

TOWN OF VERDIGRIS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees  
Town of Verdigris, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Verdigris, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the Town of Verdigris, Oklahoma's basic financial statements. These financial statements are the responsibility of Town of Verdigris, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Verdigris, Oklahoma as of June 30, 2011, and the respective changes in financial position-modified cash basis, and cash flows where appropriate, thereof for the year then ended in conformity with the basis of accounting described in Note A.

The Town of Verdigris, Oklahoma has not presented Management's Discussion and Analysis or the general fund budgetary comparison that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 18, 2012, on my consideration of Town of Verdigris, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my 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 my audit.

*Ralph Osborn*

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 18, 2012

TOWN OF VERDIGRIS, OKLAHOMA  
STATEMENT OF NET ASSETS  
MODIFIED CASH BASIS  
JUNE 30, 2011

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 473,683	\$ 12,652	\$ 486,335
Investments	198,483	-	198,483
Restricted assets:			
Cash-debt reserve	-	197,735	197,735
Total current assets	<u>672,166</u>	<u>210,387</u>	<u>882,553</u>
Non-current assets:			
Capital assets			
Land	54,320	-	54,320
Other capital assets net of accumulated depreciation	<u>238,688</u>	<u>552,932</u>	<u>791,620</u>
Total non-current assets	<u>293,008</u>	<u>552,932</u>	<u>845,940</u>
 Total assets	 <u>965,174</u>	 <u>763,319</u>	 <u>1,728,493</u>
<b>LIABILITIES</b>			
Current liabilities:			
Note payable - current	-	18,285	18,285
Bonds payable - current	-	20,000	20,000
Total current liabilities	<u>-</u>	<u>38,285</u>	<u>38,285</u>
Non-current liabilities:			
Notes payable - non-current	-	193,518	193,518
Bond payable - non-current	-	380,000	380,000
Total non-current liabilities	<u>-</u>	<u>573,518</u>	<u>573,518</u>
 Total liabilities	 <u>-</u>	 <u>611,803</u>	 <u>611,803</u>
<b>NET ASSETS</b>			
Nonspendable	293,008	(58,871)	234,137
Restricted for debt service	-	197,735	197,735
Unassigned	<u>672,166</u>	<u>12,652</u>	<u>684,818</u>
 Total net assets	 <u>\$ 965,174</u>	 <u>\$ 151,516</u>	 <u>\$1,116,690</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
STATEMENT OF ACTIVITIES  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Function/Programs	Expenses	Program Revenue			Net (Expenses) Revenue
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 207,555	\$ -	\$ 4,159	\$ -	\$ (203,396)
Planning commission	22,339	32,194	-	-	9,855
Emergency Management	4,004	-	-	-	(4,004)
Court	44,957	61,286	-	-	16,329
Police	212,333	-	-	-	(212,333)
Parks and recreation	4,289	-	-	-	(4,289)
Street	14,242	-	30,580	-	16,338
<b>Total governmental activities</b>	<b>509,719</b>	<b>93,480</b>	<b>34,739</b>	<b>-</b>	<b>(381,500)</b>
<b>Business-type activities</b>					
Lease/rental	46,866	57,822	-	-	10,956
<b>Total business-type activities</b>	<b>46,866</b>	<b>57,822</b>	<b>-</b>	<b>-</b>	<b>10,956</b>
<b>Total primary government</b>	<b>\$ 556,585</b>	<b>\$ 151,302</b>	<b>\$ 34,739</b>	<b>\$ -</b>	<b>\$ (370,544)</b>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	\$ (381,500)	\$ 10,956	\$ (370,544)
<b>General revenues</b>			
<b>Taxes</b>			
Sales/use tax	297,333	-	297,333
Franchise	61,088	-	61,088
Hotel tax	15,109	-	15,109
Other	4,008	-	4,008
Interest	6,031	2,319	8,350
<b>Total general revenue and transfers</b>	<b>383,569</b>	<b>2,319</b>	<b>385,888</b>
Change in net assets	2,069	13,275	15,344
Net assets - beginning	963,105	138,241	1,101,346
Net assets - ending	\$ 965,174	\$ 151,516	\$ 1,116,690

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>Total General Fund</u>	<u>Governmental Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 473,683	\$ 473,683
Investments	<u>198,483</u>	<u>198,483</u>
<b>TOTAL ASSETS</b>	<u>\$ 672,166</u>	<u>\$ 672,166</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>FUND BALANCES</b>		
Unassigned	<u>\$ 672,166</u>	<u>\$ 672,166</u>
<b>TOTAL FUND BALANCES</b>	<u>672,166</u>	<u>672,166</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 672,166</u>	<u>\$ 672,166</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011

Total fund balance \$ 672,166

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets	357,001	
Accumulated depreciation	<u>(63,993)</u>	<u>293,008</u>
Total net assets		<u>\$ 965,174</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Total Governmental Funds
<b>Revenue</b>		
Sales/use tax	\$ 297,333	\$ 297,333
Franchise tax	61,088	61,088
Gasoline tax	5,910	5,910
Alcoholic beverage tax	11,077	11,077
Hotel tax	15,109	15,109
Motor vehicle tax	13,593	13,593
Cigarette tax	4,159	4,159
License and permits	32,194	32,194
Fines	61,286	61,286
Insurance proceeds	7,042	7,042
Other	4,008	4,008
Interest	6,031	6,031
 Total revenue	 518,830	 518,830
 <b>Expenditures</b>		
Current		
General government	199,019	199,019
Planning commission	22,339	22,339
Emergency Management	4,004	4,004
Court	44,957	44,957
Police	208,972	208,972
Street and Alley	8,494	8,494
Parks and recreation	4,289	4,289
 Total expenditures	 492,074	 492,074
 Net change in fund balance	 26,756	 26,756
 Fund balances, beginning	 645,410	 645,410
 Fund balances, ending	 \$ 672,166	 \$ 672,166

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds		\$ 26,756
<p>Amounts reported for governmental activities in the statement of activities are different because:  Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which depreciation and retirements exceeds capitol outlay in the period.</p>		
Retired asset, net	(7,071)	
Depreciation expense	<u>(17,616)</u>	<u>(24,687)</u>
Change in net assets		<u>\$ 2,069</u>

The accompanying notes are an integral part of this financial statement.



TOWN OF VERDIGRIS, OKLAHOMA  
STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2011

	<u>Public Works</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 12,652
Restricted assets:	
Cash-debt reserve	<u>197,735</u>
Total current assets	<u>210,387</u>
Non-current assets	
Capital assets:	
Capital assets, net of accumulated depreciation	<u>552,932</u>
Total non-current assets	<u>552,932</u>
Total assets	<u>763,319</u>
<b>LIABILITIES</b>	
Current liabilities:	
Note payable - current	18,285
Bonds payable - current	<u>20,000</u>
Total current liabilities	<u>38,285</u>
Non-current liabilities:	
Note payable - non-current	193,518
Bonds payable - non-current	<u>380,000</u>
Total non-current liabilities	<u>573,518</u>
Total liabilities	<u>611,803</u>
<b>NET ASSETS</b>	
Nonspendable	(58,871)
Restricted for Debt	197,735
Unrestricted	<u>12,652</u>
Net assets of business-type activities	<u>\$ 151,516</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
 NET ASSETS - MODIFIED CASH BASIS - PROPRIETARY FUNDS  
 For The Year Ended June 30, 2011

	<u>Public Works</u>
<u>OPERATING REVENUES</u>	
Charges for services:	
Lease payments	\$ 57,822
Total operating revenues	<u>57,822</u>
<u>OPERATING EXPENSES</u>	
Depreciation	10,095
Community promotion	2,011
Miscellaneous	<u>85</u>
Total operating expenses	<u>12,191</u>
Operating income (loss)	<u>45,631</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Investment income	2,319
Interest and fiscal fees on bonds/notes payable	<u>(34,675)</u>
Total non-operating revenue (expenses)	<u>(32,356)</u>
Change in net assets	13,275
Total net assets, beginning (restated)	<u>138,241</u>
Total net assets, ending	<u>\$ 151,516</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
For The Year Ended June 30, 2011

	<u>Public Works</u>
Cash flows from operating activities	
Cash received from customers	\$ 57,822
Cash payments to suppliers for goods and services	<u>(2,096)</u>
Net cash provided (used) by operating activities	<u>55,726</u>
Cash flows from capital and related financing activities	
Principal paid on bonds and notes payable	(32,403)
Interest paid on bonds and notes payable and fiscal fees	<u>(34,675)</u>
Net cash used for capital and related financing activities	<u>(67,078)</u>
Cash flows from investing activities	
Interest revenue	<u>2,319</u>
Net cash provided by investing activities	<u>2,319</u>
<u>4,509</u>	
Net decrease in cash and cash equivalents	(9,033)
Cash and cash equivalents, beginning	<u>219,420</u>
Cash and cash equivalents, ending	<u>\$ 210,387</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 45,631
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	<u>10,095</u>
Net cash provided by operating activities	<u>\$ 55,726</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Verdigris, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria The Verdigris Public Works Authority (the Authority) is the only component unit. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of the Authority. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

The Verdigris Public Works Authority was created under the provisions of Title 60, Sections 176 to 180, Oklahoma Statutes. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements*

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Measurement Focus and Basis of Accounting

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

**Measurement Focus**

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

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

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

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

**Basis of Accounting**

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) 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.

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

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise fund:

The Verdigris Public Works Authority - The Authority is involved in constructing buildings for lease.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. The budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2011 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods. The Town expenses items of a prepaid nature when paid under the modified cash basis.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture, machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

A liability for compensated absences is not reported under the modified cash basis. Payment of vacation or sick leave is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2011, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$882,553 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately \$895,518.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2011, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

Note C - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Debt reserve	\$ <u>197,735</u>
Total	\$ <u><u>197,735</u></u>

The restricted amounts are held by a trustee bank. The money represents amounts held to retire The Verdigris Public Works Authority Capital Improvement Revenue Bonds, Series 2004.



TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Note D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities</b>					
Balance, June 30, 2010	\$ 13,550	\$ 136,795	\$ 162,236	\$ 312,581	\$ 54,320
Increases	-	-	-	-	-
Decreases	-	-	(9,900)	(9,900)	-
Balance, June 30, 2011	<u>13,550</u>	<u>136,795</u>	<u>152,336</u>	<u>302,681</u>	<u>54,320</u>
<b>Accumulated Depreciation</b>					
Balance, June 30, 2010	2,567	28,612	18,027	49,206	
Increase	686	5,748	11,182	17,616	
Decreases	-	-	(2,829)	(2,829)	
Balance, June 30, 2011	<u>3,253</u>	<u>34,360</u>	<u>26,380</u>	<u>63,993</u>	
Governmental activities Capital Assets, Net	<u>\$ 10,297</u>	<u>\$ 102,435</u>	<u>\$ 125,956</u>	<u>\$ 238,688</u>	<u>\$ 54,320</u>
<b>Business-type activities</b>					
Balance, June 30, 2010	\$ 605,665	\$ -	\$ -	\$ 605,665	\$ -
Increases	-	-	-	-	-
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>605,665</u>	<u>-</u>	<u>-</u>	<u>605,665</u>	<u>-</u>
<b>Accumulated Depreciation</b>					
Balance, June 30, 2010	42,638	-	-	42,638	
Increase	10,095	-	-	10,095	
Decreases	-	-	-	-	
Balance, June 30, 2011	<u>52,733</u>	<u>-</u>	<u>-</u>	<u>52,733</u>	
Business-type Activities Capital Assets, Net	<u>\$ 552,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 552,932</u>	<u>\$ -</u>
<b>PRIMARY GOVERNMENT</b> Capital Assets, Net	<u>\$ 563,229</u>	<u>\$ 102,435</u>	<u>\$ 125,956</u>	<u>\$ 791,620</u>	<u>\$ 54,320</u>

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 8,536	Public Works	\$ 10,095
Street	5,748		
Police Department	3,332		

Note E - REVENUE BONDS PAYABLE

The following is a summary of revenue bond transactions of the Authority for the year ended June 30, 2011.

	Payable at July 1, 2010	Additions	Retirements	Balance at June 30, 2011
1 <sup>st</sup> Bank Oklahoma	\$ 229,206	\$ -	(17,403)	\$ 211,803
2004 Revenue Bonds	<u>415,000</u>	<u>-</u>	<u>(15,000)</u>	<u>400,000</u>
	<u>\$ 644,206</u>	<u>\$ -</u>	<u>\$ (32,403)</u>	<u>\$ 611,803</u>

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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The long-term debt as of June 30, 2011 is as follows:

1 <sup>st</sup> Bank Oklahoma loan in the amount of \$300,000 dated June 30, 2006, interest rate 5% payable in 180 monthly installments of \$2,372 beginning August 1, 2006	\$ 211,803
\$490,000, The Verdigris Public Works Authority Capital Improvement Revenue Bonds, Series 2004, interest rate 4.00% to 6.25%, term bonds due October 1, 2023, annual installments beginning October 1, 2005	400,000
Total	\$ 611,803

Principal and interest requirements of the Authority are:

Year Ending June 30	Principal	Interest	Totals
2012	\$ 38,285	\$ 26,184	\$ 64,469
2013	39,220	29,958	69,178
2014	40,204	27,885	68,089
2015	41,237	25,761	66,998
2016	42,324	23,585	65,909
2017-2021	250,533	84,028	334,561
2022-2024	160,000	23,438	183,438
Total	\$ 611,803	\$ 240,839	\$ 852,642

The Authority paid interest in the amount of \$34,675 on its outstanding debt during the fiscal year.

The Verdigris Public Works Authority Capital Improvement Revenue bonds were issued to provide a portion of the proceeds needed to provide office facilities and improvements to the sewer system of Rural Sewer District No. 1, Rogers County, Oklahoma (the Sewer District). The Sewer District provides sewer service for the Town of Verdigris, Oklahoma. The Authority and the Sewer District are not related parties. The Sewer District entered into a guaranty agreement dated September 1, 2004 with BancFirst to unconditionally guarantee full and prompt payment of the principal and interest of the bonds. The Authority and the Sewer District entered into a lease agreement for the office facilities. The bonds are special limited obligations of the Authority payable solely from revenues derived from the lease or sale of the facilities. Upon termination of the lease and payment of bonds, the facilities were to belong to the Sewer District. The Authority and the Sewer District entered into an agreement on June 10, 2006 whereby the Authority would obtain a loan to pay the revenue bonds in full. The Authority retains ownership of the building.

TOWN OF VERDIGRIS, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

**Note F - EDUCATIONAL FACILITIES REVENUE BONDS**

The Verdigris Public Works Authority, Educational Facilities Lease Revenue Bonds, (Berryhill Public Schools Project), Series 2003 in the amount of \$3,900,000, dated September 1, 2003 was issued to provide a portion of the funds required for the construction, equipping, and furnishing of educational facilities for the benefit of Berryhill Public Schools (the District). The Authority and the District have entered into a lease agreement whereby the District will make semi-annual rent payments to the Authority. Payment of principal and interest on the bonds is to be made from the rent payments. Upon completion of the lease agreement title to the improvements will be with the District. Other revenue and assets of the Authority are not pledged for bond purposes. The Authority has not recorded depreciation on the facilities being obtained with funds provided by the bond issue. Berryhill Public Schools and the Verdigris Public Works authority are not otherwise related.

**Note G - PENSION OBLIGATIONS**

**Oklahoma Municipal Retirement Fund**

The Town allows employees to participate in Oklahoma Municipal Retirement Fund, a defined contributions plan. The plan is funded by contributions from participants and employees. The following is a summary of eligibility factor, contribution methods, and benefit provision:

Eligibility	All regular, full-time employees except police, firefighters and other employees who are covered under an approved system.
Employer contributions	3.0% of wages
Employee contributions	4.0% of wages
Service	
Credited Service	The last period of continuous employment with the employer excluding any periods before the effective date of the plan specified in the adoption agreement.
Vesting	Credited service plus transferred service from other OMRF employees.
Benefit Eligibility	5 or more years of vesting service.
Final Average Compensation	The average of the 5 highest consecutive annual salaries out of the last 10 years of service.
Accrued Benefit	Plan AA 2.65% of final average compensation multiplied by the number of years of credited service.
Normal Retirement Age	Age 65 with 5 or more years of vesting service.
Normal Retirement Eligibility	Termination of employment on or after normal retirement age.
Benefit	The accrued benefit payable immediately.
Early Retirement Eligibility	Termination after age 55 with 5 or more years of vesting.
Benefit	The accrued benefit payable starting at normal retirement, or the accrued benefit reduced 5% per year for commencement prior to normal retirement age.

TOWN OF VERDIGRIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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Disability Retirement Eligibility	Total and permanent disability after 5 or more years of service.
Benefit	The accrued benefit is payable upon disablement without Reduction for early payment.
Termination Before Retirement Age	
Before Vesting	Return of employee contributions with interest.
After Vesting	The accrued benefit payable starting at age 65, or a reduced benefit payable at an early retirement age.
In-service Death	
Before vesting	Return of member contributions with interest.
After vesting (married participants only)	50% of the accrued benefit is payable to the spouse until death or remarriage.
After Vesting (other participants)	50% of the accrued benefit is payable for 60 months certain.
Payment Options	
Normal form	The normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain.
Optional forms	Disability retirement benefits are paid only under the normal form.  Other retirement benefits are available under actuarially Equivalent optional forms: - Joint and 50% survivor annuity - Joint and 66-2/3rds last survivor annuity - Joint and 100% survivor annuity
Cost of Living	Benefits in payment status are adjusted each July 1 <sup>st</sup> based on the percentage change in the CPI. The maximum increase is 3% per year.

The District's contributions to the Plan for the years ending June 30, 2011, 2010 and 2009 were \$7,032, \$3,883 and \$1,350, respectively, equal to the required contributions for each year.

**Note H - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note I - FEDERAL AND STATE GRANTS**

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

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

To the Honorable Members of the Board of Trustees  
Town of Verdigris  
Verdigris, Oklahoma

I have audited the accompanying financial statements-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Verdigris, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Verdigris, Oklahoma's basic financial statements, and have issued my report thereon dated October 18, 2012 which did not include Management's Discussion and Analysis or budgetary comparisons. I conducted my 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 my audit, I considered Town of Verdigris, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Verdigris, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Verdigris, Oklahoma's internal control over financial reporting.

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

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Verdigris, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, 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.

Sincerely,

*Ralph Osborn*

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 18, 2012