

Town of Vera

Independent Auditor's Report and Financial Statements

For the Fiscal Year Ended
June 30, 2016

Town of Vera

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HOOD & ASSOCIATES CPAs, PC

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Independent Auditor's Report

October 27, 2016

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

Emphasis of Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 on our consideration of the Town's internal control over financial reporting and our tests of 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 or on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the *Town of Vera's* basic financial statements. The accompanying supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hood & Associates, CPAs, PC.

HOOD & ASSOCIATES CPAs, PC

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Report on Internal Control Over Financial Reporting Compliance and on Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

October 27, 2016

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Town of Vera* as of and for the year ended June 30, 2016, which collectively comprise the *Town of Vera* basis financial statements and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We do not consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Town of Vera* financial statements are free of material misstatement, we performed tests of the compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hood & Associates, CPAs, PC.

Town of Vera
Statement of Net Position - Modified Cash Basis - Government Wide
June 30, 2016

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 22,610.65	\$ 32,656.65	\$ 55,267.30
Non-current Assets:			
Cash and Cash Equivalents - Restricted		1,585.22	1,585.22
Capital Assets:			
Property, Plant and Equipment, net	48,087.86	883,284.40	931,372.26
Total Non-current Assets	48,087.86	884,869.62	932,957.48
Total Assets	70,698.51	917,526.27	988,224.78
LIABILITIES			
Current Liabilities:			
Current Portion of Notes Payable	0.00	4,875.84	4,875.84
Long term Liabilities:			
Note Payable – ODOC	0.00	253,333.21	253,333.21
Total Liabilities	0.00	258,209.05	258,209.05
NET POSITION			
Invested in capital assets, net of related debt	48,087.86	605,075.35	653,163.21
Unassigned Fund Balance	16,166.58		16,166.58
Designated for Specific Purpose	6,444.07		6,444.07
Restricted		1,585.22	1,585.22
Unrestricted		52,656.65	52,656.65
Total Net Position	\$ 70,698.51	\$ 659,317.22	\$ 730,015.73

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Statement of Activities - Modified Cash Basis - Government Wide
For the Year Ended June 30, 2016

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<i>Governmental Activities:</i>					
General Government	\$ 30,938.55	\$ 0.00	\$ 0.00	\$ 39,768.26	\$ 8,829.71
<i>Business Type Activities</i>					
Water and Sewer	66,633.39	32,657.95	2,010.02	0.00	(31,965.42)
TOTAL	<u>\$ 97,571.94</u>	<u>\$ 32,657.95</u>	<u>\$ 2,010.02</u>	<u>\$ 39,768.26</u>	<u>\$ (23,135.71)</u>
		<u>Primary Government</u>			
		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
Changes in Net Assets:					
Net (expense) revenue		\$ 8,829.71	\$ (31,965.42)	\$ (23,135.71)	
General revenues:					
Taxes:					
Sales Tax			13,660.16		13,660.16
Franchise Tax			2,639.62		2,639.62
Cigarette Tax			165.23		165.23
Alcoholic Beverage Tax			744.68		744.68
Restricted for transportation purposes:					
Motor Vehicle Tax			1,654.38		1,654.38
Gasoline Tax			465.11		465.11
Transfers Out			(20,000.00)	20,000.00	0.00
Total General Revenues			(670.82)	20,000.00	19,329.18
Change in Net Assets			8,158.89	(11,965.42)	(3,806.53)
Net Assets-beginning			62,539.82	671,282.64	733,822.46
Net Assets-ending			<u>\$ 70,698.51</u>	<u>\$ 659,317.22</u>	<u>\$ 730,015.73</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Balance Sheet – Modified Cash Basis - Governmental Funds
June 30, 2016

	General Fund	Other Governmental Funds	Totals
ASSETS			
Cash	\$ 16,166.58	\$ 6,444.07	\$ 22,610.65
LIABILITIES & FUND EQUITY			
Fund Equity:			
Unreserved	\$ 16,166.58	\$	\$ 16,166.58
Designated for a Specific Purpose	0.00	6,444.07	6,444.07
Total Liabilities & Fund Equity	\$ 16,166.58	\$ 6,444.07	\$ 22,610.65

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Reconciliation of Governmental Funds Balance Sheet - Modified Cash Basis
- to the Statement of Net Position - Modified Cash Basis
June 30, 2016

Total Fund Balances – Governmental Funds	\$ 22,610.65
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Amounts reported for governmental activities in the statement of net assets are different because:

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

	48,087.86
Net Assets of Governmental Activities	<u><u>\$ 70,698.51</u></u>

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Totals
REVENUES			
Grant	\$ 24,057.75	\$ 15,710.51	\$ 39,768.26
Taxes	<u>14,570.07</u>	<u>4,759.11</u>	<u>19,329.18</u>
Total Revenues	38,627.82	20,469.62	59,097.44
EXPENDITURES			
General Government			
Maintenance and Operation	<u>22,714.05</u>	<u>20,638.00</u>	<u>43,352.05</u>
Excess (deficit) of revenues over expenditures before before Other Revenues (Expense)	15,913.77	(168.38)	15,745.39
Other Revenues (Expenses)			
Transfer Out	<u>(20,000.00)</u>	<u>0.00</u>	<u>(20,000.00)</u>
Excess (deficit) of revenues over expenditures	(4,086.23)	(168.38)	(4,254.61)
Fund Balance - Beginning of Year	<u>20,252.81</u>	<u>6,612.45</u>	<u>26,865.26</u>
Fund Balance - End of Year	<u>\$ 16,166.58</u>	<u>\$ 6,444.07</u>	<u>\$ 22,610.65</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Reconciliation of Change in Fund Balances of Governmental Funds - Modified Cash Basis
to the Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2016

Net Change in Fund Balances – Total Governmental Funds	\$ (4,254.61)
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Amounts reported for governmental activities in the statement of activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Capital Asset Purchased	15,709.52
Depreciation expense	<u>(3,296.02)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 8,158.89</u></u>
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The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Statement of Net Position
Modified Cash Basis
Proprietary Funds-Enterprise Funds
June 30, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ <u>32,656.65</u>
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Non-current Assets:

Cash and Cash Equivalents - Restricted	1,585.22
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Capital Assets:

Property, Plant and Equipment, net of Accumulated Depreciation	<u>883,284.40</u>
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Total Non-current Assets	<u>884,869.62</u>
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Total Assets	<u>917,526.27</u>
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LIABILITIES

Current Liabilities:

Current Portion of Notes Payable	4,875.84
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Long-Term Liabilities:

Note Payable	<u>253,333.21</u>
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Total Liabilities	<u>258,209.05</u>
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NET ASSETS

Invested in capital assets, net of related debt	605,075.35
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Restricted	1,585.22
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Unrestricted	<u>52,656.65</u>
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Total Net Assets	<u>\$ 659,317.22</u>
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The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Statement of Revenues, Expenses and
Changes in Fund Net Position
Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2016

Operating Revenues:

Sewer Charges	\$ 32,657.95
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Operating Expenses:

Professional Fees	2,500.00
Repairs	16,930.07
Donations	4,370.00
Utilities	1,325.12
Depreciation	<u>30,486.53</u>
Total Operating Expenses	<u>55,611.72</u>
 Operating Income	 <u>(22,953.77)</u>

Non-Operating Revenues (Expenses):

Transfers In	20,000.00
Donations	2,010.02
Interest Expense	<u>(11,021.67)</u>
Total Non-Operating Revenues (Expenses)	<u>10,988.35</u>

Net Income (Loss)	(11,965.42)
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Total Net Assets-Beginning	<u>671,282.64</u>
Total Net Assets-Ending	<u>\$ 659,317.22</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Vera
Statement of Cash Flows
Modified Cash Basis
Proprietary Fund Type - Enterprise Fund
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 32,657.95
Payments for goods and services	<u>(25,125.19)</u>
Net Cash Provided (Used) from Operating Activities	<u>7,532.76</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Donations Received	2,010.22
Transfers In	<u>20,000.00</u>
Net Cash Provided (Used) from NonCapital Financing Activities	<u>22,010.22</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of Capital Assets	(20,000.00)
Principal Payments on Long Term Debt	(3,534.33)
Interest Paid on Long Term Debt	<u>(11,021.67)</u>
	<u>(34,556.00)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Income	<u>0.00</u>
Net cash inflow (outflow) from all activities	(5,013.02)
Cash and cash equivalents, beginning of year	<u>39,255.09</u>
Cash and cash equivalents, end of year	<u>\$ 34,242.07</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (22,953.77)
Adjustments to reconcile operating income (loss) in net assets to net cash provided by operating activities	
Depreciation/amortization	<u>30,486.53</u>
Net cash provided (used) by operating activities	<u>\$ 7,532.76</u>

The accompanying notes are an integral part of the combined financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following notes to the financial statements are an integral part of the Town's financial statements.

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

Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Vera
Blended Component Unit:	Vera Municipal Authority

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Component Unit	Brief Description/Inclusion Criteria Reporting
Vera Municipal Authority	Created to finance, develop and operate the Enterprise Fund sewer services activities.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Fund are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- A. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- B. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

GOVERNMENTAL FUNDS

General Fund. This is the Town's primary operating fund. It accounts for all financial resources of the general government , except those required to be accounted for in another fund.

PROPRIETARY FUND

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

Vera Economic Development Authority	Accounts for activities of the public trust in providing sewer services to the public.
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MAJOR AND NON-MAJOR FUNDS

Major: General fund
 Proprietary Fund: Vera Municipal Authority

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting

Measurement focus is a term used to describe “when” 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

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

- 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 net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

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

The modified cash basis of accounting differs from GAAP primarily because certain other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustments to fair value.

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

Cash and Investments

For the purpose of Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use and franchise taxes. Business-type activities report water and sewer charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost is actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-60
Building improvements	20-60
Utility system	20-60
Equipment	3-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

The Town's does not have any employees.

Employee Pension Plans

The Town does not have any employees.

Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement 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 or 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”.
- d. Assigned fund balance – amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted or committed.
- e. Nonspendable fund balance – the amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained in tact.
- f. Unassigned fund balance – the fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purpose within the general fund.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, the unreserved further split between designated. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues, Expenditures and Expenses

SALES TAX

The town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately on month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) are received by the Town in July and August have been accrued and are included under the caption “Due from other governments”.

Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

EXPENDITURES/EXPENSES

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:]

Governmental Funds – By Character: Current (further classified by function), Debt Service,
Capital Outlay
Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

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NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows:

Fund Accounting Requirements

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Municipal Authority	Trust Indenture

Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Sewer Revenue	Utility Operations

For the year ended June 30, 2016 the Town complied, in all material respects, with those revenue restrictions.

Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III A., all deposits were fully insured or collateralized.

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

- 1- Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
- 2- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
- 3- With certain limitation, negotiable certificates of deposit, prime bankers acceptance, prime commercial paper and repurchase agreements with certain limitations;
- 4- County, municipal or school Town 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 Town;
- 5- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
- 6- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2016, the Town and its public trusts complied, in all material respects, with these investment restrictions.

OTHER LONG-TERM DEBT

As required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2016, the Town incurred no such indebtedness.

Fund Equity Restrictions

DEFICIT PROHIBITION

Title 11, Section 17-211 of Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2016.

Subsequent Events

As of October 27, 2016, the date of the audit report there were no subsequent events to be disclosed.

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS
CASH AND INVESTMENTS

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

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

Capital Assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Equipment	\$ 41,585.60	\$ <u>15,709.52</u>	\$ <u>0.00</u>	\$ 57,295.12
Less accumulated depreciation for:				
Buildings and improvements	<u>5,911.24</u>	<u>3,296.02</u>	<u>0.00</u>	<u>9,207.26</u>
Governmental activity capital assets, net	<u>\$ 35,674.36</u>			<u>\$ 48,087.86</u>
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 58,520.07	\$	\$	\$ 58,520.07
Land	0.00	20,000.00		20,000.00
Sewer System	<u>985,380.94</u>			<u>985,380.94</u>
Total capital assets being depreciated	1,043,901.01	<u>\$ 20,000.00</u>	<u>\$ 0</u>	<u>1,063,901.01</u>
Less accumulated depreciation for:				
Land and Sewer System	<u>150,130.08</u>	<u>30,486.53</u>	<u>0</u>	<u>180,616.61</u>
Business-type activity capital assets, net	<u>\$ 893,770.93</u>			<u>\$ 883,284.40</u>

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Town of Vera
Notes to the Financial Statements
June 30, 2016

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS (cont.d)

Long Term Debt

Business-Type Activities

As of June 30, 2016, the long-term debt payable from proprietary fund resources consisted of the following:

A note payable due to the Rural Utilities Service in the principal amount of \$230,300. The note bears interest at 4.375% with monthly installments of \$1,039. The balance at June 30, 2016 was \$217,446.09.

The note matures as follows:

<u>Year Ended June 30</u>	<u>Principal</u>
2017	\$ 4,153.10
2018	4,338.49
2019	4,532.14
2020	4,734.45
2021	5,367.76
2022-2049	194,320.15

A note payable due to the Rural Utilities Service in the principal amount of \$43,700. The note bears interest at 3.5% with monthly installments of \$174. The balance at June 30, 2016 was \$40,762.96.

The note matures as follows:

<u>Year Ended June 30</u>	<u>Principal</u>
2017	\$ 722.74
2018	748.47
2019	775.08
2020	802.64
2021	831.19
2022-2049	36,882.84

The following is a schedule of the changes in long term debt for the current year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>	<u>Due in 1 Yea</u>
Rural Utilities Service	\$ 261,743.38	\$ -	\$ 3,534.33	\$ 258,209.05	\$ 4,875.84

Town of Vera
Schedule of Findings and Questioned Costs - Prior Year
For the Year Ended June 30, 2016

Compliance

2015-1: Compliance with USDA

The loan agreement has a requirement that the Authority make monthly debt reserve payments into a separate restricted account in an amount of 1/10 of the total monthly payments until the balance reaches \$14,556.

During the test of loan compliance the auditor noted that there has been no payments made to date to fund the required restricted debt reserve account.

Management Response:

Views of Responsible officials and planned corrective action – Management will immediately setup the required reserve account and deposit \$7,041.20 into the account for liability through June 30, 2016 and continue to make subsequent monthly payments of \$121.40 until the account balance reaches \$14,556.

Internal Control Over Financial Reporting

2015-2: Segregation of Duties

Currently, individual responsible for receiving payments of the Town and of the Town are the same individuals who post the accounting records, deposit money, pay invoices, and reconcile bank accounts.

For the fiscal year ending June 30, 2015, lack of segregation of duties is a concern. Efficient and effective separation of duties is difficult to obtain without hiring additional personnel. However, the governing body and management need to be aware of the continued risk associated with this lack of segregation of duties, and attempt to exercise maximum oversight control over possible areas of risk, such as cash receipts and cash payments.

Management Response:

Due to financial constraints, hiring additional personnel is not feasible at this time. The governing body (Board) will continue to exercise oversight to minimize risk.

2015 - 3: Financial Reporting (SAS 115)

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. We believe that the following deficiencies constitute material weaknesses:

We, as auditors, were required to prepare the Town financial statements because the Town does not have adequate resources or resources with the knowledge required to prepare the Town's financial statements in accordance with generally accepted accounting principles. Additionally, we, as auditors, were required to make year-end adjustments including: accrual for notes payable during the current year because the Town doesn't have adequate resources or resources with the knowledge required to propose and book the Town's financial transactions that are not recurring in nature. These entries are necessary, however, to be in accordance with generally accepted accounting principles.

Response:

The governing board understands the requirements of SAS No. 115 and makes efforts to comply with the reporting requirements for future audits.

2015 - 4: Calculating/Reporting depreciation (SAS 115)

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. We consider the following deficiencies to be significant deficiencies in internal control:

We, as auditors, were required to calculate and propose an adjustment for the Town's year-end depreciation. Because the adjustment was not material in the current year, the deficiency is only a significant deficiency. This is considered a financial reporting deficiency

Response:

The governing board understands the requirements of SAS No. 115 and makes efforts to comply with the reporting requirements for future audits.

Town of Vera
Schedule of Findings and Questioned Costs - Current Year
For the Year Ended June 30, 2016

Compliance

2016-1: Compliance with USDA

Criteria – The loan agreement has a requirement that the Authority make monthly debt reserve payments into a separate restricted account in an amount of 1/10 of the total monthly payments until the balance reaches \$14,556.

Condition – During the test of loan compliance the auditor noted that there has been no payments made to date to fund the required restricted debt reserve account.

Cause – The Authority is in noncompliance with the loan agreement..

Effect – The Authority does not have the necessary funds set in a restricted debt reserve account in the amount of \$8,498 as of June 30, 2016.

Recommendation – Management should immediately set up a reserve account and fund the requirement to date of \$8,498..

Views of Responsible officials and planned corrective action – Management will immediately setup the required reserve account and deposit \$8,498 into the account for liability through June 30, 2016 and continue to make subsequent monthly payments of \$121.40 until the account balance reaches \$14,556.

Internal Control Over Financial Reporting

2016-2: Segregation of Duties

Currently, individual responsible for receiving payments of the Town and of the Town are the same individuals who post the accounting records, deposit money, pay invoices, and reconcile bank accounts.

For the fiscal year ending June 30, 2015, lack of segregation of duties is a concern. Efficient and effective separation of duties is difficult to obtain without hiring additional personnel. However, the governing body and management need to be aware of the continued risk associated with this lack of segregation of duties, and attempt to exercise maximum oversight control over possible areas of risk, such as cash receipts and cash payments.

2016-3: SAS 115

Criteria – 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. I believe that the following deficiencies constitute material weaknesses:

We, as auditors, were required to prepare the Town financial statements because the Town does not have adequate resources or resources with the knowledge required to prepare the Town's financial statements in accordance with generally accepted accounting principles. Additionally, we, as auditors, was required to make year-end adjustments including: accrual for notes payable during the current year because the Town doesn't have adequate resources or resources with the knowledge required to propose and book the Town's financial transactions that are not recurring in nature. These entries are necessary, however, to be in accordance with generally accepted accounting principles.

Condition – We, as auditors, were required to prepare the Town financial statements because the Town does not have adequate resources or resources with the knowledge required to prepare the Town's financial statements in accordance with generally accepted accounting principles. Additionally, we, as auditors, were required to make year-end adjustments including: accrual for notes payable during the current year because the Town doesn't have adequate resources or resources with the knowledge required to propose and book the Town's financial transactions that are not recurring in nature. These entries are necessary, however, to be in accordance with generally accepted accounting principles.

Cause – The above procedures were required for the financial statements to be presented in accordance with generally accepted accounting principles.

Effect – Net assets were increased/decreased as a result of making the necessary adjustments.

Recommendation – Management should continuously monitor the possibilities of outsourcing the procedures necessary to make the necessary adjustments to present the financial statements in accordance with generally accepted accounting principles.

Views of Responsible officials and planned corrective action – Management will monitor the possibilities of outsourcing the procedures necessary to make the necessary adjustments to present the financial statements in accordance with generally accepted accounting principles.

C. Questioned Costs

NONE