

Town of Tryon, Oklahoma
Statement of Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2012

ASSETS

Current assets:

Cash in bank - unrestricted	28,560.26
Cash in bank - restricted	35,543.80
Total current assets	<u>64,104.06</u>

Noncurrent assets:

Net capital assets	587,669.63
Total noncurrent assets	<u>587,669.63</u>
Total assets	<u><u>\$ 651,773.69</u></u>

LIABILITIES

Current liabilities:

Meter deposits	14,402.00
Current portion long term debt	11,993.66
Total current liabilities	<u>26,395.66</u>

Noncurrent liabilities:

Notes Payable	231,802.15
Total noncurrent liabilities	<u>231,802.15</u>
Total liabilities	258,197.81

NET ASSETS

Invested in capital assets, net of related debt	343,873.82
Unrestricted	49,702.06
Total net assets	<u>393,575.88</u>
Total liabilities and net assets	<u><u>\$ 651,773.69</u></u>

Town of Tryon, Oklahoma
Statement of Revenues Over Expenditures and Changes in Retained Earnings
Proprietary Fund Type - Modified Cash Basis
For the Year Ended June 30, 2012

Operating Revenues:	
Water sales	\$ 75,181.86
Sewer fees	32,103.47
Garbage fees	39,005.84
Miscellaneous	<u>20,608.31</u>
Total operating revenues	166,899.48
 Operating Expenses:	
Water department	56,031.81
Sewer department	34,342.07
Garbage department	<u>26,802.81</u>
Total operating expenses	<u>117,176.69</u>
 Operating income (loss)	 49,722.79
 Non-operating revenues (expenses):	
Interest income	<u>22.57</u>
Net non-operating revenues (expenses)	<u>22.57</u>
 Change in net assets before transfers	 49,745.36
 Transfers in/out	 <u>(15,870.84)</u>
 Change in net assets after transfers	 33,874.52
 Net assets at beginning of year	 <u>359,701.36</u>
 Net assets at end of year	 <u><u>\$ 393,575.88</u></u>

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

Cash flows from operating activities	
Cash received from customers	\$ 146,291.17
Cash received from operating grant	20,608.31
Cash paid to employees	(36,713.32)
Cash paid to suppliers	(72,117.08)
Net cash provided by operating activities	<u>58,069.08</u>
Cash flows from investing activities	
Increase in fixed assets	(119,760.57)
Interest income	22.57
Net cash provided by investing activities	<u>(119,738.00)</u>
Cash flows from noncapital financing activities	
Operating Transfers in (out)	(15,870.84)
Net cash provided by noncapital financing activities	<u>(15,870.84)</u>
Cash flows from capital and related financing activities	
Increase (decrease) in meter deposit liability	-
Interest Expense	(8,346.29)
Principal paid on capital debt	(2,808.90)
Net cash provided (used) for capital and related financing activities	<u>(11,155.19)</u>
Net increase (decrease) in cash and cash equivalents	(88,694.95)
Cash and cash equivalents at beginning of year	152,799.01
Cash and cash equivalents at end of year	<u>\$ 64,104.06</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	58,069.08
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	-
Net cash provided (used) by operating activities	<u>\$ 58,069.08</u>
Reconciliation of Cash and Cash Equivalents	
Cash - Unrestricted	\$ 28,560.26
Cash - Restricted	35,543.80
Total	<u>\$ 64,104.06</u>

**Notes to Financial Statements
Town of Tryon
For the Year Ending June 30, 2012**

I. Organization

The Town of Tryon, Oklahoma (The Town) operates under a 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, utilities, and general administrative services.

II. Summary of significant accounting policies

As discussed further in Note II C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles include all relevant Governmental 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 December 30, 1989, have been 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 unit. The Tryon Utility Authority serves all the citizens of the Town and is governed by a board comprised of the Town's elected board of trustees. The rates for user charges and debt authorizations are approved by the board of trustees. The Authority has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate utility facilities whether water or sewer services within and without the corporate boundaries of the Town of Tryon. The Authority 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 the exception of proceeds from long term debt which is recorded as a liability, and capital assets acquired, which are capitalized, with a provision of depreciation.

In the fund financial statements, the current financial resources management focus, as applied to the modified cash basis of accounting, is used for governmental funds, which 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 recognized 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 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 Town reports the following major proprietary fund:

The Tryon Utility Authority accounts for the Town's water and wastewater 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.

Assets		Years
Land	N/A	40
Water and sewer systems	Furniture, equipment, and vehicles	7

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 useful lives:

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

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 historical cost if purchased or constructed. Donated capital assets are recorded at estimate fair market value at the date of donation.

3. Capital assets

The Tryon Utility 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.

2. Restricted assets

Investments for the Town, as well as for its component unit, are reported at fair value. 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 pledge collateral; and debt securities issued by the State of Oklahoma, and Oklahoma County, school district, or municipality. 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.

1. Deposits and investments

D. Assets, liabilities, and net assets or equity

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.

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 principle ongoing operations. The principal operating revenues of the Tryon Utility Authority enterprise fund are charges to customers for sales and services. Operating expenses from enterprise funds 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.

4. 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. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Debt issuance costs are reported as deferred charged and amortized over the term of the related debt.

5. Fund equity

In the 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.

6. Sales tax

The Town presently levies a four cent (\$0.04) sales tax on taxable sales within the Town. The sales tax collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

III. Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted for the Town general fund and the Tryon Utility Authority. All unencumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, the board of trustees reviews the needs estimates. The board holds a public hearing prior to June 15, and final budget is formally approved and adopted by the board of trustees prior to June 23.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories require the approval of the board of trustees. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, 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.

IV. Detailed notes on all funds

A. Deposits and investments

Deposits - The Town's carrying amount of deposits was \$93,223 as of June 30, 2012. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2012, all of the balances were FDIC insured.

Investments - As of June 30, 2012, the Town did not have any investments.

B. Restricted assets

The Tryon Utility Authority notes 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.

C. 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 compensatory time earned but not taken as of June 30, 2012, has not been included in the accompanying governmental and business type activities financial statements. As of June 30, 2012, the liability of the Town of Tryon for compensated absences is \$0 since there are no employees eligible to be paid at this time.

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2012, were as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Other improvements	\$ 59,500	-	-	\$ 59,500
Vehicles	63,038	-	-	63,038
Property and equipment	106,699	-	-	106,699
Total capital assets, being depreciated	<u>229,237</u>			<u>229,237</u>
Less accumulated depreciation for:				
Other improvements	(500)	-	-	(500)
Vehicles	(160)	-	-	(160)
Property and equipment	(1,000)	-	-	(1,000)
Total accumulated depreciation	<u>(1,660)</u>			<u>(1,660)</u>
Total capital assets, net of depreciation	<u>\$ 227,577</u>			<u>\$ 227,577</u>
Business-type activities				
Capital assets, being depreciated:				
Buildings	\$ 131,056	119,761	-	\$ 250,817
Water, sewer system, and equipment	570,739	-	-	570,739
Total capital assets, being depreciated	<u>701,795</u>			<u>821,556</u>
Less accumulated depreciation for:				
Buildings	-	-	-	-
Water, sewer system, and equipment	(233,886)	-	-	(233,886)
Total accumulated depreciation	<u>(233,886)</u>			<u>(233,886)</u>
Total capital assets, net of depreciation	<u>\$ 467,909</u>			<u>\$ 587,670</u>

The Town of Tryon did not record depreciation on its capital assets for the year ended June 30, 2012.

E. 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, 2012, cash and investments included \$14,402 available for refund of customer deposits, while the liability to customers was \$14,402.

Restricted Assets:	
Debt service reserve	\$ 14,402
Wasterwater improvements	21,142
Total restricted assets	<u>\$ 35,544</u>

F. Long-term debt

Capital leases – The Town has entered into a lease agreement as lessee for financing the acquisition of a police vehicle. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Capital leases

Governmental activities

Payne County Bank, dated November 2009, in the amount of \$30,000, payable in four annual installments of \$8,614 including interest at 6.7%, for a 2012 Dodge Charger Police Car. The amount owed on this lease as of June 30, 2012 was \$15,441. The future minimum lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>
2012/2013	\$ 7,567	\$ 1,047
2013/2014	7,874	540
	<u>\$ 15,441</u>	<u>\$ 1,587</u>

Notes payable

Long-term liabilities of the Town of Tryon Utility Authority as of June 30, 2012, are summarized as follows:

Business-type activities

Note payable with Rural Development dated June 30, 1997, with an original amount of \$154,000 due and payable in 480 monthly payments of \$693 including interest of 4.5%. The note is secured by the sewer system and associated real estate, as well as revenues generated by the sanitary sewer system. As of June 30, 2012 the balance owed on this note was \$118,796. Principal and interest in the amount of \$2,809 and \$5,507 were paid during the year. The debt obligations to maturity for this note are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	3,037	5,279	Principal Owed, beginning of year	\$ 121,605
2013/2014	3,176	5,140	Principal paid during year	<u>2,809</u>
2014/2015	3,322	4,994	Principal Owed, end of year	<u><u>\$ 118,796</u></u>
2015/2016	3,475	4,841		
2016/2017	3,629	4,687		
2017/2021	20,804	20,776		
2021/2026	26,043	15,537		
2026/2031	32,600	8,980		
2031/2035	22,711	2,237		
	<u>\$ 118,796</u>	<u>\$ 72,472</u>		

Note payable to Payne County Bank, dated June 15, 2012, with an original amount of \$125,000, due and payable in annual installments of \$17,175. This note carries an interest rate of 6.18%. The note is secured by building which is being remodeled by the proceeds. As of June 30, 2012 the balance owed on this note was \$125,000. Principal and interest in the amount of \$-0- and \$-0- were paid during the year. The debt obligations to maturity for this note are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	\$ 9,090	\$ 8,085	Principal Owed, beginning of year	\$ 125,000
2013/2014	10,012	7,163	Principal paid during year	<u>-</u>
2014/2015	10,631	6,544	Principal Owed, end of year	<u><u>\$ 125,000</u></u>
2015/2016	11,288	5,887		
2016/2017	11,985	5,190		
2017/2021	71,995	13,880		
	<u>\$ 125,000</u>	<u>\$ 46,750</u>		

G. Rural Development loan compliance

Tryon Utility Authority's loan from Rural Development has a net revenue requirement, as well as a required debt service reserve amount. As of June 30, 2012, the reserve account requirement was \$8,316, while TUA has \$10,121 on deposit in the reserve account. The reserve account is to be used for monthly loan payments in the event that TUA is unable to otherwise make payments.

The new revenues of the Tryon Utility Authority are required to be at least 125% of the average debt service. The following year is a summary of the net revenues and the debt service payments required for the year ended June 30, 2012.

Operating revenues	\$ 166,899
Operating expenses	<u>117,177</u>
Net operating income (loss)	49,723
Other revenues and expenses:	
Miscellaneous income	-
Interest	<u>23</u>
Total Net operating income (loss)	<u>\$ 49,745</u>
Required debt payments:	
Principal	3,037
Interest	<u>5,279</u>
Total debt service	8,316
Net revenue percentage requirement	<u>125%</u>
Net revenue required	<u>10,395</u>
Excess net revenues	<u>\$ 39,350</u>

V. Other information

A. Risk management

The Town is exposed to various risks of loss related to torts; thefts 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, worker's compensation, and unemployment. Commercial insurance is used to cover general liability, worker's compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to City 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.

The Department of Justice has requested of COPS grant funds received in 1998-2001 in the amount of \$33,738 due to the Town expending COPS grand funds for purposes other than to hire a new additional sworn officer. The Town has appealed the ruling and has not received a response from the Department of Justice.

C. Pension plans

Employees of the Town and Authority are not covered by a pension plan. Volunteer firefighters are members of the Oklahoma Firefighters Pension and Retirement System to which the Town contributes \$60 for each firefighter per year. Contributions required and made for the year ended June 30, 2012, were \$660.

D. Subsequent Events

Subsequent events have been evaluated through July 27, 2012, which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

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

To the Board of Trustees
Town of Tryon
Tryon, Oklahoma

We have audited the 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 Tryon, as of and for the year ended June 30, 2012, which collectively comprise the Town of Tryon's basic financial statements and have issued our report thereon dated August 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of Tryon, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Tryon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Tryon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Tryon's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1, 2012-2, & 2012-3. 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 Town of Tryon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2012-4.

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

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

Casey J. Russell CPA, Inc.

Casey J. Russell CPA, Inc.
Oklahoma City, Oklahoma
July 27, 2012

Schedule of Current Findings and Questioned Costs

2012 - 1 Capital Asset Records (repeat finding)

Condition: A physical inventory of the general capital assets and the proprietary fund property and equipment has not been completed in several years. Also, detailed subsidiary records of property and equipment have also not been maintained.

Criteria: Effective control over assets is based on having detailed accounting records of capital assets owned which reconciles with the general ledger control accounts. Additionally, an inventory of the capital assets on hand should be performed periodically and reconciled with the detailed capital asset records to determine if the assets recorded exist and whether all assets owned are recorded.

Cause and effect: Accurate detailed subsidiary records of capital assets are a key component in the control of the assets to ensure they are properly recorded for financial reporting purposes. Additionally, accurate records provide better control over and help safeguard the property and equipment owned by the Town of Tryon.

Recommendation: The physical inventory of property and equipment should be used to compile a detailed listing of capital assets owned by the Town. The cost and date of acquisition/construction should be determined for each individual asset and recorded in detailed capital asset subsidiary records. Control account balances should be recorded in the general ledger for these capital assets. Depreciation should be calculated on the capital assets, and the detail listing should be updated each year as assets are acquired and disposed.

Management's Response: A depreciation schedule will be set up as soon as possible.

2012 - 2 Recording of All Fund Activity and Balances (repeat finding)

Condition: The balances and activity of four funds or separate bank accounts are not recorded in the general ledger accounting records of the Town of Tryon. The library, fire department, police discretionary, and disaster relief funds are not under the accounting control of the town clerk or utility clerk and are not recorded in the accounting records. Supporting receipts and vendor invoices are not provided to the Town Clerk or utility clerk for posting to the general ledger. Bank records are not made available for reconciliation purposes. In addition, balances and activity for the street and alley, park improvement, and meter deposit funds are not recorded in the general ledger.

Criteria: Proper recording of all funds and the balances, transactions, and other activity thereof, helps ensure complete and accurate financial reports can be prepared.

Cause and effect: Unauthorized transactions or activities within the accounts could be conducted without the knowledge of management or the governing board. Financial reports prepared from the Town's general ledger accounting records are incomplete without the inclusion of these separate funds.

Recommendation: All accounts and funds of the Town should be included and properly recorded in the Town of Tryon's general ledger accounting records. All supporting documentation for deposits, receipts, and disbursements, as well as bank statements, for all the accounts should be provided to the clerk for posting to the general ledger at least on a monthly basis. Bank reconciliations should be prepared on each bank account.

Management's Response: The Town of Tryon will consider incorporating these records and address this issue as soon as possible.

2012 - 3 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. 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 and effect: The cause is due to limited personnel and the full effect is unknown.

Recommendation: The town should implement a policy of not accepting cash payments at city hall. The town should also implement more internal controls by having more separation of duties. This could be done by having the personnel write receipts for all payments made regardless of type and then recording these payments on a daily payment ledger. All payments, receipts, and a copy of the daily receipt ledger should be given directly to the Treasurer at the end of the day. The town clerk or other personnel, except for the Treasurer, should then take the original daily payment ledger to record the payments in the system. Once all payments have been recorded in the system, the town clerk or other personnel should print off a payment listing from the system as well as a daily adjustment history to insure that no unnecessary adjustments have been made, the town clerk or other personnel should also prepare the deposit slip at this time and retain the carbon copy. These reports along with the original daily payment ledger and original of the deposit slip should be given to the Treasurer who should then compare the total payments and receipts written to the daily payment ledger, daily payment listing from system, and daily adjustment history. The Treasurer should then staple all documents together and give these back to the town clerk or other personnel. When the Treasurer returns from the bank she should give the bank deposit receipt to the town clerk or other personnel who should compare the receipt to the previous documents given to her by the Treasurer and also compare the carbon copy of the deposit slip to the bank deposit receipt. The town clerk or other personnel should then staple everything together and maintain for the audit files.

Management's Response: In many cases due to our limited resources, controls will be limited. However, the town will consider incorporating these recommendations.

2012 - 4 Meter Deposit Liability (repeat finding)

Condition: The meter deposit listing has not been maintained adequately. The listing does not properly reflect the deposits that have been refunded or forfeited.

Criteria: All municipalities are required by law to maintain an adequate and complete meter deposit listing. As part of the requirement, a separate bank account must be maintained solely to cover the meter deposits on hand.

Cause and effect: Because the deposits that have been refunded or forfeited have not been properly reflected on the meter deposit list the liability shown on the financial statements is in excess of the restricted cash on hand to cover all meter deposits which is in violation of state statute.

Recommendation: Examine meter deposit listing and adjust all accounts that have been refunded in full.

Management's Response: The Town will address this issue as soon as possible.