

VERDIGRIS FIRE PROTECTION DISTRICT
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2016

	PAGE
Independent Auditor's Report	2-3
Financial Statements	
Statement of Net Position.....	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	7-10
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>	11-12

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Verdigris Fire Protection District

We have audited the accompanying financial statements of Verdigris Fire Protection District, as of and for the year ended June 30, 2016, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes 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 of material misstatement.

An audit involves performing procedures to obtain 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 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, which collectively comprise the basic financial statements of the Verdigris Fire Protection District, as of June 30, 2016, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER-MATTERS

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

Sincerely,

A handwritten signature in dark ink that reads "Ober & Littlefield, PLLC". The signature is written in a cursive, flowing style.

OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

AUGUST 17, 2016

VERDIGRIS FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$	103,614
Restricted cash and cash equivalents		43,895
Taxes receivable		120,275
Total Current Assets		<u>267,784</u>

Property and Equipment

Land		220,000
Building		727,743
Equipment		707,916
Vehicles		1,921,660
Total property and equipment		<u>3,577,319</u>
Less: Accumulated depreciation		<u>(2,364,291)</u>
Net Property and Equipment		<u>1,213,028</u>

Other Assets

Prepaid expense		10,048
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Total Assets	\$	<u><u>1,490,860</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$	23,430
Payroll taxes payable		1,669
Current portion of capital leases payable		81,346
Total Current Liabilities		<u>106,446</u>

Non Current Liabilities

Lease payable		253,079
Total Non Current Liabilities		<u>253,079</u>

Total Liabilities

<u>359,526</u>

Net Position

Invested in capital assets, net of related debt		878,603
Unrestricted		252,731
Total Net Position		<u>1,131,334</u>

Total Liabilities and Net Position	\$	<u><u>1,490,860</u></u>
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The accompanying notes are an integral part of these financial statements.

VERDIGRIS FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2016

Operating Revenues	
Grant revenues	\$ 4,290
Donations	3,606
Special assessment revenues	1,261,790
Miscellaneous	4,535
Total Operating Revenues	<u>1,274,221</u>
Operating Expenses	
Contract labor	13,290
Depreciation	174,548
Dues and memberships	1,839
Employee benefits/insurance	262,254
Equipment	7,822
Equipment rental	2,129
Insurance & bond	62,936
Office expense	842
Other expenses	20,426
Payroll expenses	45,504
Postage	1,010
Printing/reproduction	647
Professional fees	11,816
Repairs and maintenance	24,303
Telephone	19,010
Training	14,199
Truck & equipment expense	8,776
Utilities	12,538
Wages	573,990.18
Total Expenses	<u>1,257,882</u>
Net Operating Income (Loss)	<u>16,339</u>
Non-Operating Revenue (Expense)	
Interest expense	(19,402)
Gain on sale of asset	-
Interest income	117
Total Non-Operating Revenue (Expense)	<u>(19,285)</u>
Increase (Decrease) in Net Assets	(2,946)
Net Position, beginning of year	<u>1,134,279</u>
Net Position, end of year	<u>\$ 1,131,333</u>

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

VERDIGRIS FIRE PROTECTION DISTRICT
STATEMENT OF CASH FLOWS
June 30, 2016

Cash flows from operating activities

Payments received from taxes	\$ 1,212,606
Payments received from grants	4,290
Received from other sources	8,141
Payments to suppliers	(498,171)
Payments to employees	(573,990)
Net cash provided (used) by operating activities	<u>152,876</u>

Cash flows from capital and related financing activities

Proceeds from capital lease	-
Principal paid on debt	(79,884)
Interest on capital lease and fiscal charges	(19,402)
Proceeds from sale of vehicles	-
(Acquisition) disposition of capital assets	<u>(233,649)</u>
Net cash provided (used) by capital and related financing activities	<u>(332,935)</u>

Cash flows from investing activities

Interest income	<u>117</u>
Net cash provided (used) by investing activities	<u>117</u>

Net increase (decrease) in cash and cash equivalents	(179,942)
Cash and cash equivalents, beginning	<u>327,451</u>
Cash and cash equivalents, ending	<u><u>\$ 147,509</u></u>

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

Net operating income (loss)	\$ 16,339
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	174,548
Changes in assets and liabilities:	
(Increase) decrease in receivables	(49,183)
Increase (decrease) in accounts payable	<u>11,173</u>
Total adjustments	<u>136,537</u>
Net cash provided (used) by operating activities	<u><u>\$ 152,876</u></u>

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

Note 1 - Nature of Organization

The Verdigris Fire Protection District, (the District) was organized for the purpose of providing fire protection services for the owners and occupants of land located within the District.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncement issued since that date.

Note 2 - Summary of Significant Accounting Policies

Financial Reporting Entity - The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB 61. This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

Basis of Accounting - The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for 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.

Note 2 - Summary of Significant Accounting Policies (continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other amounts. Actual results may differ from those estimates.

The District adopts annual operations and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

All unexpended and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statement of cash flows, include all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased.

Fair Value of Financial Instruments - The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Equity Classifications - Equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowing that are attributable to the acquisition, construction or improvement of those assets.
- b. *Restricted net position* - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Note 2 - Summary of Significant Accounting Policies (continued)

Concentrations of Credit and Market Risk - Financial instruments that potentially expose the District to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. The District has not experienced any losses on its cash equivalents.

Capital Assets - The fixed assets are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to fifty years.

Revenues - The District's major source of revenue is tax assessments. Property owners within the District are assessed a millage levy as determined by the Board of Directors as part of the budgeting process and the county Assessor adds the millage to the tax rolls which is then collected by the County Treasurer and remitted to the District in the month after it is collected. These revenues are recorded on the cash basis until June 30, at which time uncollected receivables are recorded as revenues less an allowance for uncollectible accounts.

Use of Estimates - The preparation of financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Retirement Plans - The District participates in a Length of Service Program for all eligible employees and the amount paid during fiscal year 2016 for the program was \$100,000.

Compensated Absences - For the first five years of employment, employees accrue 40 hours of vacation leave per year. For the next five years of employment, employees accrue 120 hours of vacation. Vacation pay does not accumulate and unused vacation is forfeited if not taken by December 31.

The District's sick policy permits the accumulation of 10 sick days per year, which cannot be carried over from one year to the next. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken.

Note 3 - Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District invests entirely in certificates of deposit.

Note 3 - Deposits and Investments (continued)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The District does have a deposit policy for custodial credit risk. As of June 30, 2016, none of the District's investments were exposed to custodial credit risk because they were uninsured or uncollateralized.

Note 4 – Restricted Cash

Restricted cash at June 30, 2016 of \$43,895 is the amount on deposit with RCB Bank for the purpose of capital lease purchases as outlined in the agreement between the District and RCB Bank.

Note 5 - Capital Assets

Capital asset activity during the year was as follows:

	Balance 7/1/2015	Additions	Disposals	Balance 6/30/2016
Land	\$220,000	-	-	\$220,000
Buildings	727,743	-	-	727,743
Vehicles	1,921,660	-	-	1,921,660
Equipment	474,268	233,648	-	707,916
Total Property and Equipment	3,343,671	233,648	-	3,577,319
Accumulated Depreciation	(2,189,743)	(174,548)	-	(2,364,291)
Net Property and Equipment	\$1,153,928	\$ 59,100	\$ -	\$1,213,028

Note 6 – Capital Lease

The District entered into a lease purchase agreement dated November 21, 2014. The total commitment was approximately \$500,250, bearing interest at 1.83%, with six annual payments of \$87,466, principal and interest. The remaining principal balance at June 30, 2016 was \$334,426.

Debt activity during the year was as follows:

	Balance 6/30/2015	Additions	Principal payments	Balance 6/30/2016
Lease Purchase Equipment - RCB Bank	\$ 414,310	\$ -	\$ (79,884)	\$ 334,426

Note 7 - Subsequent Events

Management has evaluated subsequent events up to, and including, August 17, 2016, which is the date the financial statements were available for issuance, and no additional disclosures are required.

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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***

Honorable Chairman and Board of Directors
Verdigris Fire Protection District,

We have audited the statement of Net Position, statement of revenues, expenses and changes in Net Position and statement of cash flows, which collectively comprise the basic financial statements of the Verdigris Fire Protection District, as of June 30, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Verdigris Fire Protection District'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 Verdigris Fire Protection District's internal control. Accordingly, we do not express an opinion on the effectiveness of Verdigris Fire Protection District'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. 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Verdigris Fire Protection District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "Ober & Littlefield, PLLC".

OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

AUGUST 17, 2016