



**THE TOWN OF DAVENPORT,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

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

**TOWN OF DAVENPORT, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

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Anne Marie Elfrink, MS, CPA

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Trustees
Town of Davenport, 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 Davenport, Oklahoma, 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 of Davenport'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 the 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davenport, Oklahoma, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 18, 2011, on my consideration of the Town of Davenport, Oklahoma's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and 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* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 10 through 14 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board,

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who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Davenport, Oklahoma's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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 underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
November 18, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF DAVENPORT, OKLAHOMA
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The management of the Town of Davenport 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

- The Town's total net assets increased by \$290,183 and the assets of the Town exceeded its liabilities at June 30, 2011, by \$3,085,596 (net assets). Of this amount, \$175,911 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the unassigned fund balance for the General Fund was \$42,295 or 19% of General Fund revenues.

ABOUT THE TOWN

The Town of Davenport is a municipality with a population of approximately 881 located in Lincoln County in central Oklahoma. The Town is governed by the Mayor and a five-member Board of Trustees and operates under Oklahoma state laws and Town ordinances.

The Town provides typical municipal services such as public safety, street and alley maintenance, and through its Utilities Authority, certain utility services including water, wastewater, and sanitation.

The Town's Financial Reporting Entity

This annual report includes all activities for which the Town of Davenport's Board of Trustees is financially accountable. These activities, defined as the Town's financial reporting entity, are operated within separate legal entities that make up the primary government.

The Town's financial reporting entity includes the following separate legal entities.

- **The Town of Davenport** – an incorporated Town established in 1906 that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the Town – *reported as part of the primary government as "governmental" activities.*
- **The Davenport Utilities Authority** – a public trust created in 1973 pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the Town – *considered part of the primary government presentation for reporting purposes; reported as "business-type" activities.*

In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the Town's Board of Trustees. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the Town's financial reporting entity. The public trusts do not issue separate annual financial statements.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town of Davenport (the “Town”) and the Davenport Utilities Authority (the “DUA”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus. 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 report the Town’s operations in more detail than the government-wide statements by providing information about the Town’s governmental funds.

Reporting the Town as a Whole

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town’s finances, in a manner similar to a private-sector business.

The Statement of Net Assets and Statement of Activities

The statement of net assets presents information on all of the Town of Davenport’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

In the Statement of Net Assets and the Statement of Activities, we divide the Town 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 water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the Town’s General Fund - Fund Financial Statements

Fund Financial Statements

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. 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

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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 Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on 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.

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 28-35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund.

THE TOWN AS A WHOLE

For the year ended June 30, 2011, net assets for the governmental and business-type activities increased \$290,183.

Net Assets			
June 30, 2011			
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Beginning net assets	\$ 450,243	\$ 2,345,170	\$ 2,795,413
Increase	49,852	240,331	290,183
Ending net assets	<u>\$ 500,095</u>	<u>\$ 2,585,501</u>	<u>\$ 3,085,596</u>

The following is a summary of net assets for the Town of Davenport as of June 30, 2011.

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.

	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Assets:			
Current and other assets	\$ 184,405	\$ 180,435	\$ 364,840
Capital assets, net	352,694	2,790,363	3,143,057
Total assets	<u>537,099</u>	<u>2,970,798</u>	<u>3,507,897</u>
Liabilities:			
Short-term liabilities	31,649	27,155	58,804
Long-term liabilities	5,355	358,142	363,497
Total liabilities	<u>37,004</u>	<u>385,297</u>	<u>422,301</u>
Net assets:			
Invested in capital assets, net	334,991	2,454,363	2,789,354
Restricted	117,900	2,431	120,331
Unrestricted	47,204	128,707	175,911
Total net assets	<u>\$ 500,095</u>	<u>\$ 2,585,501</u>	<u>\$ 3,085,596</u>

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Changes in Net Assets			
Year Ended June 30, 2011			
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 57,898	\$ 327,088	\$ 384,986
Grants	75,294	309,817	385,111
General revenues:			
Sales and use tax	126,836	-	126,836
Other taxes	42,022	-	42,022
Other general revenues	41,242	243	41,485
Total revenues	343,292	637,148	980,440
Program expenses:			
General government	140,343	-	140,343
Public safety	134,781	-	134,781
Streets and alleys	5,205	-	5,205
Cemetery	9,134	-	9,134
Water and sewer	-	342,244	342,244
Sanitation	-	55,573	55,573
Total expenses	289,463	397,817	687,280
Transfers	(1,000)	1,000	-
Gain (loss) on sale of assets	(2,977)	-	(2,977)
Increase/(decrease) net assets	49,852	240,331	290,183
Beginning net assets	450,243	2,345,170	2,795,413
Ending net assets	\$ 500,095	\$ 2,585,501	\$ 3,085,596

Governmental Activities

The increase in net assets related to governmental activities of \$49,852 is primarily attributable to the construction of a new senior center facility, funded by a capital grant.

Business-type Activities

The increase of \$240,331 for business-type activities is due to the receipt of grant funds that were used to construct a rural water system, partially offset by an operating deficit.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2011 fiscal year Governmental Funds reported total fund balances of \$165,104. For the year ended June 30, 2011, the Governmental Funds' total fund balances increased by \$3,541.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues over final budget of \$105,012 or a 57% positive variance. General Fund actual expenditures exceeded final appropriations by \$62,717 or a 34% unfavorable variance.

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CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the Town had approximately \$3.1 million in capital assets (net of accumulated depreciation), including land, building improvements, utility systems, infrastructure and equipment. Below are details regarding the Town's capital assets for the year ended June 30, 2011:

	Capital Assets		Total
	Governmental Activities	Business-type Activities	
Land	\$ 14,417	\$ 32,000	\$ 46,417
Buildings	207,685	-	207,685
Equipment	596,477	-	596,477
Utility systems and equipment	-	4,043,102	4,043,102
Infrastructure	192,886	-	192,886
Totals	1,011,465	4,075,102	5,086,567
Less accumulated depreciation	(658,771)	(1,284,739)	(1,943,510)
Totals, net	\$ 352,694	\$ 2,790,363	\$ 3,143,057

This year's capital asset additions include the following:

- The construction of a rural water system for \$750,346
- The construction of a metal senior services building for \$50,101
- Improvements to the north sewer lift station for \$48,774

Debt Administration

During the year, the Town's business-type activities received loan proceeds in the amount of \$336,000 from the USDA Rural Utilities Services for assistance in the construction of a rural water system. The loan bears an interest rate of 2.25% and is payable in monthly installments over a forty year period. The DUA plans to maintain a sufficient rate structure for its rural water customers in order to fully amortize the debt.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- In July, 2010, the Board amended the Town's ordinances to increase the sales and use tax levy from 3% to 4%, with the additional 1% earmarked for street improvements

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 P.O. Box 279, Davenport, Oklahoma, 74026-0279 or telephone at 918-377-2235.

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets – June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 180,274	\$ 148,009	\$ 328,283
Receivables, net	4,131	32,426	36,557
Capital assets:			
Land	14,417	32,000	46,417
Other capital assets, net of depreciation	338,277	2,758,363	3,096,640
Total assets	<u>537,099</u>	<u>2,970,798</u>	<u>3,507,897</u>
Liabilities:			
Accounts payable	9,690	15,197	24,887
Payroll payable	4,256	4,083	8,339
Accrued interest payable	-	4,259	4,259
Compensated absences payable	5,355	-	5,355
Meter deposits	-	25,758	25,758
Notes and leases payable:			
Due within one year	17,703	3,616	21,319
Due in more than one year	-	332,384	332,384
Total liabilities	<u>37,004</u>	<u>385,297</u>	<u>422,301</u>
Net Assets:			
Invested in capital assets, net of related debt	334,991	2,454,363	2,789,354
Restricted for:			
Streets and alleys	17,401	-	17,401
Cemetery	24,029	-	24,029
Capital improvements	76,470	-	76,470
Debt service	-	2,431	2,431
Unrestricted	47,204	128,707	175,911
Total net assets	<u>\$ 500,095</u>	<u>\$ 2,585,501</u>	<u>\$3,085,596</u>

See accompanying notes to the basic financial statements.

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Statement of Activities – Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		Total
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 140,343	\$ 1,451	\$ 53,854	\$ 1,950	\$ (83,088)	\$ -	\$ (83,088)
Public safety	134,781	48,847	12,000	4,898	(69,036)	-	(69,036)
Streets and alleys	5,205	-	-	-	(5,205)	-	(5,205)
Cemetery	9,134	7,600	-	2,592	1,058	-	\$ -
Total governmental activities	289,463	57,898	65,854	9,440	(156,271)	-	(157,329)
Business-type activities:							
Water and sewer	342,244	260,360	309,817	-	-	227,933	227,933
Sanitation	55,573	66,728	-	-	-	11,155	11,155
	397,817	327,088	309,817	-	-	239,088	239,088
Total primary government	\$ 687,280	\$ 384,986		\$ 9,440	(156,271)	239,088	81,759
General revenues:							
Taxes:							
Sales and use tax					126,836	-	126,836
Franchise and public service taxes					25,253	-	25,253
Intergovernmental revenue					16,769	-	16,769
Investment and royalty income					2,808	243	3,051
Miscellaneous					38,434	-	38,434
Total general revenues					210,100	243	210,343
Transfers					(1,000)	1,000	-
Loss on disposition of assets					(2,977)	-	-
Change in net assets					49,852	240,331	290,183
Net assets - beginning*					450,243	2,345,170	2,795,413
Net assets - ending					\$ 500,095	\$ 2,585,501	\$ 3,085,596

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet – June 30, 2011

	General Fund	Street and Alley Fund	Cemetery Fund	Capital Improvements Fund	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 57,465	\$ 17,401	\$ 28,938	\$ 76,470	\$ 180,274
Receivables	4,131	-	-	-	4,131
Total Assets	61,596	17,401	28,938	76,470	184,405
Liabilities and fund balances:					
Liabilities					
Accounts payable	9,690	-	-	-	9,690
Payroll payable	4,256	-	-	-	4,256
Compensated absences payable	5,355	-	-	-	5,355
Total liabilities	19,301	-	-	-	19,301
Fund Balances:					
Restricted	-	17,401	24,029	76,470	117,900
Unrestricted					
Committed	-	-	4,909	-	4,909
Assigned	10,756	-	-	-	10,756
Unassigned	31,539	-	-	-	31,539
Total fund balances	42,295	17,401	28,938	76,470	165,104
Total liabilities and fund balances	\$ 61,596	\$ 17,401	\$ 28,938	\$ 76,470	\$ 184,405

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances –
Year Ended June 30, 2011**

	General Fund	Street and Alley Fund	Cemetery Fund	Capital Improvements Fund	Total Governmental Funds
Revenues:					
Taxes	\$ 114,337	\$ 9,586	\$ -	\$ 28,166	\$ 152,089
Intergovernmental	8,878	7,891	-	-	16,769
Dues	7,790	-	-	-	7,790
Grant revenue	16,898	-	-	53,854	70,752
Licenses and permits	1,451	-	-	-	1,451
Cemetery sales	-	-	7,600	-	7,600
Fines and forfeitures	11,612	-	-	-	11,612
Ambulance Services	29,445	-	-	-	29,445
Royalties	2,067	-	411	-	2,478
Donations	1,950	-	2,592	-	4,542
Reimbursements	29,670	-	-	5,317	34,987
Investment income	81	-	56	193	330
Miscellaneous	2,731	-	276	440	3,447
Total Revenues	<u>226,910</u>	<u>17,477</u>	<u>10,935</u>	<u>87,970</u>	<u>343,292</u>
Expenditures:					
General government	135,744	-	-	55,507	191,251
Public safety	109,973	-	-	22,343	132,316
Streets and alleys	-	6,398	-	-	6,398
Cemetery	-	-	8,786	-	8,786
Total expenditures	<u>245,717</u>	<u>6,398</u>	<u>8,786</u>	<u>77,850</u>	<u>338,751</u>
Excess (deficit) of revenues over expenditures	(18,807)	11,079	2,149	10,120	4,541
Other financing sources (uses):					
Transfer from (to) other governmental funds	9,693	-	-	(9,693)	-
Transfer to Davenport Utility Authority	(1,000)	-	-	-	(1,000)
Total other financing sources (uses)	<u>8,693</u>	<u>-</u>	<u>-</u>	<u>(9,693)</u>	<u>(1,000)</u>
Net change in fund balance	(10,114)	11,079	2,149	427	3,541
Fund balance - beginning*	<u>52,409</u>	<u>6,322</u>	<u>26,789</u>	<u>76,043</u>	<u>161,563</u>
Fund balance - ending	<u>\$ 42,295</u>	<u>\$ 17,401</u>	<u>\$ 28,938</u>	<u>\$ 76,470</u>	<u>\$ 165,104</u>

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

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Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	\$ 165,104
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$1,011,465, net of accumulated depreciation of \$658,771 are not financial resources and, therefore, are not reported in the funds.	352,694
Capital lease obligations that are not due and payable in the current period are not reported as liabilities in the fund financial statements	(17,703)
Net assets of governmental activities	<u>\$ 500,095</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net changes in fund balances - total governmental funds	\$ 3,541
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:	
Loss on disposition of asset	(2,977)
Capital asset purchases capitalized	62,537
Depreciation expense	<u>(30,953)</u>
	<u>28,607</u>
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	17,704
Change in net assets of governmental activities	<u>\$ 49,852</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Funds Statement of Net Assets – June 30, 2011

	<u>DUA Operating</u>	<u>Rural Water</u>	<u>Davenport Utilities Authority</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 127,058	\$ 20,951	\$ 148,009
Receivables, net	32,426	-	32,426
Total noncurrent assets	159,484	20,951	180,435
Noncurrent assets:			
Capital assets, net of accumulated depreciation	2,041,696	748,667	2,790,363
Total assets	2,201,180	769,618	2,970,798
LIABILITIES			
Current liabilities:			
Accounts payable	15,197	-	15,197
Payroll payable	3,399	684	4,083
Accrued interest payable	-	4,259	4,259
Note payable, current portion	-	3,616	3,616
Total current liabilities	18,596	8,559	27,155
Noncurrent Liabilities:			
Note payable	-	332,384	332,384
Customer deposits payable	25,758	-	25,758
Total noncurrent liabilities	25,758	332,384	358,142
NET ASSETS			
Invested in capital assets, net of related debt	2,041,696	412,667	2,454,363
Restricted for debt service	-	2,431	2,431
Unrestricted	115,130	13,577	128,707
Total net assets	\$ 2,156,826	\$ 428,675	\$ 2,585,501

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets –

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Year Ended June 30, 2011

	<u>DUA Operating</u>	<u>Rural Water</u>	<u>Davenport Utilities Authority</u>
Operating revenues:			
Charges for sales and services:			
Water	\$ 189,830	\$ -	\$ 189,830
Sewer	50,844	-	50,844
Sanitation	66,728	-	66,728
Penalties and late fees	7,196	-	7,196
Miscellaneous	902	11,588	12,490
Total operating revenues	<u>315,500</u>	<u>11,588</u>	<u>327,088</u>
Operating expenses:			
Costs of sales and services:			
Personal services	104,923	684	105,607
Maintenance & Operations	90,020	6,833	96,853
Water purchases	81,771	-	81,771
Sanitation purchases	55,573	-	55,573
Depreciation	56,334	1,679	58,013
Total operating expenses	<u>388,621</u>	<u>9,196</u>	<u>397,817</u>
Operating income	<u>(73,121)</u>	<u>2,392</u>	<u>(70,729)</u>
Nonoperating revenue (expense):			
Transfer (to) from primary government	1,000	-	1,000
Transfer (to) from other DUA fund	(116,466)	116,466	-
Capital grant revenue	-	309,817	309,817
Investment income	243	-	243
	<u>(115,223)</u>	<u>426,283</u>	<u>311,060</u>
Change in net assets	<u>(188,344)</u>	<u>428,675</u>	<u>240,331</u>
Net assets - beginning*	2,345,170	-	2,345,170
Net assets - ending	<u>\$ 2,156,826</u>	<u>\$ 428,675</u>	<u>\$ 2,585,501</u>

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows – Year Ended June 30, 2011

	Davenport Utilities Authority
Cash flows from operating activities:	
Receipts from customers	\$ 295,567
Payments to suppliers	(219,000)
Payments to employees	(101,524)
Net cash provided by (used in) operating activities	(24,957)
Cash flows from noncapital financial activities:	
Transfers from other funds	1,000
Net cash flows from noncapital financial activities	1,000
Cash flows from capital and related financial activities:	
Acquisition and construction of capital assets	(812,020)
Capital grant receipts	309,817
Proceeds from capital debt	336,000
Accrued interest on capital debt	4,259
Investment income	243
Net cash provided by (used in) capital and related financing activities	(161,701)
Net increase (decrease) in cash and cash equivalents	(185,658)
Cash and equivalents - beginning of year	333,667
Cash and equivalents - end of year	\$ 148,009
Reconciliation to State of Net Assets:	
Operating income (loss)	(70,729)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Decrease (increase) in receivables	(32,426)
Increase (decrease) in accounts payable	15,197
Increase (decrease) in payroll liabilities	4,083
Increase (decrease) in meter deposit liability	905
Depreciation expense	58,013
Net cash provided by (used in) operating activities	\$ (24,957)

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town's financial reporting entity includes two separate legal entities reported as the primary government as follows:

- **The Town of Davenport** – operates the public safety, streets, and administrative activities of the Town. The Town is governed under the statutory town board of trustees form of government.
- **The Davenport Public Works Authority (DUA)** – a trust that operates the water, wastewater, and sanitation services of the Town. The Town of Davenport is the beneficiary of DUA. The Town's trustees also serve as trustees for the DUA.

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 for which the Town is financially accountable.

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

As required by state law, all debt obligations incurred by the above trust must be approved by two-thirds vote of the Town's Board of Trustees. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the Town's financial reporting entity. The public trust does not issue separate annual financial statements.

B. Basis of Presentation and Accounting

Government-Wide 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: License and permits and operating grants
- Public safety: Fine revenue, fire runs, rural fire policies, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (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:

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The Town accounts for all governmental activities through the following governmental funds.

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Street and Alley Fund – accounts for State shared gasoline excise and commercial vehicle taxes legally and the 1% sales tax restricted for street and alley purposes
- Cemetery Fund – accounts for all cemetery operation and maintenance activities, including the 12.5 percent of cemetery revenues restricted by State law for cemetery purposes
- Capital Improvements Fund – accounts for the 1% sales tax levied by the citizens for purposes of capital acquisitions and emergencies as declared by the Board of Trustees

The operating statements present sources and uses of available spendable financial resources during a given period. The fund financial statements use fund balance as its measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund 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 accounts for all proprietary activities through the Davenport Utilities Authority fund. 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.

The governmental funds are legally required to adopt annual budgets or appropriations. The public trust (DUA) is not required to adopt legal annual appropriations. While the trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

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

D. Receivables and Payables

Governmental receivables include taxes and ambulance service fees earned but not received by the end of the fiscal year. In the business-type funds, receivables include utility services provided and billed for which cash payment has not been received as of the end of the fiscal year, less an allowance for uncollectible accounts.

D. Capital Assets and Depreciation

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.

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Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Prior to July 1, 2009, the Town did not maintain capital asset records. In the year prior to July 1, 2009, the Town underwent a detailed inventory and analysis of the condition of its capital assets and adopted a policy for capitalization of its assets. The remaining useful lives, combined with the estimated useful life for each asset classification were used to determine an estimated effective age. The current replacement value was discounted to the estimated effective date using the Consumer Price Index (CPI). Assets acquired after July 1, 2009 have been recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives with no salvage value. The estimated useful lives by type of asset are as follows:

- Buildings 60 years
- Machinery, furniture and equipment 10-20 years
- Utility property and improvements 60 years
- Infrastructure 60 years

E. Long-Term Debt

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 to be repaid from governmental and business-type resources is 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

It is the government's policy to permit employees to accumulate earned but unused vacation, personal leave, and sick pay benefits. All leave entitlements are accrued when incurred in the government-wide, government fund and proprietary statements.

G. Fund Balances and Net Assets

Fund Balances:

Fund balances generally reported in the governmental funds financial statements are displayed in the following components:

- a. *Nonspendable* – amounts that cannot be spend due to form; for example, inventories and prepaid amounts
- b. *Restricted* – amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation
- c. *Unrestricted* – further subdivided as follows:
 - a. *Committed* – amounts constrained for a specific purpose by the Town's Board of Trustees
 - b. *Assigned* – residual amounts for any funds other than the general fund; in the general fund, amounts constrained by the Board for a specific purpose
 - c. *Unassigned* – in the general fund, residual amounts not classified in another classification; for all other funds, only residual deficit amounts

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It is the Town's policy to use restricted assets first when they are available for expenditure. When restricted assets are not available, unrestricted assets are used in the following order: committed, assigned, and then unassigned amounts.

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."

H. Internal and Interfund Balances and Transfers

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 \$573 of investment income. Due to the minimal rates of return on allowable investments in the current environment, 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:

<u>Type</u>	<u>Financial</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Institution</u>	<u>Funds</u>	<u>Funds</u>	
Demand deposits	Spirit Bank	\$ 154,577	\$ 148,009	\$ 302,586
	CFOCU	1,668	-	1,668
Time deposits	Spirit Bank	24,029	-	24,029
Total		<u>\$ 180,274</u>	<u>\$ 148,009</u>	<u>\$ 328,283</u>

Custodial 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 a counterparty or a counterparty's trust, department or agent, but not in the government's name. At June 30, 2011, all of the Town's deposits were either insured or collateralized

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Investment Interest Rate Risk - the Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 did not hold any securities with credit ratings since they are all non-negotiable time or demand deposits.

Concentration of Investment Credit Risk - the Town places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments – The Town's DUA maintained restricted cash balances for debt service in the amount of \$2,431 at June 30, 2011.

3. Capital Assets and Depreciation

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

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2011</u>
Governmental:				
Capital assets not being depreciated:	\$ 14,417	-	-	\$ 14,417
Land	14,417	-	-	14,417
Capital assets being depreciated:				
Building	157,584	50,101	-	207,685
Infrastructure	189,356	3,530	-	192,886
Equipment	659,784	11,693	75,000	596,477
Total capital assets being depreciated	1,006,724	65,324	75,000	997,048
Less accumulated depreciation:				
Building	27,034	3,049	-	30,083
Infrastructure	185,610	2,336	12,110	175,836
Equipment	484,410	25,568	57,126	452,852
Total accumulated depreciation	697,054	30,953	69,236	658,771
Governmental, net capital assets	<u>\$ 324,087</u>	<u>34,371</u>	<u>5,764</u>	<u>\$ 352,694</u>
Business-type				
Capital assets not being depreciated:	\$ 32,000			\$ 32,000
Land	32,000	-	-	32,000
Capital assets being depreciated:				
Sewer system and equipment	2,647,480	48,774	-	2,696,254
Water system and equipment	430,502	756,346	-	1,186,848
Unallocated equipment	153,100	6,900	-	160,000

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Total capital assets being depreciated	3,231,082	812,020	-	4,043,102
Less accumulated depreciation				
Sewer system and equipment	952,615	43,500	-	996,115
Water system and equipment	198,128	6,913	-	205,041
Unallocated equipment	75,983	7,600	-	83,583
Total accumulated depreciation	1,226,726	58,013	-	1,284,739
Business-type, net capital assets	<u>\$ 2,036,356</u>	<u>754,007</u>	<u>-</u>	<u>\$ 2,790,363</u>

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

Governmental activities:		Business-type activities:	
General government	\$ 4,600	Sewer	\$ 43,500
Public safety	23,669	Water	6,913
Streets and alleys	2,336	Unallocated	7,600
Cemetery	348		
Total depreciation	<u>\$ 30,953</u>	Total depreciation	<u>\$ 58,013</u>

4. Lease Purchase Obligations

The Town has entered into lease purchase agreements as lessee for financing the acquisition of equipment. The lease purchase agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments.

Year ended <u>June 30,</u>	<u>Governmental Activities Principal</u>
2012	19,556
Less: Amount representing interest	(1,853)
Present value of minimum lease payments	<u>\$ 17,703</u>

5. Long-Term Debt

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

	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2011</u>	Amount Due <u>Within One Year</u>
Business-type:					
Note payable	-	336,000	-	336,000	3,616

At June 30, 2011 the Town had the following debt outstanding to be repaid from business-type activities:

USDA Rural Development loan, dated October 22, 2010, in the amount of \$336,000 with a fixed interest rate of 2.25%, payable in monthly installments of \$1,079 beginning November 22, 2011 and a final payment due October 22, 2050.

Payment Requirements to Maturity:

Year ended	<u>Business-type Activities</u>
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<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,616	\$ 5,016
2013	5,527	7,422
2014	5,653	7,296
2015	5,781	7,168
2016	5,913	7,036
2017 to 2021	31,641	33,103
2022 to 2026	35,405	29,339
2027 to 2031	39,617	25,128
2032 to 2036	44,329	20,415
2037 to 2041	49,602	15,142
2042 to 2046	55,503	9,242
2047 to 2056	53,413	2,697
	<u>\$ 336,000</u>	<u>\$ 169,004</u>

6. Risk Management

The Town and its public trust are 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. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The Town participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

The OMAG Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. A plan year normally begins at 12:01 am on July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The Town has entered into an agreement with the Plan to participate in the coverage and services that the Plan offers. The Town has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the Town is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The Town has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

The Group holds funds in reserve for the Town of Davenport. These funds represent both current and past plan year participation with the Loss Fund balances in respect to the Town's worker's compensation retention. CompSource Oklahoma provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma

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to honor its obligations could result in losses to the Plan. However, OMAG's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.

7. Employee Retirement Plan Participation

The Town of Davenport does not provide retirement benefits to its employees, but contributes an amount as required by State law to the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of volunteer firefighters. 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 fulltime or volunteer firefighters. For 2011, the Town's annual required contribution was \$1,140 for the OFPRS plan which was equal to the Town's actual contribution.

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 City, OK 73105-3414

8. Commitments and Contingencies

Compensated Absences:

Full time permanent employees are awarded paid vacation leave at the rate of one week per year after one year of service, two weeks per year after two years of service, and three weeks per year after seven years of service. Unused vacation time expires one year after the award. Personal leave is paid at the rate of 12 hours per month for police officers and 8 hours per month for other employees and may be accumulated up to 120 hours. Each employee accrues 48 hours of sick leave per year which may be accumulated up to 120 hours. Upon termination, employees are paid for unused vacation time but forfeit any unused personal or sick leave balances. At June 30, 2011 the provision for compensated absences in the governmental funds was \$5,355.

Litigation:

From time to time, the Town and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. In March of 2009 a lawsuit was filed by a contractor against the Town for breach of contract related to debris removal following an ice storm in 2007 which was settled and paid in the amount of \$15,000 during the year ended June 30, 2011. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the Town. (This provision is not available to public trusts.) The Town also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:

The Town of Davenport participates in various federal or state grant/loan programs from year to year. 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.

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REQUIRED SUPPLEMENTAL INFORMATION

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Budgetary Comparison Statements (Modified Cash Basis) – Year Ended June 30, 2011 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Beginning budgetary fund balance	\$ 56,965	\$ 56,965	\$ 52,409	\$ (4,556)
Resources (inflows)				
Taxes	84,150	84,150	113,235	29,085
Intergovernmental	7,650	7,650	8,878	1,228
Fines and forfeitures	10,800	10,800	11,612	812
Licenses and permits	-	-	1,451	1,451
Dues	-	-	7,790	7,790
Grant revenue	-	-	16,898	16,898
Mediclaims ambulance service	18,000	18,000	26,417	8,417
Royalties	5,400	5,400	2,067	(3,333)
Investment income	45	45	81	36
Miscellaneous	990	990	4,681	3,691
Reimbursements	-	-	29,670	29,670
Transfers from other funds	-	-	9,693	9,693
Total resources (inflows)	127,035	127,035	232,473	105,438
Amounts available for appropriation	184,000	184,000	284,882	100,882
Charges to appropriations (outflows):				
General and streets	105,000	105,000	126,116	(21,116)
Public safety	79,000	79,000	100,300	(21,300)
Transfers to other funds	-	-	1,000	(1,000)
Total charges to appropriations	184,000	184,000	227,416	(43,416)
Ending budgetary fund balance	\$ -	\$ -	\$ 57,466	\$ 57,466

Reconciliation to General Fund Balance at 6/30/2011:

Revenue earned at 6/30/2011 but not received:	
Sales and use tax	\$ 1,102
Mediclaims ambulance service	3,028
Amounts due for goods and services received but not paid at 6/30/2011:	
General and streets	(9,628)
Public safety	(9,673)
General fund balance - governmental funds balance sheet	\$ 42,295

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the modified cash basis as governmental funds whereas the fund financial statements are reported on an accrual basis.
2. The legal level of appropriation control is at the fund level. Transfer appropriations require the Mayor's approval and supplemental appropriations require the Board of Trustee's approval.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND
COMPLIANCE**

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Anne Marie Elfrink, MS, CPA

Certified Public Accountant

3119 E 87th Street
Tulsa, Oklahoma 74137

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

Honorable Mayor and Board of Trustees
Town of Davenport, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davenport, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Davenport, Oklahoma's basic financial statements and have issued my report thereon dated November 18, 2011. 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 Davenport, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Davenport, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Davenport, 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 Davenport's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of

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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*.

I noted certain matters that I reported to the management of the Town of Davenport, Oklahoma in a separate letter dated November 18, 2011.

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
November 18, 2011

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Tulsa, Oklahoma 74137

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Board of Trustees
Town of Davenport, Oklahoma

Compliance

I have audited the Town of Davenport, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Davenport, Oklahoma's major federal programs for the year ended June 30, 2011. The Town of Davenport, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Davenport, Oklahoma's management. My responsibility is to express an opinion on the Town of Davenport, Oklahoma's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Davenport, Oklahoma's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Town of Davenport, Oklahoma's compliance with those requirements.

In my opinion, the Town of Davenport, Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Town of Davenport, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, I considered the Town

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of Davenport, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town of Davenport, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Town's Board of Trustees, others within the entity, 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.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
November 18, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses? *No*
- Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major programs:

- Material weaknesses identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses? *No*

Type of auditor’s report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? *No*

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
<i>10.76</i>	<i>Water and Waste Disposal Systems for Rural Communities</i>

Dollar threshold used to distinguish between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee? *No*

Note: The Town has not prepared a Summary Schedule of Prior Audit Findings and Corrective Action Plan as it did not undergo a single audit (Circular A-133) in the prior year.

Section II – Financial Statement Finding

No findings

Section III – Federal Award Findings and Questioned Costs

No findings

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Schedule of Expenditures of Federal Awards – For the Year Ended June 30, 2011

Federal Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Water and Waste Disposal Systems for Rural Communities				
Direct loan program	10.760		\$ 336,000	\$ 336,000
Rural development grant program	10.760		244,300	234,817
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Passed through the Oklahoma State District Attorney's Council</i>				
Recovery Act - Edward Byrne Memorial Justice Assistance Grant	16.803	JR09-051	5,317	5,317
Total Federal Awards			<u>\$ 585,617</u>	<u>\$ 576,134</u>

Note 1. Basis of Presentation

This schedule includes the federal grant activity of the Town of Davenport, Oklahoma under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Town of Davenport, Oklahoma, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Davenport, Oklahoma.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified cash basis of accounting which may be different from other information contained in the Town's financial statements.