

Town of
Skiatook, Oklahoma



ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE YEAR ENDED
JUNE 30, 2011

**THE TOWN OF SKIATOOK,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

THIS PAGE INTENTIONALLY LEFT BLANK

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	5-6
Management's Discussion and Analysis	7-15
The Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets (Modified Cash Basis).....	17
Statement of Activities (Modified Cash Basis).....	18
Governmental Funds Financial Statements:	
Balance Sheet (Modified Cash Basis).....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances (Modified Cash Basis).....	21
Reconciliation of Governmental Fund and Government-Wide Financial Statements.....	22
Proprietary Funds Financial Statements:	
Statement of Net Assets (Modified Cash Basis).....	24
Statement of Revenues, Expenditures, and Changes in Net Assets (Modified Cash Basis)...	25
Statement of Cash Flows (Modified Cash Basis).....	26
Footnotes to the Basic Financial Statements	27-44
Supplementary Information:	
Budgetary Comparison Information	
Budgetary Comparison Schedule (Modified Cash Basis) – General Fund.....	46
Footnotes to Budgetary Comparison Schedules.....	47
Combining General Fund Schedules	
Combining Balance Sheet (Modified Cash Basis).....	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	49
Combining Non-major Governmental Fund Schedules	
Combining Balance Sheet (Modified Cash Basis).....	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	51

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

TABLE OF CONTENTS

Combining Schedule of Balance Sheet Accounts – Proprietary Funds	
Combining Balance Sheet (Modified Cash Basis).....	52
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	53
Federal and State Awards Information	
Schedule of Expenditures of Federal and State Awards (Modified Cash Basis)	54
Debt Service Coverage Information	
Schedule of Debt Service Coverage Requirement.....	55
Internal Control and Compliance Information:	
Independent Auditor’s Report on Internal Control and Compliance Over Financial Reporting in Accordance with Government Auditing Standards.....	57-58
Schedule of Findings and Responses.....	59-62



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Town of Skiatook
Skiatook, OK 74070

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Skiatook (the Town) as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express 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 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 opinions.

As discussed in Note 1(B), the Town prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Skiatook, as of June 30, 2011, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note 1(B).

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The management discussion and analysis (page 7 to 14), budgetary comparison information, combining non-major governmental funds schedules-modified cash basis, schedule of debt service coverage requirements, and schedule of reserve requirements compliance (page 48 to 55) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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.

Tulsa, Oklahoma
May 29, 2012

Stanfield & O'Sell P.C.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

The management of the Town of Skiatook is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2011. Management of the Town is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The Town reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the Town's total net assets increased by \$135,147, and the assets of the Town exceed its liabilities at June 30, 2011, by \$28,212,426 (net assets). Of this amount, \$950,143 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the Town's governmental funds reported combined ending fund balances on a modified cash basis of \$1,573,182.
- For the fiscal year ended June 30, 2011, unassigned fund balance on a modified cash basis for the General Fund was \$1,228,295 or 26% of General Fund revenues.
- The Town implemented GASB Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions which resulted in the reclassification of some fund types and presentation of fund balance in the new categories of nonspendable, restricted, assigned and unassigned.

ABOUT THE TOWN

The Town of Skiatook is a Statutory Town form of government with a population of 7,397 located in Osage County in Northeastern Oklahoma. The Town is governed by a five-member Town Board and operates under state law and Town ordinances through the three branches of democratic government:

- Legislative – the Town Board is a five-member governing body elected by the citizens
- Executive – the Mayor is the Chief Executive Officer and is appointed by the Town Board
- Judicial – the Municipal Judge is appointed by the Town Board

The Town provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, airport, cemetery and certain utility services including electric, water, wastewater, and sanitation.

This annual report includes all activities for which the Town of Skiatook governing body is fiscally responsible. These activities, defined as the Town's financial reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit.

The Town's Financial Reporting Entity

The Town's financial reporting entity includes the primary government (Town of Skiatook), a blended component unit, and a discretely presented component unit as follows.

- **The Town of Skiatook** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, airport, cemetery and administrative activities
- **The Skiatook Public Works Authority** – that operates the electric, water, wastewater, and sanitation and activities of the Town (blended)
- **The Skiatook Economic Development Authority** – that promotes economic development for the Town (discretely presented)

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the Town of Skiatook (the "Town") and the Skiatook Public Works Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to separate presentation for the discretely presented component unit.

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus as applicable to the modified cash basis of accounting. These statements include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt), resulting from modified cash basis transactions. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions to ask about the Town's finances is, "Has the Town's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the Town's sales tax base, the condition of the Town's roads, and quality of service to assess the overall health of the Town. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those Town assets and liabilities resulting from cash transactions with selected modifications.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

In the Statement of Net Assets and the Statement of Activities, we divide the Town's primary government into two kinds of activities: *Governmental activities* - Most of the Town's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's electric, water, wastewater, and sanitation utilities are reported as business-type activities.

Reporting the Town's Most Significant Funds – Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the Town's most significant (major) funds -- not the Town as a whole. Some funds are required to be established by State law and by debt covenants. However, the Town Board may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the Town, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The Town's proprietary fund is the Skiatook Public Works Authority that accounts for the operation of the electric, water, wastewater and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-44 of this report.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, federal and state award schedules, combining financial statements and schedules, and debt service coverage and reserve schedules.

THE TOWN AS A WHOLE

Net Assets

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$135,147.

Following is a summary of net assets reported on a modified cash basis for the Town of Skiatook primary government.

**Net Assets (Modified Cash Basis)
June 30, 2011
(In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ 1,586	\$ 1,563	2%	\$ 1,655	\$ 4,665	-65%	\$ 3,700	\$ 6,228	-41%
Capital assets, net	22,561	19,945	13%	12,462	12,469	0%	35,023	32,414	8%
Total assets	<u>24,147</u>	<u>21,508</u>	12%	<u>14,117</u>	<u>17,134</u>	-18%	<u>38,723</u>	<u>38,642</u>	0%
Long-term liabilities	-	-	0%	9,572	10,095	-5%	9,572	10,095	-5%
Other liabilities	13	13	0%	467	457	2%	480	470	2%
Total liabilities	<u>13</u>	<u>13</u>	0%	<u>10,039</u>	<u>10,552</u>	-5%	<u>10,052</u>	<u>10,565</u>	-5%
Net assets									
Invested in capital assets, net of related debt	22,561	19,945	13%	3,123	2,627	19%	25,684	22,572	14%
Restricted	256	175	46%	1,322	3,985	-67%	1,578	4,160	-62%
Unrestricted	1,317	1,375	-4%	(367)	(30)	-1123%	950	1,345	29%
Total net assets	<u>\$ 24,134</u>	<u>\$ 21,495</u>	12%	<u>\$ 4,078</u>	<u>\$ 6,582</u>	-38%	<u>\$ 28,212</u>	<u>\$ 28,077</u>	0%

The largest portion of the Town's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to \$25,683,884.

Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

A portion of the Town's net assets, \$1,578,399, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$950,143, may be used to meet the government's ongoing needs.

Changes in Net Assets

For the year ended June 30, 2011, net assets of the primary government changed as follows:

Changes in Net Assets (Modified Cash Basis)
June 30, 2011
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues:									
Program revenues:									
Charges for Services	\$ 1,145	\$ 1,192	-4%	\$ 7,849	\$ 7,207	9%	\$ 8,994	\$ 8,399	7%
Grants & Contributions	68	190	-64%	-	620	-100%	68	810	-92%
Capital Grants & Contributions	439	306	43%	-	-	-	439	306	43%
General Revenues:									
Sales Tax	2,797	2,543	10%	-	-	-	2,797	2,543	10%
Other Taxes	72	41	76%	-	-	-	72	41	76%
Other General Revenues	288	261	10%	74	86	-14%	362	347	4%
Total Revenues	4,809	4,533	6%	7,923	7,913	0%	12,732	12,446	2%
Program Expenses:									
Town clerk	\$ 3	\$ 3	0%	-	-	-	3	3	0%
Judge	19	19	0%	-	-	-	19	19	0%
Police	1,681	1,568	7%	-	-	-	1,681	1,568	7%
Fire	1,519	1,393	9%	-	-	-	1,519	1,393	9%
Community development	104	103	1%	-	-	-	104	103	1%
Streets	799	890	-10%	-	-	-	799	890	-10%
Parks	285	312	-9%	-	-	-	285	312	-9%
General government	919	969	-5%	-	-	-	919	969	-5%
Senior Citizens	70	74	-5%	-	-	-	70	74	-5%
Economic development	34	31	9%	-	-	-	34	31	9%
Vehicle maintenance	123	122	0%	-	-	-	123	122	0%
Cemetery	59	52	14%	-	-	-	59	52	14%
Airport	72	23	213%	-	-	-	72	23	212%
Interest on Long-Term Debt	-	1	-100%	-	-	-	-	1	-100%
Electric	-	-	-	4,572	3,791	21%	4,572	3,791	21%
Water	-	-	-	1,686	1,666	1%	1,686	1,666	1%
Wastewater	-	-	-	199	135	47%	199	135	47%
Sanitation	-	-	-	452	454	0%	452	454	0%
Total Expenses	5,687	5,560	2%	6,909	6,046	14%	12,596	11,606	9%
Excess (Deficiency)	(878)	(1,027)	15%	1,014	1,867	-46%	136	840	-84%
Net Transfers	3,517	1,426	147%	(3,517)	(1,426)	-147%	-	-	-
Change in Net Assets	\$ 2,639	\$ 399	561%	\$ (2,503)	\$ 441	-668%	\$ 136	\$ 840	-84%
Beginning Net Assets	21,495	21,096	2%	6,582	6,143	7%	28,077	27,239	3%
Ending Net Assets	\$ 24,134	\$ 21,495	12%	\$ 4,079	\$ 6,584	-38%	\$ 28,213	\$ 28,079	0%

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Governmental activities grants and contributions in the governmental activities decreased 64% due to ice storm grants received in the prior year. Capital grants and contributions increased 43% due primarily to a grant received in the current year for park improvements.

Governmental activities other taxes increased 76% due to a company catching up on payments due for a prior year.

Governmental activities airport expenses increased 213% due to the first full year of reporting depreciation expense for the airport taxiway and reconstruction project.

Business-Type activities grants and contributions decreased approximately \$620,000 or 100% due to emergency management grants received in the prior year.

Business-Type activities wastewater expenses increased by 47% due to fiscal year 2011 being the first year to pay interest on the 2010 Revenue Note. The interest payment for the year was \$56,192.

Governmental Activities

The Town's governmental activities had an increase in net assets of \$2,639,160. This is a 12% increase from prior year.

**Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
General government	\$ 919	\$ 969	-5%	\$ (811)	\$ (874)	7%
Town clerk	3	3	0%	(3)	(3)	0%
Judge	19	19	0%	(19)	(19)	5%
Police	1,681	1,568	7%	(1,522)	(1,397)	-9%
Fire	1,519	1,393	9%	(800)	(630)	-27%
Community development	104	103	1%	(69)	(54)	-27%
Streets	799	890	-10%	(741)	(719)	-3%
Parks	285	312	-9%	88	(272)	132%
Senior citizens	70	74	-5%	(70)	(68)	-3%
Economic development	34	31	9%	33	32	120%
Vehicle maintenance	123	122	0%	(123)	(122)	-31%
Cemetery	59	52	14%	(11)	6	-57%
Airport	72	23	212%	11	251	-96%
Interest on long-term debt	-	1	-100%	-	(1)	100%
Total	\$ 5,687	\$ 5,560	2%	\$ (4,037)	\$ (3,871)	-4%

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Business-type Activities

The business-type activities had a decrease in net assets of \$2,504,013. This is a 38% decrease from prior year.

Net Revenue (Expense) of Business-Type Activities

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Water	\$ 1,686	\$ 1,666	1%	\$ (264)	\$ (271)	3%
Wastewater	199	135	47%	205	268	-24%
Sanitation	452	454	0%	(15)	(61)	76%
Electric	4,572	3,791	21%	1,013	1,844	-45%
Total	\$ 6,909	\$ 6,046	14%	\$ 939	\$ 1,780	-47%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$1,573,182. For the year ended June 30, 2011, the General Fund's total fund balance decreased by \$58,144 to \$1,267,847 or 27% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues were under final estimates by \$414,901 or a 7% negative variance. General Fund actual expenditures were under final appropriations by \$372,805 or a 6% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the Town had approximately \$35 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net increase of \$2,608,745 from last year.

Below are details regarding the change in the Town's capital assets for the year ended June 30, 2011.¹

¹ For more detailed information on capital asset activity please refer to pages 35, Note 3. Capital Assets and Depreciation

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 71,350	\$ 71,350	\$ 600,000	\$ 600,000	\$ 671,350	\$ 671,350
Buildings	2,554,815	2,554,815	4,933,340	4,933,340	7,488,155	7,488,155
Machinery and equipment	5,557,260	4,937,416	9,029,017	8,849,780	14,586,277	13,787,196
Other improvements	2,503,453	2,503,453	614,868	614,868	3,118,321	3,118,321
Infrastructure	36,104,497	33,228,142	164,517	88,154	36,269,014	33,316,296
Construction in progress	-	28,635	661,979	450,482	661,979	479,117
Totals	<u>46,791,375</u>	<u>43,323,811</u>	<u>16,003,721</u>	<u>15,536,624</u>	<u>62,795,096</u>	<u>58,860,435</u>
Less accumulated depreciation	<u>(24,230,252)</u>	<u>(23,378,430)</u>	<u>(3,541,753)</u>	<u>(3,067,658)</u>	<u>(27,772,005)</u>	<u>(26,446,088)</u>
Totals, net	<u>\$ 22,561,123</u>	<u>\$ 19,945,381</u>	<u>\$ 12,461,968</u>	<u>\$ 12,468,966</u>	<u>\$ 35,023,091</u>	<u>\$ 32,414,347</u>

This year's more significant capital asset additions included:

- Central Park Project - \$2,487,917
- 4 Police cars - \$78,061
- Fire truck - \$401,317
- Street projects - \$330,608

Debt Administration

At year-end, the Town had \$9,603,049 in long-term debt outstanding, reported on a modified cash basis, which represents a \$528,208 decrease from the prior year, resulting from normal debt retirements.

Long-term Debt

	Business-Type Activities	
	<u>2011</u>	<u>2010</u>
Notes payable	\$ 8,648,049	\$ 9,061,257
Revenue bonds payable	<u>955,000</u>	<u>1,070,000</u>
Totals	<u>\$ 9,603,049</u>	<u>\$ 10,131,257</u>

There was no long-term debt outstanding for governmental activities as of June 30, 2011.

Economic Factors and Next Year's Budget and Rates

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

The following information outlines significant known factors that will affect subsequent year finances:

- For the upcoming fiscal year ending June 30, 2012, the Town's adopted budget is fairly consistent with the prior year.
- Utility rates will remain the same in fiscal year 2012.

Contacting the Town's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk's office at 110 N. Broadway, Skiatook, Oklahoma 74070 or telephone at 918-396-2797.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS				
Cash and equivalents	\$ 279,420	\$ 1,324,525	\$ 1,603,945	\$ 4,150
Investments	693,581	710,938	1,404,519	-
Internal balances	613,206	(613,206)	-	-
Capital Assets:				
Land and construction in progress	71,350	1,261,979	1,333,329	-
Capital assets, net of depreciation	22,489,773	11,199,989	33,689,762	-
Bond issue costs	-	233,087	233,087	-
Total Assets	<u>24,147,330</u>	<u>14,117,312</u>	<u>38,264,642</u>	<u>4,150</u>
LIABILITIES				
Payroll withholding liabilities	7,045	-	7,045	-
Due to other governments	799	-	799	-
Due to bond holders	5,181	-	5,181	-
Cash overdraft	-	-	-	-
Due to depositors	-	466,897	466,897	-
Long-term liabilities:				
Due within one year	-	550,139	550,139	-
Due in more than one year	-	9,022,155	9,022,155	-
Total liabilities	<u>13,025</u>	<u>10,039,191</u>	<u>10,052,216</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	22,561,123	3,122,761	25,683,884	-
Restricted for:				
E-911	7,000	-	7,000	-
Cemetery	56,060	-	56,060	-
Airport	193,215	-	193,215	-
Debt Service	-	1,322,124	1,322,124	-
Unrestricted	1,316,907	(366,764)	950,143	4,150
Total net assets	<u>\$ 24,134,305</u>	<u>\$ 4,078,121</u>	<u>\$ 28,212,426</u>	<u>\$ 4,150</u>

See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Statement of Activities (Modified Cash Basis)–Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental Activities:								
General government	\$ 918,609	\$ 107,391	\$ -	\$ -	\$ (811,218)	\$ -	\$ (811,218)	\$ -
Town clerk	3,470	-	-	-	(3,470)	-	(3,470)	-
Judge	18,596	-	-	-	(18,596)	-	(18,596)	-
Police	1,681,207	157,587	1,991	-	(1,521,629)	-	(1,521,629)	-
Fire	1,518,625	657,640	14,630	46,846	(799,509)	-	(799,509)	-
Community development	104,380	35,653	-	-	(68,727)	-	(68,727)	-
Streets	799,151	-	51,222	7,177	(740,752)	-	(740,752)	-
Parks	284,822	30,702	-	341,744	87,624	-	87,624	-
Senior citizens	70,029	-	-	500	(69,529)	-	(69,529)	-
Economic development	34,006	66,558	-	-	32,552	-	32,552	-
Vehicle maintenance	122,518	-	-	-	(122,518)	-	(122,518)	-
Cemetery	58,924	48,284	-	-	(10,640)	-	(10,640)	-
Airport	72,384	40,958	-	42,661	11,235	-	11,235	-
Interest on long-term debt	-	-	-	-	-	-	-	-
Total governmental activities	5,686,721	1,144,773	67,843	438,928	(4,035,177)	-	(4,035,177)	-
Business-type activities								
Water	1,685,916	1,421,905	-	-	-	(264,011)	(264,011)	-
Sewer	198,595	403,768	-	-	-	205,173	205,173	-
Sanitation	452,293	437,661	-	-	-	(14,632)	(14,632)	-
Electric	4,572,281	5,585,210	-	-	-	1,012,929	1,012,929	-
Total business-type activities	6,909,085	7,848,544	-	-	-	939,459	939,459	-
Total primary government	12,595,806	8,993,317	67,843	438,928	(4,035,177)	939,459	(3,095,718)	-
Component Units								
Economic Development Authority	-	-	-	-	-	-	-	-
Total component units	-	-	-	-	-	-	-	-
General revenues:								
Taxes:								
Sales tax and use tax	-	-	-	-	2,797,071	-	2,797,071	-
Franchise and public service taxes	-	-	-	-	71,849	-	71,849	-
Intergovernmental revenue not restricted to specific programs	-	-	-	-	107,693	-	107,693	-
Investment income	-	-	-	-	14,135	13,333	27,468	-
Miscellaneous	-	-	-	-	166,443	54,710	221,153	-
Gain/loss on disposal of asset	-	-	-	-	-	5,631	5,631	-
Transfers - internal activity	-	-	-	-	3,517,146	(3,517,146)	-	-
Total general revenues, special items, and transfers	-	-	-	-	6,674,337	(3,443,472)	3,230,865	-
Change in net assets								
					2,639,160	(2,504,013)	135,147	-
Net assets - beginning					21,495,145	6,582,134	28,077,279	4,150
Net assets - ending					\$ 24,134,305	\$ 4,078,121	\$ 28,212,426	\$ 4,150

See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Balance Sheet (Modified Cash Basis) - June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 53,853	\$ 225,567	\$ 279,420
Investments	693,581	-	693,581
Due from other funds	618,012	79,768	697,780
Total assets	<u>1,365,446</u>	<u>305,335</u>	<u>1,670,781</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll withholdings liabilities	7,045	-	7,045
Due to other funds	84,574	-	84,574
Due to bondholders	5,181	-	5,181
Due to other governments	799	-	799
Total liabilities	<u>97,599</u>	<u>-</u>	<u>97,599</u>
Fund balances:			
Restricted:			
For E-911	7,000	-	7,000
For airport	-	193,215	193,215
For cemetery care	-	56,060	56,060
Committed to cemetery care	-	56,060	56,060
Assigned to economic development	32,552	-	32,552
Unassigned	1,228,295	-	1,228,295
Total fund balances	<u>1,267,847</u>	<u>305,335</u>	<u>1,573,182</u>
Total liabilities and fund balances	<u>\$ 1,365,446</u>	<u>\$ 305,335</u>	<u>\$ 1,670,781</u>

See accompanying notes to the basic financial statements.

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,868,920	\$ -	\$ 2,868,920
Intergovernmental	569,351	42,661	612,012
Licenses and permits	33,573	-	33,573
Charges for services	975,913	53,002	1,028,915
Fines and forfeitures	87,213	-	87,213
Investment income	14,135	-	14,135
Miscellaneous	163,102	865	163,967
Total revenues	<u>4,712,207</u>	<u>96,528</u>	<u>4,808,735</u>
EXPENDITURES			
Current:			
Town clerk	3,470	-	3,470
General government	892,541	-	892,541
Judge	18,596	-	18,596
Police	1,519,812	-	1,519,812
Fire	1,337,471	-	1,337,471
Community development	104,380	-	104,380
Senior citizens	68,280	-	68,280
Swimming pool/park	142,288	-	142,288
Street	375,043	-	375,043
Vehicle maintenance	119,948	-	119,948
Economic development	34,006	-	34,006
Airport	-	13,066	13,066
Cemetery	53,910	-	53,910
Capital Outlay	172,633	1,900	174,533
Total Expenditures	<u>4,842,378</u>	<u>14,966</u>	<u>4,857,344</u>
Excess (deficiency) of revenues over expenditures	<u>(130,171)</u>	<u>81,562</u>	<u>(48,609)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,338,333	-	1,338,333
Transfers out	<u>(1,266,306)</u>	<u>-</u>	<u>(1,266,306)</u>
Total other financing sources and uses	<u>72,027</u>	<u>-</u>	<u>72,027</u>
Net change in fund balances	(58,144)	81,562	23,418
Fund balances - beginning	1,325,991	223,773	1,549,764
Fund balances - ending	<u>\$ 1,267,847</u>	<u>\$ 305,335</u>	<u>\$ 1,573,182</u>

-See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Total fund balance, governmental funds	\$	1,573,182
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities of \$46,791,375, net of accumulated depreciation of \$24,230,252 are not financial resources and, therefore, are not reported in the funds.		22,561,123
Net Assets of Governmental Activities in the Statement of Net Assets		<u>24,134,305</u>
Net change in fund balances - total governmental funds:	\$	23,418
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		1,028,169
Capital assets transferred from business-type activity		2,455,720
Depreciation expense		<u>(868,147)</u>
		<u>2,615,742</u>
Change in net assets of governmental activities	\$	<u>2,639,160</u>

See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Proprietary Fund Statement of Net Assets (Modified Cash Basis) - June 30, 2011

	<u>SPWA</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,400
Investments	625,938
Restricted:	
Cash and cash equivalents	1,322,125
Due from other funds	4,806
Total current assets	1,955,269
Non-current assets:	
Restricted:	
Investments	85,000
Capital Assets:	
Land and construction in progress	1,261,979
Other capital assets, net of accumulated depreciation	11,199,989
Unamortized note issue costs	233,087
Total non-current assets	12,780,055
Total assets	14,735,324
LIABILITIES	
Current Liabilities:	
Due to other funds	618,012
Due to depositors	466,897
Notes payable	430,139
Revenue bonds payable	120,000
Total current liabilities	1,635,048
Non-current liabilities:	
Notes payable	8,217,910
Revenue bonds payable	804,245
Total non-current liabilities	9,022,155
Total liabilities	10,657,203
NET ASSETS	
Invested in capital assets, net of related debt	3,122,761
Restricted for debt service	1,322,124
Unrestricted	(366,764)
Total net assets	\$ 4,078,121

See accompanying notes to the basic financial statements.

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets (Modified Cash Basis) - Year Ended June 30, 2011

	<u>SPWA</u>
REVENUES	
Charges for Services:	
Electric	\$ 5,333,936
Water	1,398,723
Sewer	398,818
Sanitation	437,661
Sales tax on utility sales	251,274
Water taps	23,182
Sewer taps	4,950
Other	42,652
Total operating revenues	7,891,196
 OPERATING EXPENSES	
Electric	4,469,880
Water	985,004
Sewer	107,728
Sanitation	432,366
Other	47,098
Amortization expense	19,611
Depreciation	474,095
Total Operating Expenses	6,535,782
Operating income	1,355,414
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	13,333
Interest expense and fiscal agent fees	(418,234)
Gain on disposal of asset	5,631
Other	12,058
Total non-operating revenue (expenses)	(387,212)
Income before contributions and transfers	968,202
Transfers in	1,266,306
Transfers out	(1,338,333)
Transfer out capital assets to governmental funds	(3,400,188)
Change in net assets	(2,504,013)
Total net assets - beginning	6,582,134
Total net assets - ending	\$ 4,078,121

See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2011

	<u>SPWA</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 7,891,196
Payments to suppliers and employees	(4,491,323)
Payments to employees	(1,550,753)
Receipts of customer utility deposits	106,705
Refunds of customer utility deposits	(96,771)
Interfund receipts/payments	(40,698)
Other income	12,058
Net cash provided by operating activities	<u>1,830,414</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	1,266,306
Transfers to other funds	(4,738,521)
Net cash provided by (used in) noncapital financing activities	<u>(3,472,215)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(467,097)
Principal paid on capital debt	(528,208)
Interest and fiscal agent fees paid on debt	(412,470)
Proceeds from sale of capital assets	5,631
Net cash provided by (used in) capital and related financing activities	<u>(1,402,144)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	13,333
Purchase of investments	(6,667)
Net cash provided by (used in) investing activities	<u>6,666</u>
Net decrease in cash and cash equivalents	(3,037,279)
Balances - beginning of year	<u>4,361,804</u>
Balances - end of year	<u>\$ 1,324,525</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 2,400
Restricted cash and cash equivalents - current	1,322,125
Cash overdraft	
Total cash and cash equivalents, end of year	<u>1,324,525</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 1,355,414
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	474,095
Amortization expense	19,611
Other income	12,058
Change in assets and liabilities:	
Due from other funds	-
Due to other funds	(40,698)
Customer deposits	9,934
Net cash provided by operating activities	<u>\$ 1,830,414</u>

See accompanying notes to the basic financial statements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town's financial reporting entity includes the primary government and a discretely-presented component unit as follows.

- **The Town of Skiatook** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, airport, cemetery and administrative activities
- **The Skiatook Public Works Authority (SPWA)** – that operates the electric, water, wastewater and sanitation services and activities of the Town (blended)
- **The Skiatook Economic Development Authority** – that promotes economic development for the Town (discretely presented)

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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

Program revenues within the statement of activities are derived directly from each activity or from parties outside the Town's taxpayers. The Town has the following program revenues in each activity:

- General Government - penalties on utilities
- Police - traffic fines and fees, 911 fees, and operating grants
- Fire - ambulance fees, fire run fees, operating grants and capital grants
- Cemetery - cemetery openings and closings and other charges for services
- Economic development - refuse economic development charges
- Community development - licenses and permits
- Street - Commercial vehicle and gas excise tax and capital grants
- Airport - User fees, capital grants and contributions
- Senior citizens - capital grants and contributions
- Park - pool receipts and capital grants and contributions

For business-type activities, Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

The Town's governmental funds are comprised of the following:

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds. The Cemetery Maintenance account is combined with the general fund for reporting purposes only.

Non-Major Funds (Reported as Other Governmental Funds):

- Cemetery Care – accounts for 25% of all cemetery revenue of which 12.5% is legally restricted by State law for cemetery capital improvements
- Airport Fund – accounts for hanger rent and grant revenues and expenditures of the municipal airport in a separate fund required by State law

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

The Town's proprietary fund is comprised of the following:

Enterprise Fund:

- Skiatook Public Works Authority – accounts for the operation of the electric, water, wastewater and sanitation services of the Town

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$2,500 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 10-25 years
- Improvements other than buildings 3-20 years
- Machinery, furniture and equipment 3-25 years
- Utility property and improvements 5-75 years
- Infrastructure 10-40 years

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for 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 reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

G. Fund Balances and Net Assets

Fund Balances:

Governmental fund equity is classified as fund balance. Since the implementation of GASB 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

- c. Committed – include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision making. The Town’s highest level of decision-making authority is made by ordinance while the SPWA highest level of decision-making authority is made by resolution.
- d. Assigned – include amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by town board action or management decision when the town board has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the Town’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund to be spent prior to restricted fund balance. In those funds, interest income is used first before other revenues.

Net Assets:

Net assets are 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 bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Deficit Prohibition:

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The Cemetery Maintenance Account reported a negative fund balance of \$48,922.

H. Internal and Interfund Balances and Transfers

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2011, the Town recognized \$27,468 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

At June 30, 2011, the primary government held the following deposits and investments:

Type of Deposits and Investments	Credit Rating	Carrying Value
Deposits:		
Petty cash		\$ 2,400
Demand deposits		279,421
Time deposits		1,404,519
		1,686,340
Investments:		
U.S. Treasury Money Markets	AA+	1,322,124
		1,322,124
Total deposits and investments		\$ 3,008,464
 Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 1,603,945
Investments		1,404,519
		\$ 3,008,464
 Component Unit:		
Cash and cash equivalents		\$ 4,150

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Custody Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The Town is governed by the State Public Deposit Act which requires that the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2011, the Town had \$1,918,631 of bank deposits that were adequately secured and not exposed to credit risk. The Economic Development Authority had bank deposits of \$4,150 that were adequately secured and not exposed to custodial risk.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town has no investment policy that limits investments based on maturity. The Town discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

The Town's only investments with maturity dates are non-negotiable certificates of deposit with maturities no later than June 2012.

Investment Credit Risk

The Town has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the Town's public trusts.

As of June 30, 2011, the Town's investments consisted of \$1,322,124 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AA+ by Standard & Poor's Corporation.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Town (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Town has no investment policy regarding concentration of credit risk.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

At June 30, 2011, the Town had no concentration of credit risk as defined above.

Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

	<u>Current Cash and cash equivalents</u>	<u>Noncurrent Investments</u>
Utility deposits	\$ -	\$ 85,000
OWRB account	1	-
Meter deposits	-	-
Trustee accounts:		
Debt service:		
2010 series	1,208,075	-
2003 series	114,049	-
 Total	 <u>\$ 1,322,125</u>	 <u>\$ 85,000</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 1, 2010	Additions	Disposals	Transfers	Balance at June 30, 2011
<i>Governmental activities:</i>					
Capital assets not being depreciated:					
Land	\$ 71,350	\$ -	\$ -	\$ -	\$ 71,350
Construction in progress	28,635	-	-	(28,635)	-
Total capital assets not being depreciated	99,985	-	-	(28,635)	71,350
Other capital assets:					
Buildings	2,554,815	-	-	-	2,554,815
Infrastructure	33,228,142	392,000	-	2,484,355	36,104,497
Other improvements	2,503,453	-	-	-	2,503,453
Machinery and equipment	4,937,416	636,169	16,325	-	5,557,260
Total other capital assets at historical cost	43,223,826	1,028,169	16,325	2,484,355	46,720,025
Less accumulated depreciation for:					
Buildings	972,106	103,768	-	-	1,075,874
Infrastructure	16,034,106	478,289	-	-	16,512,395
Other improvements	2,266,129	19,420	-	-	2,285,549
Machinery and equipment	4,106,089	266,670	16,325	-	4,356,434
Total accumulated depreciation	23,378,430	868,147	16,325	-	24,230,252
Other capital assets, net	19,845,396	160,022	-	2,484,355	22,489,773
Governmental activities capital assets, net	\$ 19,945,381	\$ 160,022	\$ -	\$ 2,455,720	\$ 22,561,123
<i>Business-type activities:</i>					
Capital assets not being depreciated:					
Land	\$ 600,000	\$ -	\$ -	\$ -	\$ 600,000
Construction in progress	450,482	2,667,217	-	(2,455,720)	661,979
Total capital assets not being depreciated	1,050,482	2,667,217	-	(2,455,720)	1,261,979
Other capital assets:					
Buildings	4,933,340	-	-	-	4,933,340
Infrastructure	88,154	76,363	-	-	164,517
Other improvements	614,868	-	-	-	614,868
Machinery and equipment	8,849,780	179,237	-	-	9,029,017
Total other capital assets at historical cost	14,486,142	255,600	-	-	14,741,742
Less accumulated depreciation for:					
Buildings	185,001	123,334	-	-	308,335
Infrastructure	6,625	14,100	-	-	20,725
Other improvements	93,933	25,138	-	-	119,071
Machinery and equipment	2,782,099	311,523	-	-	3,093,622
Total accumulated depreciation	3,067,658	474,095	-	-	3,541,753
Other capital assets, net	11,418,484	(218,495)	-	-	11,199,989
Business-type activities capital assets, net	\$ 12,468,966	\$ 2,448,722	\$ -	\$ (2,455,720)	\$ 12,461,968

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:			
Airport	\$	57,418	Electric	\$	45,436
Cemetery		2,674	Sanitation		19,927
Fire		113,960	Sewer		33,517
General government		24,537	Water		375,215
Parks		134,795			
Police		110,538			
Senior citizens		1,255			
Streets		422,970			
		<u>\$ 868,147</u>			<u>\$ 474,095</u>

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Notes Payable	\$ 9,061,257	\$ -	\$ 413,208	\$ 8,648,049	430,139
Revenue bonds payable	1,070,000	-	115,000	955,000	120,000
Total Business-Type Activities	<u>\$ 10,131,257</u>	<u>\$ -</u>	<u>\$ 528,208</u>	<u>\$ 9,603,049</u>	<u>\$ 550,139</u>

Governmental activities had no long-term debt payable from taxes and other general revenues at June 30, 2011.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Business-type activities long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

Notes Payable:

1996 OWRB Promissory Note dated March 1, 1996, original amount \$493,326, due in semi-annual principal installments each August 15 and February 15, beginning August 1996, final installment due August 15, 2016 with an administration fee of 0.5% and interest at 3.026% payable semi-annually based on principal outstanding.	\$ 169,136
2006 OWRB Promissory Note dated September 1, 2006, original amount \$5,315,000, due in semi-annual principal installments each September 15 and March 15, beginning September 2006, final installment due March 15, 2028 with an administration fee of 0.5% and interest at 3.05% payable semi-annually based on principal outstanding.	4,605,059
Promissory Note dated January 1, 2001, original amount \$125,000, due in monthly installments of \$521 beginning February 1, 2001, final installment due January 1, 2021.	58,854
2010 Sales Tax Revenue Note dated March 31, 2010, original amount \$4,000,000, due in semi-annual principal installments each April 1 and October 1, beginning October 1, 2010, final installment due April 1, 2025 with interest at 4.85% payable semi-annually based on principal outstanding. The Note is secured by pledged sales tax.	3,815,000
Total Notes Payable	\$ 8,648,049
Current portion	430,139
Noncurrent portion	8,217,910
Total Notes Payable	\$ 8,648,049

Revenue Bonds:

2003 Utility Refunding Revenue Bonds, original issue amount of \$1,730,000 dated May 13, 2003, issued by the Skiatook Public Works Authority secured by utility revenue and pledged sales tax, interest rates of 4.45%, final maturity September 1, 2017.	955,000
Total Revenue Bonds Payable	\$ 955,000
Less:	
Unamortized refunding loss on 2003 Utility Bonds	(30,755)
Net Revenue Bonds Payable	\$ 924,245
Current portion	120,000
Noncurrent portion	804,245
Total Revenue Bonds Payable	\$ 924,245

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Customer Deposits:

Customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.

	\$ 466,897
Noncurrent portion	\$ 466,897

Long-term debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	SPWA			
	Notes Payable		Revenue Bonds Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	430,139	174,048	120,000	42,497
2013	448,835	165,578	125,000	37,158
2014	467,430	157,171	130,000	31,595
2015	486,321	148,564	135,000	25,810
2016	510,174	140,027	140,000	19,803
2017-2021	2,708,765	564,578	305,000	20,470
2022-2026	2,899,770	313,543	-	-
2027-2028	696,615	31,518	-	-
Totals	\$ 8,648,049	\$ 1,695,027	\$ 955,000	\$ 177,333

Pledge of Future Revenues

Sales Tax Revenues Pledge

The Town has pledged one cent (or 33.3%) of future sales tax revenues to repay the OWRB 1996 series promissory note of \$493,236, OWRB 2006 Series Promissory Note of \$5,315,000, 2003 Utility System Refunding Revenue Bonds of \$1,730,000 and the 2010 Sales Tax Revenue Note of \$4,000,000. Proceeds from the bonds and note provided were for financing for capital assets. The bonds and note are payable from pledged sales tax revenues of the SPWA and are payable through 2016, 2028, 2017 and 2025 respectively. The total principal and interest payable for the remainder of the life of these bonds is \$11,416,555. Pledged sales taxes received in the current year were \$924,562. Debt service payments of \$934,427 for the current fiscal year were 101% of pledged sales taxes.

Utility Net Revenues Pledge

The Town has pledged future water and sewer net utility revenues to repay the OWRB 1996 series promissory note of \$493,236, OWRB 2006 Series Promissory Note of \$5,315,000, and the 2003 Utility System Refunding Revenue Bonds of \$1,730,000. The bonds and notes are payable from pledged water and

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

sewer utility revenues of the SPWA and are payable through 2016, 2028 and 2017, respectively. The total principal and interest payable for the remainder of the life of these bonds is \$7,509,256. Pledged water and sewer utility revenues for the current year were \$732,941. Debt service payments of \$556,109 for the current fiscal year were 127% of pledged water and sewer utility revenues.

5. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the Town in accordance with Town Code Section 7 as amended by Ordinance 98-12. The sales tax received is recorded as sales tax revenue within the General Fund. The Town is required to transfer one cent of its three cents sales tax to the SPWA for debt retirement as required by the sales tax agreement in the bond indenture and Ordinance 98-12. Any remaining sales tax monies left after debt payments are made are required to be transferred back to the General Fund for operations.

6. Amount Due From Third Party

The discretely presented component unit, the Skiatook Economic Development Authority, loaned \$300,000 to a developer in prior years. The loan has a 1% interest rate and is related to the HOME Grant from the Oklahoma Housing Financing Agency. No payment toward this receivable has been made. When payments are received, the Skiatook Economic Development Authority will remit the payments to the Town to remit to Oklahoma Housing Financing Agency in accordance with the grant.

7. Property Tax Levy

The Town presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the Town.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

8. Internal and Interfund Balances and Transfers

Balances:

Interfund receivable and payables at June 30, 2011 were comprised of the following:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>	<u>Nature of Balance</u>
SPWA	General Fund	\$ 550	To correct investment after small business loan was closed
SPWA	General Fund	2,135	To correct investment after small business loan was closed
SPWA	General Fund	2,121	To correct CD balance
General Fund	SPWA	618,012	To cover negative cash
Cemetery Care	General Fund	79,768	To cover negative cash
Total		<u>\$ 702,586</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 697,780	\$ (84,574)	\$ 613,206
Proprietary Funds	4,806	(618,012)	(613,206)
Total	<u>\$ 702,586</u>	<u>\$ (702,586)</u>	<u>\$ -</u>

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

Transfers:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	SPWA	\$ 924,562	Required sales tax transfer
SPWA	General Fund	1,338,333	Transfer for operations
General Fund	SPWA	341,744	To fund purchase of capital assets
SPWA	Governmental activities	3,400,188	Transfer of governmental assets
Business-type activities	Governmental activities	44,931	Transfer of governmental activity
Total		<u>\$ 6,049,758</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,338,333	\$ (1,266,306)	\$ 72,027
Proprietary Funds	1,266,306	(1,338,333)	(72,027)
One-sided entry to proprietary funds	3,400,188	-	3,400,188
Transfer of governmental activity	44,931	(44,931)	-
	<u>\$ 6,049,758</u>	<u>\$ (2,649,570)</u>	<u>\$ 3,400,188</u>

Reconciliation to Statement of Activities:

Net Transfers	\$ 72,027
Transfer of capital assets to governmental activities	3,400,188
Transfer of expenses to governmental activity	44,931
Transfers - internal activity	<u>\$ 3,517,146</u>

9. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Town manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

10. Employee Retirement Plan Participation

The Town of Skiatook participates in three pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement System (OMRF-DCP) – an agent multiple-employer defined contribution plan

OFPRS:

Plan Summary Information. The Town of Skiatook, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma Town, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The Town is required by state law to contribute \$60 per year for each volunteer firefighter. The OFPRS plan members are required to contribute 8% to the plan. The Town is required by state law to contribute 13% per year of covered payroll per paid firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$92,344	\$92,344
2010	\$94,115	\$94,115
2011	\$98,613	\$98,613

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

OPPRS:

Plan Summary Information. The Town of Skiatook, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ a certain number of fulltime police officers.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 305
Oklahoma Town, OK 73116-7335

Funding Policy. The Town is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$65,719	\$65,719
2010	\$73,530	\$73,530
2011	\$69,677	\$69,677

OMRF Defined Contribution Plan:

Plan Summary Information. The Town has provided a defined contribution plan and trust known as the Town of Skiatook Plan and Trust (the "Plan") in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by Bank One of Oklahoma City. The defined contribution plan is available to all full-time employees except those participating in the state fire or police programs. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completion of three months of service to the Town.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Oklahoma City, Oklahoma, 73105.

Funding Policy. Employees participating in the Plan are required to contribute at least 4%, and may make contributions to the plan up to 25% at their option. By Town ordinance, the Town, as employer, is required to make contributions to the plan, based upon employee contributions under the pick-up option, at a current rate of 8% of covered payroll. The Town has also elected the money purchase pension option. The Town's contributions for each employee (and interest allocated to the employee's account) are vested at 50% after 3 years of service, 75% after 5 years of service, and 100% after seven years of

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

service. Town contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the Town Board.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$124,718	\$124,718
2010	\$129,672	\$129,672
2011	\$135,130	\$135,130

11. Commitments and Contingencies

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011, is summarized as follows:

- General Fund – accrued compensated absences \$232,281
- SPWA – accrued compensated absences \$124,843

Litigation:

The Town is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. These statutory provisions do not apply to the Town's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

Federal and State Award Programs:

The Town of Skiatook participates in various federal or state grant/loan programs from year to year. In 2011, the Town's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

OTHER SUPPLEMENTARY INFORMATION

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Budgetary Comparison Schedule (Budgetary Basis) – Year Ended June 30, 2011

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,374,913	\$1,374,913	\$1,374,913	-
Resources (Inflows):				
Taxes	2,606,000	2,686,357	2,868,920	182,563
Licenses and permits	46,600	46,600	33,573	(13,027)
Intergovernmental	623,000	592,744	569,351	(23,393)
Charges for services	999,100	999,100	937,197	(61,903)
Fines and forfeitures	88,000	88,000	87,213	(787)
Miscellaneous	200,000	372,721	163,102	(209,619)
Interest	35,000	35,000	13,932	(21,068)
Total Revenue	<u>4,597,700</u>	<u>4,820,522</u>	<u>4,673,288</u>	<u>(147,234)</u>
Other Financing Sources:				
Transfers from other funds	1,606,000	1,606,000	1,338,333	(267,667)
Total Other Financing Sources	<u>1,606,000</u>	<u>1,606,000</u>	<u>1,338,333</u>	<u>(267,667)</u>
Total Resources	<u>6,203,700</u>	<u>6,426,522</u>	<u>6,011,621</u>	<u>(414,901)</u>
Amounts available for appropriation	<u>7,578,613</u>	<u>7,801,435</u>	<u>7,386,534</u>	<u>(414,901)</u>
Charges to Appropriations (Outflows):				
Town Clerk	3,470	3,470	3,470	-
Judge	21,800	21,800	18,596	3,204
Police	1,576,700	1,658,372	1,580,083	78,289
Fire	1,357,600	1,403,212	1,371,961	31,251
Community development	110,500	109,000	104,380	4,620
Street	517,240	517,638	415,485	102,153
Vehicle maintenance	117,200	122,518	122,518	-
Park	162,800	162,800	145,038	17,762
General government	2,158,600	976,778	921,817	54,961
Senior citizen's	141,450	141,450	68,774	72,676
Economic development	32,600	34,100	34,006	94
Other Financing Uses:				
Transfers to other funds	1,189,000	1,274,101	1,266,306	7,795
Total Charges to Appropriations	<u>7,388,960</u>	<u>6,425,239</u>	<u>6,052,434</u>	<u>372,805</u>
Ending Budgetary Fund Balance	<u>\$189,653</u>	<u>\$1,376,196</u>	<u>\$1,334,100</u>	<u>\$ (42,096)</u>
Reconciliation to Statement of Changes in Revenues, Expenditures and Changes in Fund Balance:				
Cemetery Maintenance Fund			(66,253)	
			<u>\$1,267,847</u>	

See accompanying notes to this schedule.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a department require the Mayor's approval without further Town Board approval, while supplemental appropriations require Town Board approval.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Combining Balance Sheet – General Fund – June 30, 2011

	General Fund	Cemetery Maintenance Account	Total General Fund
ASSETS			
Cash and cash equivalents	\$ 53,853	\$ -	\$ 53,853
Investments	678,581	15,000	693,581
Due from other funds	618,012	-	618,012
Due from other accounts	1,485	(1,485)	-
Total assets	1,351,931	13,515	1,365,446
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll withholding liabilities	7,045	-	7,045
Due to other funds	4,806	79,768	84,574
Payable to other governments	799	-	799
Due to bondholders	5,181	-	5,181
Total liabilities	17,831	79,768	97,599
 Fund balances:			
Restricted	7,000	-	7,000
Assigned to economic development	32,552	-	32,552
Unassigned	1,294,548	(66,253)	1,228,295
Total fund balances (deficits)	1,334,100	(66,253)	1,267,847
Total liabilities and fund balances	\$ 1,351,931	\$ 13,515	\$ 1,365,446

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund –
For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Cemetery Maintenance Account</u>	<u>Total</u>
REVENUES			
Taxes	\$ 2,868,920	\$ -	\$ 2,868,920
Licenses and permits	33,573	-	33,573
Intergovernmental	569,351	-	569,351
Charges for services	937,197	38,716	975,913
Fines and forfeitures	87,213	-	87,213
Investment income	13,932	203	14,135
Miscellaneous	163,102	-	163,102
Total revenues	<u>4,673,288</u>	<u>38,919</u>	<u>4,712,207</u>
EXPENDITURES			
Current:			
Town clerk	3,470	-	3,470
General government	892,541	-	892,541
Judge	18,596	-	18,596
Police	1,519,812	-	1,519,812
Fire	1,337,471	-	1,337,471
Community development	104,380	-	104,380
Senior citizens	68,280	-	68,280
Swimming pool/park	142,288	-	142,288
Street	375,043	-	375,043
Vehicle Maintenance	119,948	-	119,948
Economic development	34,006	-	34,006
Cemetery	-	53,910	53,910
Capital Outlay	170,293	2,340	172,633
Total Expenditures	<u>4,786,128</u>	<u>56,250</u>	<u>4,842,378</u>
Excess (deficiency) of revenues over expenditures	<u>(112,840)</u>	<u>(17,331)</u>	<u>(130,171)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,338,333	-	1,338,333
Transfers out	<u>(1,266,306)</u>	-	<u>(1,266,306)</u>
Total other financing sources and uses	<u>72,027</u>	<u>-</u>	<u>72,027</u>
Net change in fund balances	(40,813)	(17,331)	(58,144)
Fund balances (deficits) - beginning	1,374,913	(48,922)	1,325,991
Fund balances (deficits) - ending	<u>\$ 1,334,100</u>	<u>\$ (66,253)</u>	<u>\$ 1,267,847</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Combining Balance Sheet – Nonmajor Governmental Funds – June 30, 2011

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total Other Governmental Funds</u>
	<u>Airport Fund</u>	<u>Cemetery Care</u>	
ASSETS			
Cash and cash equivalents	\$ 193,215	\$ 32,352	\$ 225,567
Due from other funds	-	79,768	79,768
Total assets	<u>193,215</u>	<u>112,120</u>	<u>305,335</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted:			
For airport	193,215	-	193,215
For cemetery care	-	56,060	56,060
Committed to cemetery care	-	56,060	56,060
Total fund balances	<u>193,215</u>	<u>112,120</u>	<u>305,335</u>
Total liabilities and fund balances	<u>\$ 193,215</u>	<u>\$ 112,120</u>	<u>\$ 305,335</u>

TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds – For the Year Ended June 30, 2011

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total-Other Governmental Funds</u>
	<u>Airport Fund</u>	<u>Cemetery Care</u>	
REVENUES			
Intergovernmental	\$ 42,661	\$ -	\$ 42,661
Charges for services	40,958	12,044	53,002
Miscellaneous	865	-	865
 Total revenues	 <u>84,484</u>	 <u>12,044</u>	 <u>96,528</u>
 EXPENDITURES			
Current:			
Airport	13,066	-	13,066
Capital Outlay	1,900	-	1,900
 Total Expenditures	 <u>14,966</u>	 <u>-</u>	 <u>14,966</u>
Excess (deficiency) of revenues over expenditures	<u>69,518</u>	<u>12,044</u>	<u>81,562</u>
 Net change in fund balances	 69,518	 12,044	 81,562
Fund balances - beginning	123,697	100,076	223,773
Fund balances - ending	<u>\$ 193,215</u>	<u>\$ 112,120</u>	<u>\$ 305,335</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Combining Schedule of Balance Sheet Accounts– Proprietary Funds – June 30, 2011

	Enterprise Funds			Total
	SPWA	One Cent Capital Project	Meter Deposit Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,400	\$ -	\$ -	\$ 2,400
Investments	625,938	-	-	625,938
Restricted:				
Cash and cash equivalents	1,322,125	-	-	1,322,125
Due from other funds	2,135	2,121	550	4,806
Due from other accounts	168,693	(548,011)	379,318	-
Total current assets	<u>2,121,291</u>	<u>(545,890)</u>	<u>379,868</u>	<u>1,955,269</u>
Non-current assets:				
Restricted:				
Investments	-	-	85,000	85,000
Capital Assets:				
Land and construction in progress	622,450	639,529	-	1,261,979
Capital assets, net of accumulated depreciation	10,700,268	499,721	-	11,199,989
Unamortized note issue costs	233,087	-	-	233,087
Total non-current assets	<u>11,555,805</u>	<u>1,139,250</u>	<u>85,000</u>	<u>12,780,055</u>
Total assets	<u>13,677,096</u>	<u>593,360</u>	<u>464,868</u>	<u>14,735,324</u>
LIABILITIES				
Current Liabilities:				
Due to other funds	-	618,012	-	618,012
Customer deposits	-	-	466,897	466,897
Notes payable	430,139	-	-	430,139
Revenue bonds payable	120,000	-	-	120,000
Total current liabilities	<u>550,139</u>	<u>618,012</u>	<u>466,897</u>	<u>1,635,048</u>
Non-current liabilities:				
Notes payable	8,217,910	-	-	8,217,910
Revenue bonds payable	804,245	-	-	804,245
Total non-current liabilities	<u>9,022,155</u>	<u>-</u>	<u>-</u>	<u>9,022,155</u>
Total liabilities	<u>9,572,294</u>	<u>618,012</u>	<u>466,897</u>	<u>10,657,203</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,122,761	-	-	3,122,761
Restricted for debt service	1,322,124	-	-	1,322,124
Unrestricted	(340,083)	(24,652)	(2,029)	(366,764)
Total net assets	<u>\$ 4,104,802</u>	<u>\$ (24,652)</u>	<u>\$ (2,029)</u>	<u>\$ 4,078,121</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Proprietary
Funds – For the Year Ended June 30, 2011**

	<u>SPWA</u>	<u>One Cent Capital Project</u>	<u>Meter Deposit Fund</u>	<u>Total</u>
REVENUES				
Charges for services:				
Electric	\$ 5,333,936	\$ -	\$ -	\$ 5,333,936
Water	1,398,723	-	-	1,398,723
Sewer	398,818	-	-	398,818
Sanitation	437,661	-	-	437,661
Sales tax on utility sales	251,274	-	-	251,274
Water taps	23,182	-	-	23,182
Sewer taps	4,950	-	-	4,950
Other	27,876	14,776	-	42,652
Total operating revenues	<u>7,876,420</u>	<u>14,776</u>	<u>-</u>	<u>7,891,196</u>
OPERATING EXPENSES				
Electric	4,469,880	-	-	4,469,880
Water	980,109	4,895	-	985,004
Sewer	107,728	-	-	107,728
Sanitation	432,366	-	-	432,366
Other	-	47,098	-	47,098
Amortization expense	19,611	-	-	19,611
Depreciation	436,031	38,064	-	474,095
Total Operating Expenses	<u>6,445,725</u>	<u>90,057</u>	<u>-</u>	<u>6,535,782</u>
Operating income (loss)	<u>1,430,695</u>	<u>(75,281)</u>	<u>-</u>	<u>1,355,414</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	13,333	-	-	13,333
Interest expense and fiscal agent fees	(418,234)	-	-	(418,234)
Gain (loss) on capital asset disposal	5,631	-	-	5,631
Other	12,058	-	-	12,058
Total non-operating revenue (expenses)	<u>(387,212)</u>	<u>-</u>	<u>-</u>	<u>(387,212)</u>
Income (loss) before contributions and transfers	<u>1,043,483</u>	<u>(75,281)</u>	<u>-</u>	<u>968,202</u>
Transfers in	(2,296,508)	3,562,814	-	1,266,306
Transfers out	(1,338,333)	-	-	(1,338,333)
Transfer out capital assets to governmental funds	-	(3,400,188)	-	(3,400,188)
Change in net assets	(2,591,358)	87,345	-	(2,504,013)
Total net assets - beginning	6,696,160	(111,997)	(2,029)	6,582,134
Total net assets - ending	<u>\$ 4,104,802</u>	<u>\$ (24,652)</u>	<u>\$ (2,029)</u>	<u>\$ 4,078,121</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Schedule of Expenditures of Federal Awards (Modified Cash Basis) – Year Ended June 30, 2011

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Project or Award Number	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
FEDERAL AVIATION ADMINISTRATION:				
Phase III of Parallel Taxiway	20.106	3-40-0089-006-2010	\$ 42,750	\$ 42,661
			<u>42,750</u>	<u>42,661</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Passed through the OK Department of Transportation Highway Planning and Construction	20.205	STP-157E(131)EH	\$ 132,964	\$ 121,966
DEPARTMENT OF AGRICULTURE				
Passed through OK Department of Agriculture Community Hazard Mitigation Grant	10.664	CHM-10-01	5,000	5,000
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the Oklahoma Highway Safety Patrol State and Community Highway Safety	20.600	PT-10-03-44-01	25,000	9,460
State and Community Highway Safety	20.600	PT-11-03-25-02	25,000	17,347
			<u>25,000</u>	<u>17,347</u>
TOTAL FEDERAL AWARDS			<u>\$ 230,714</u>	<u>\$ 196,434</u>

Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2011

State Grantor/Pass through agency Grantor/Program Title	Project or Award Number	Award Amount	State Expenditures
OKLAHOMA DEPARTMENT OF PUBLIC SAFETY			
Police operating grant	N/A	\$ 1,991	\$ 1,991
TULSA COUNTY			
Vision 2025	N/A	150,000	150,000
CDBG	N/A	69,778	69,778
		<u>219,778</u>	<u>219,778</u>
OKLAHOMA DEPARTMENT OF AGRICULTURE			
Community Wildfire Protection Plan	N/A	9,500	9,500
Fire Grant	N/A	4,398	4,398
Fire operating grant	N/A	732	732
		<u>14,630</u>	<u>14,630</u>
INCOG:			
Sidewalk adjacent to S. Lombard	REAP #280206	35,000	35,000
Purchase of police cars	REAP #290111	26,846	26,846
Purchase of police cars	N/A	15,000	15,000
		<u>76,846</u>	<u>76,846</u>
OKLAHOMA DEPARTMENT OF COMMERCE:			
Pass through Tulsa Area Agency on Aging Multipurpose Senior Citizens Center	N/A	500	500
		<u>500</u>	<u>500</u>
TOTAL STATE AWARDS		<u>\$ 313,745</u>	<u>\$ 313,745</u>

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Schedule of Debt Service Coverage Requirements and Reserve Requirements Compliance – Year Ended June 30, 2011

	2003 Utility Rfd. Bond, 1996 OWRB Note, 2006 OWRB Note
GROSS REVENUE AVAILABLE:	
Operating revenues of leased systems (1)	\$ 1,825,673
Sales tax appropriated and transferred from the City General Fund	924,562
Total Gross Revenue Available	2,750,235
 OPERATING EXPENSES:	
Operating expenses (1)	1,092,732
Net Revenue Available for Debt Service	1,657,503
 Debt Service Requirements:	
Maximum annual debt service - 2006 OWRB Promissory Note	364,067
Maximum annual debt service - 1996 OWRB Promissory Note	36,127
Maximum annual debt service - 2003 Utility Rfd. Bond	163,573
Maximum annual debt service - 2010 Sales Tax Revenue Note	373,851
Annual Debt Service on all Obligations Payable From Revenues of the System	\$ 937,618
 Coverage	 177%
Coverage Requirement	125%

(1) Leased systems of the bonds and notes consists of water and sewer revenues and expenses.

**TOWN OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

INTERNAL CONTROL AND COMPLIANCE



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

To the Users of the Town of Skiatook, Oklahoma, Annual Financial Report

We have audited the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Skiatook (the Town) as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 29, 2012. Our report included a paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report included a paragraph which disclaimed an opinion on management's discussion and analysis and other supplemental information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Skiatook's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Skiatook's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Skiatook'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 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 a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Item 11-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Skiatook'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 responses Items 11-2 and 11-3.

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

This report is intended solely for the information and use of the Mayor and Board of Trustees, the State of Oklahoma, 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.

Tulsa, Oklahoma
May 29, 2012

A handwritten signature in black ink that reads "Stanfield & O'Sell P.C." The signature is written in a cursive, flowing style.

**TOWN OF SKIATOOK
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

11-1. Significant Deficiency in Internal Control Over Financial Reporting—Inadequate Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: As noted in previous years, the Town essentially uses two positions to perform certain duties that are incompatible with effective internal control.

Cause: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small town environment is often difficult; however, we feel that the governing body and Town management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Responsible Official's Response: Town management has analyzed the cost versus benefit of additional segregation of duties. At this time, management has determined that the cost of additional personnel exceeds the benefit of further segregation. Management will continue to look for processes or procedures that will strengthen internal controls related to segregation of duties given the current software and personnel capabilities available.

11-2. Restricted Cash

Auditors' Findings: At June 30, 2011, the pooled cash balance was less than the amount of unrestricted cash at year-end, meaning that restricted cash had been used for purposes other than which it was restricted.

Auditors' Recommendation: Management, in the subsequent year, should consider either segregating restricted cash in separate accounts or monitor the pooled cash balance closely.

Responsible Official's Response: Town management concurs with the recommendation and will periodically analyze pooled cash and repay balances due any restricted funds as soon as practicable. If this requires liquidation of certificates of deposit, it will be done on a normal maturity date to minimize the cost.

TOWN OF SKIATOOK
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
JUNE 30, 2011

11-3. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2011, the fund balance for the cemetery maintenance fund of the Town had a deficit balance of \$66,253. This deficit appears to be a result of expenditures exceeding revenues and transfers each year for the last few years. The Town does have a cemetery perpetual care fund whose cash, upon legal consideration, may be used to fund this temporary deficit.

Auditors' Recommendation: Management may wish to consider conducting research related to the possible transfer of funds from the Town's cemetery perpetual care fund to the cemetery maintenance fund in order to fund this deficit.

Responsible Official's Response: Town management concurs with the recommendation and will transfer funds to eliminate the deficit as soon as practicable. If this requires liquidation of certificates of deposit, it will be done on a normal maturity date to minimize the cost.

**TOWN OF SKIATOOK
FOLLOW-UP ON PRIOR YEAR FINDINGS
JUNE 30, 2011**

10-1. Segregation of Duties

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Condition: Due to its limited population, the Town essentially uses two positions (Accounting Clerk and Utility Clerk) to perform certain duties that are incompatible with the objectives of effective internal control. These incompatible duties are noted in the chart below. This is a repeat condition from previous years.

Position	Incompatible Duties			
	Asset Custody	Transaction Authorization	Bookkeeping	Reconciling
Accounting Clerk	X		X	X
Utility Clerk	X	X	X	

Cause: The Town's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis increases.

Recommendation: Efficient segregation of duties in a small town environment is often difficult; however, we feel that the governing body and Town management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Management's Response: Town management is currently researching the possibility of better segregating these duties.

2011 Follow-up: The finding is repeated in 2011.

**TOWN OF SKIATOOK
FOLLOW-UP ON PRIOR YEAR FINDINGS - CONTINUED
JUNE 30, 2011**

10-2. Budgetary Compliance

Auditors' Findings: For the year ended June 30, 2010, the Town was not in compliance with the Municipal Budget Act of 1979 due to the fact that expenditures exceeded appropriations at the legal level of control for the General Fund as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriation</u>
General Fund	General Government	\$5,491

Auditors' Recommendation: Procedures should be in place to monitor and avoid such items.

Management's Response: As noted in the footnotes to the budgetary comparison schedules, the budgetary comparison schedules are prepared on a budgetary basis, which differs from the modified cash basis of accounting. The difference in the two methods is the primary reason for the above variances.

2011 Follow-up: Per Budgetary Comparison Schedule, this was not repeated in current year.

10-3. Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2010, the fund balance for the cemetery maintenance fund of the Town had a deficit balance of \$48,922. This deficit appears to be a result of expenditures exceeding revenues and transfers each year for the last few years. The Town does have a cemetery perpetual care fund whose cash, upon legal consideration, could be used to fund this temporary deficit.

Auditors' Recommendation: Management, in the subsequent year, may wish to consider conducting research related to the possible transfer of funds from the Town's cemetery perpetual care fund to the cemetery maintenance fund in order to fund this deficit.

Management's Response: The Town concurs with the recommendation and will contact the Town's attorney to begin the necessary research into the issue of transferring monies between these two funds to cover the deficit.

2011 Follow-up: The finding is repeated in 2011.