

THE TOWN OF DEWAR, OKLAHOMA

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

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

TOWN OF DEWAR, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Board of the
Town of Dewar, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dewar, Oklahoma (the "Town"), as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the Town prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, and each major fund of the Town of Dewar, Oklahoma, as of December 31, 2011, and the respective changes in financial position and cash flows – modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012 on our consideration of the Town of Dewar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the Table of Contents 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, 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The financial information presented as supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Edmond, Oklahoma
December 28, 2012

TOWN OF DEWAR, OKLAHOMA
Other Information - Management's Discussion and Analysis
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OTHER INFORMATION – MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF DEWAR, OKLAHOMA
Other Information - Management's Discussion and Analysis
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The management of the Town of Dewar 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 December 31, 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 \$97,214 and the assets of the Town exceed its liabilities at December 31, 2011, by \$870,806 (net assets).
- At December 31, 2011, the Town's governmental funds reported combined ending fund balances of \$65,213.
- At the end of calendar year 2011, unassigned fund balance for the General Fund was \$(27,072) or -10% of General Fund net revenues.

ABOUT THE TOWN

The Town of Dewar is a statutory town form of government with a population of 919 located in Okmulgee County in east central Oklahoma. The Town is governed by a five-member Board and operates under state law and Town ordinances through the three branches of democratic government:

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

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

The Town's Financial Reporting Entity

This annual report includes all activities for which the Town Board is fiscally responsible. These activities, defined as the Town's financial reporting entity, are operated within separate legal entities.

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

- **The Town of Dewar (primary government)** – that operates the public safety, parks and recreation, streets and highways, economic and community development, and administrative activities.
- **The Dewar Public Works Authority** – that operates the water, sewer, and sanitation services of the Town through a public trust of which the Town is beneficiary. The Town Board serves as

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trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the Town Board.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town of Dewar (the "Town") and the Dewar Public Works Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

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

Reporting the Town as a Whole

The Statement of Net Assets and Statement of Activities

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

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 Most Significant Funds - Fund Financial Statements

Fund Financial Statements

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-35 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, Street and Alley Fund, and the Dedicated Sales Tax Fund.

THE TOWN AS A WHOLE

For the year ended December 31, 2011, net assets for the governmental and business-type activities increased \$97,214. The results indicate the Town, as a whole, improved its financial condition from the prior year.

The Town of Dewar's Net Assets

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 538,005	\$ 235,587	\$ 773,592
Increase/(Decrease)	(26,527)	123,741	97,214
Ending net assets	\$ 511,478	\$ 359,328	\$ 870,806

The following is a summary comparison of change in net assets from last year for the Town of Dewar.

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	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 104,934	\$ 115,354	\$ 73,425	\$ 112,363	\$ 178,359	\$ 227,717
Capital assets, net	536,702	520,330	724,096	582,820	1,260,798	1,103,150
Total assets	641,636	635,684	797,521	695,183	1,439,157	1,330,867
Liabilities:						
Long-term liabilities	80,893	96,769	437,949	459,243	518,842	556,012
Other liabilities	49,265	910	244	353	49,509	1,263
Total liabilities	130,158	97,679	438,193	459,596	568,351	557,275
Net assets:						
Invested in capital assets, net	446,265	423,561	311,658	151,116	757,923	574,677
Restricted	92,285	107,740	53,019	52,542	145,304	160,282
Unrestricted	(27,072)	6,704	(5,349)	31,929	(32,421)	38,633
Total net assets	\$ 511,478	\$ 538,005	\$ 359,328	\$ 235,587	\$ 870,806	\$ 773,592

The largest portion of the Town's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to \$757,923.

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

A portion of the Town's net assets, \$145,304, represents resources that are subject to external restrictions on how they may be used.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for Services	\$ 61,445	\$ 57,170	\$ 320,581	\$ 317,478	\$ 382,026	\$ 374,648
Grants & Contributions	11,722	33,465	-	-	11,722	33,465
Capital Grants & Contributions	33,071	15,082	188,655	51,611	221,726	66,693
General Revenues:						
Sales and Use Taxes	107,349	111,975	-	-	107,349	111,975
Other Taxes	18,678	18,937	-	-	18,678	18,937
Other General Revenues	79,552	46,807	758	1,011	80,310	47,818
Total Revenues	311,817	283,436	509,994	370,100	821,811	653,536
Program Expenses:						
General Government	191,349	141,326	-	-	191,349	141,326
Public Safety	147,529	131,392	-	-	147,529	131,392
Highways and Streets	10,507	9,814	-	-	10,507	9,814
Water	-	-	199,045	188,417	199,045	188,417
Sewer	-	-	102,438	113,753	102,438	113,753
Sanitation	-	-	68,493	92,638	68,493	92,638
Interest on long-term debt	5,236	5,037	-	-	5,236	5,037
Total Expenses	354,621	287,569	369,976	394,808	724,597	682,377
Excess (Deficiency)	(42,804)	(4,133)	140,018	(24,708)	97,214	(28,841)
Net Transfers	16,277	4,000	(16,277)	(4,000)	-	-
Increase/(Decrease) Net Assets	\$ (26,527)	\$ (133)	\$ 123,741	\$ (28,708)	\$ 97,214	\$ (28,841)

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Governmental Activities

The Town's governmental activities' decrease in net assets of \$26,527 represents a 5% negative decrease. Net assets remained relatively consistent with the prior year.

Business-type Activities

The business-type activities' had an increase in net assets of \$123,741 or a 53% increase. This increase is due to the Dewar Public Works Authority receiving a \$188,655 grant in the current year. The decrease in net assets in the prior year was 11%.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2011 calendar year, the governmental funds reported an unassigned fund balance of \$(27,072), or a 504% decrease from the prior year. This decrease was due to

Other fund highlights include:

- For the year ended December 31, 2011, the General Fund's total fund balance decreased by \$30,114 or 449%.

General Fund Budgetary Highlights

For the year ended December 31, 2011, the General Fund reported actual budgetary basis revenues above final estimates by \$99,038 or a 39% positive variance. General Fund actual expenditures were above final appropriations by \$130,794 or a 52% negative variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2011, the Town had approximately \$1.26 million invested in capital assets (net of accumulated depreciation) including land, buildings, machinery and equipment, and park facilities. This represents a net increase of \$101,694 from last year.

Below are details regarding the change in the Town's capital assets for the year ended December 31, 2011.¹

¹ For more detailed information on capital asset activity please refer to pages 28-30, Note 4. Capital Assets and Depreciation

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The Town of Dewar's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 38,263	\$ 20,000	\$ 9,500	\$ 9,500	\$ 47,763	\$ 29,500
Buildings and Improvements	397,234	384,274	5,700	5,700	402,934	389,974
Machinery and Equipment	646,705	628,840	152,535	133,092	799,240	735,974
Improvements other than buildings	6,383	6,383	-	-	6,383	6,383
Infrastructure	44,469	44,469	-	-	44,469	44,469
Utility Systems	-	-	1,732,827	1,732,827	1,732,827	1,725,062
Construction-in-progress	-	-	231,602	43,500	231,602	3,500
Totals	1,133,054	1,083,966	2,132,164	1,924,619	3,265,218	2,934,862
Less Accumulated Depreciation	(596,352)	(563,636)	(1,408,068)	(1,341,799)	(2,004,420)	(1,775,758)
Totals, Net	\$ 536,702	\$ 520,330	\$ 724,096	\$ 582,820	\$ 1,260,798	\$ 1,159,104

This year's more significant capital asset additions include the following:

- The construction in progress of the wastewater treatment project.

Debt Administration

At year-end, the City had \$528,386 in long-term debt outstanding, which represents a \$27,626 decrease from the prior year.

The Town of Dewar's Long-term Debt

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Note payable	\$ 21,566	\$ 20,701	\$ 412,438	\$ 431,704	\$ 434,004	\$ 452,405
Capital lease payable	68,871	76,068	-	-	68,871	76,068
Deposits subject to refund	-	-	25,511	27,539	25,511	27,539
Totals	\$ 90,437	\$ 96,769	\$ 437,949	\$ 459,243	\$ 528,386	\$ 556,012

During the year ended December 31, 2011 the Town received note proceeds used to finance the repair of the foundation of the community center.²

² For more detailed information on long-term debt activity please refer to pages 30-32, Note 5. Long-Term Debt and Debt Service Requirements.

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ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The 2012 budget is consistent to prior years.

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 7, Dewar, Oklahoma 74431 or telephone at 918-652-4042.

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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets (Modified Cash Basis)– December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 73,099	\$ 88,903	\$ 162,002
Deposits with insurance pool	11,720	-	11,720
Investments	-	4,637	4,637
Internal balances	20,115	(20,115)	-
Capital assets:			
Land and construction in progress	38,263	241,102	279,365
Other capital assets, net of depreciation	498,439	482,994	981,433
Total Assets	<u>641,636</u>	<u>797,521</u>	<u>1,439,157</u>
LIABILITIES			
Cash overdraft	17,701	-	17,701
Payroll withholdings liabilities	20,875	-	20,875
Due to other governments	1,145	-	1,145
Short-term notes payable	9,544	-	9,544
Other payables	-	244	244
Long-term liabilities:			
Due within one year	11,235	25,219	36,454
Due in more than one year	69,658	412,730	482,388
Total Liabilities	<u>130,158</u>	<u>438,193</u>	<u>568,351</u>
NET ASSETS			
Invested in capital assets, net of related debt	446,265	311,658	757,923
Restricted for debt service	-	53,019	53,019
Restricted for other purposes	92,285	-	92,285
Unrestricted	(27,072)	(5,349)	(32,421)
Total Net Assets	<u>\$ 511,478</u>	<u>\$ 359,328</u>	<u>\$ 870,806</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis)– Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 191,349	\$ 310	\$ -	\$ 33,071	\$ (157,968)	\$ -	\$ (157,968)
Public safety	147,529	61,135	4,413	-	(81,981)	-	(81,981)
Streets and highways	10,507	-	7,309	-	(3,198)	-	(3,198)
Interest on long-term debt	5,236	-	-	-	(5,236)	-	(5,236)
Total governmental activities	354,621	61,445	11,722	33,071	(248,383)	-	(248,383)
Business-type activities:							
Water	199,045	187,514	-	50,801	-	39,270	39,270
Sewer	102,438	63,515	-	137,854	-	98,931	98,931
Sanitation	68,493	69,552	-	-	-	1,059	1,059
Total business-type activities	369,976	320,581	-	188,655	-	139,260	139,260
Total primary government	\$ 724,597	\$ 382,026	\$ 11,722	\$ 221,726	\$ (248,383)	\$ 139,260	\$ (109,123)
General revenues:							
Taxes:							
Sales and use taxes					107,349	-	107,349
Franchise and public service taxes					18,678	-	18,678
Intergovernmental revenue not restricted to specific programs					6,704	-	6,704
Investment income					287	758	1,045
Miscellaneous					72,561	-	72,561
Transfers - internal activity					16,277	(16,277)	-
Total general revenues and transfers					221,856	(15,519)	206,337
Change in net assets					(26,527)	123,741	97,214
Net assets - beginning					538,005	235,587	773,592
Net assets - ending					\$ 511,478	\$ 359,328	\$ 870,806

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 (Modified Cash Basis) – December 31, 2011

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Dedicated Sales Tax Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 43,033	\$ 30,066	\$ 73,099
Deposits with insurance pool	11,720	-	-	11,720
Due from other funds	20,115	-	15,524	35,639
Total Assets	<u>\$ 31,835</u>	<u>\$ 43,033</u>	<u>\$ 45,590</u>	<u>\$ 120,458</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	\$ 17,701	\$ -	\$ -	\$ 17,701
Due to other governments	1,145	-	-	1,145
Due to other funds	15,524	-	-	15,524
Payroll withholding liabilities	20,875	-	-	20,875
Total Liabilities	<u>55,245</u>	<u>-</u>	<u>-</u>	<u>55,245</u>
Fund Balances:				
Restricted	\$ 3,662	\$ 43,033	\$ 45,590	\$ 92,285
Unassigned	(27,072)	-	-	(27,072)
Total Fund Balances	<u>(23,410)</u>	<u>43,033</u>	<u>45,590</u>	<u>65,213</u>
Total Liabilities and Fund Balances	<u>\$ 31,835</u>	<u>\$ 43,033</u>	<u>\$ 45,590</u>	<u>\$ 120,458</u>

See accompanying notes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended December 31, 2011

	General Fund	Street & Alley Fund	Dedicated Sales Tax Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 99,733	\$ -	\$ 26,294	\$ 126,027
Intergovernmental	44,188	7,309	-	51,497
Charges for services	450	-	-	450
Fines and forfeitures	60,685	-	-	60,685
Licenses and permits	310	-	-	310
Investment income	287	-	-	287
Miscellaneous	72,561	-	-	72,561
Total Revenues	278,214	7,309	26,294	311,817
Expenditures:				
Current:				
General government	176,912	-	-	176,912
Public Safety:				
Police	75,124	-	-	75,124
Fire	23,021	-	3,101	26,122
Streets	-	1,943	5,379	7,322
Capital outlay	58,915	-	10,853	69,768
Debt service:				
Principal retirement	31,421	-	7,197	38,618
Interest	1,327	-	3,908	5,235
Total Expenditures	366,720	1,943	30,438	399,101
Other Financing Sources (Uses):				
Note proceeds	32,286	-	-	32,286
Operating transfers in	40,338	-	-	40,338
Operating transfers out	(14,232)	(20,338)	-	(34,570)
Net change in fund balances	(30,114)	(14,972)	(4,144)	(49,230)
Fund balances - beginning	6,704	58,005	49,734	114,443
Fund balances - ending	\$ (23,410)	\$ 43,033	\$ 45,590	\$ 65,213

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	\$ 65,213
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$1,133,054, net of accumulated depreciation of \$596,352 are not financial resources and, therefore, are not reported in the funds.	536,702
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Capital lease payable	(68,871)
Notes payable	(21,566)
	(90,437)
Net assets of governmental activities	\$ 511,478

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds	\$ (49,230)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	76,631
Depreciation expense	(52,820)
Loss on sale of asset	(7,440)
	16,371
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital note proceeds	(32,286)
Note payable principal payments	38,618
	6,332
Change in net assets of governmental activities	\$ (26,527)

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

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Proprietary Fund Statement of Net Assets (Modified Cash Basis) – December 31, 2011

	Public Works Authority Enterprise Fund
	Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 10,373
Restricted cash and cash equivalents	5,102
Investments	4,637
Total current assets	20,112
Noncurrent assets:	
Restricted cash and cash equivalents	73,428
Land and construction-in-progress	241,102
Other capital assets, net of accumulated depreciation	482,994
Total noncurrent assets	797,524
Total Assets	817,636
LIABILITIES:	
Current Liabilities:	
Due to other funds	20,115
Other payable	244
Deposits subject to refund, current portion	5,102
Notes payable	20,117
Total current liabilities	45,578
Noncurrent Liabilities:	
Deposits subject to refund, net of current portion	20,409
Notes payable	392,321
Total noncurrent liabilities	412,730
Total Liabilities	458,308
NET ASSETS	
Invested in capital assets, net of related debt	311,658
Restricted for debt service	53,019
Unrestricted	(5,349)
Total net assets	\$ 359,328

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended December 31, 2011

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 180,237
Sewer	61,052
Sanitation	66,853
Water and sewer taps	900
Penalties	5,271
Miscellaneous	6,267
	320,580
Operating Expenses	
Water	165,541
Sewer	49,963
Sanitation	68,493
Depreciation	66,269
	350,266
Total Operating Expenses	350,266
Operating Income (Loss)	(29,686)
Non-Operating Revenues (Expenses):	
Investment income	758
Interest expense	(19,710)
	(18,952)
Total Non-Operating Revenues (Expenses)	(18,952)
Net Income Before Capital Contributions and Transfers	(48,638)
Contributed capital	188,655
Transfers in	14,232
Transfers out	(30,508)
	123,741
Change in net assets	123,741
Total net assets - beginning	235,587
Total net assets - ending	\$ 359,328

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended December 31, 2011

	Public Works Authority Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 320,580
Payments to vendors	(213,810)
Payments to employees	(70,296)
Receipts of customer utility deposits	7,575
Customer utility deposits refunded or applied	(9,603)
Interfund receipts/payments	13,153
Net Cash Provided by (Used in) Operating Activities	47,599
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in	14,232
Transfers out	(30,508)
Net Cash Provided by (Used in) Noncapital financing activities	(16,276)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grant receipts	188,655
Purchases of capital assets	(207,545)
Principal paid on capital debt	(19,266)
Interest paid on capital debt	(19,710)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(57,866)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	19,951
Investment income	758
Net Cash Provided by (Used in) Investing Activities	20,709
Net Increase (Decrease) in Cash and Cash Equivalents	(5,834)
Balance - beginning of the year	94,737
Balance - end of the year	\$ 88,903
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 10,373
Current restricted cash and cash equivalents	5,102
Noncurrent restricted cash and cash equivalents	73,428
Total cash and cash equivalents	\$ 88,903
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (29,686)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	66,269
Change in assets and liabilities:	
Other payable	(109)
Interfund receipts/payments	13,153
Deposits subject to refund	(2,028)
Net cash provided by operating activities	\$ 47,599

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

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1. Financial Reporting Entity

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

- **The Town of Dewar** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, and administrative activities.
- **The Dewar Public Works Authority** – that operates the water, sewer, and sanitation services of the Town through a public trust of which the Town is the beneficiary. The Town Board serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the Town Board.

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

2. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

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

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

- General government: License and permits, rents and royalties, fire subscriptions, and capital grants
- Public safety: Fine revenue 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:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Street and Alley Fund – a special revenue fund that accounts for state shared gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements
- Dedicated Sales Tax Fund – a special revenue fund that accounts for one cent of sales tax restricted by the voters for fire equipment and street maintenance and improvements

The Town reports all of its governmental funds as major funds.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities. The compensated absence obligation at December 31, 2011, is \$1,871.

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3. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts.

Investments consist of long-term certificates of deposits and are reported at cost.

For the year ended December 31, 2011, the Town recognized \$1,045 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

Primary Government:

At December 31, 2011, the primary government held the following deposits and investments:

	Maturities	Carrying Value
Deposits:		
Demand deposits	n/a	\$ 162,002
Time deposits	4/6/2012	4,637
		\$ 166,639
 Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 162,002
Investments		4,637
		\$ 166,639

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

As of December 31, 2011, the Town was not exposed to custodial credit risk as defined above.

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

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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 December 31, 2011, the Town did not hold any securities with credit ratings since they are all non-negotiable time 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 amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service, debt reserve, or utility deposit purposes. The restricted assets as of December 31, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>	<u>Noncurrent Cash and Cash Equivalents</u>	<u>Total</u>
Utility Deposits	\$ 5,102	\$ 20,409	\$ 25,511
Reserve Account RDA	-	53,019	53,019
Total Restricted Assets	<u>\$ 5,102</u>	<u>\$ 73,428</u>	<u>\$ 78,530</u>

4. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, improvements other than buildings, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1998. Prior to July 1, 2001, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2001 are recorded at cost.

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For the year ended December 31, 2011, capital assets balances changed as follows:

	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ 18,263	\$ -	\$ 38,263
Total capital assets not being depreciated	20,000	18,263	-	38,263
Other capital assets:				
Buildings	384,274	12,960	-	397,234
Machinery and equipment	628,840	45,409	27,544	646,705
Improvements other than buildings	6,383	-	-	6,383
Infrastructure	44,469	-	-	44,469
Total other capital assets at historical cost	1,063,966	58,369	27,544	1,094,791
Less accumulated depreciation for:				
Buildings	242,437	6,430	-	248,867
Machinery and Equipment	298,436	43,567	20,104	321,899
Improvements other than buildings	2,339	638	-	2,977
Infrastructure	20,424	2,185	-	22,609
Total accumulated depreciation	563,636	52,820	20,104	596,352
Other capital assets, net	500,330	5,549	7,440	498,439
Governmental activities capital assets, net	\$ 520,330	\$ 23,812	\$ 7,440	\$ 536,702
	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 9,500	\$ -	\$ -	\$ 9,500
Construction in progress	43,500	188,102	-	231,602
Total capital assets not being depreciated	53,000	188,102	-	241,102
Other capital assets:				
Buildings	5,700	-	-	5,700
Machinery and Equipment	133,092	19,443	-	152,535
Utility Systems	1,732,827	-	-	1,732,827
Total other capital assets at historical cost	1,871,619	19,443	-	1,891,062
Less accumulated depreciation for:				
Buildings	498	285	-	783
Machinery and Equipment	88,754	11,093	-	99,847
Utility Systems	1,252,547	54,891	-	1,307,438
Total accumulated depreciation	1,341,799	66,269	-	1,408,068
Other capital assets, net	529,820	(46,826)	-	482,994
Business-type activities capital assets, net	\$ 582,820	\$ 141,276	\$ -	\$ 724,096

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Depreciation:

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

- Buildings 40 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 years

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

<i>Governmental Activities:</i>		<i>Business-type Activities:</i>	
General government	\$ 6,971	Water	\$ 26,726
Public safety	42,664	Sewer	39,543
Streets	3,185		
Total depreciation	<u>\$ 52,820</u>	Total depreciation	<u>\$ 66,269</u>

Included in machinery and equipment are capital lease assets totaling \$95,200 with accumulated depreciation of \$10,710.

5. Long-Term Debt and Debt Service Requirements

For the year ended December 31, 2011, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance Due January 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due December 31, 2011</u>	<u>Amount Due Within One Year</u>
Governmental-Type Activities:					
Capital lease payable	\$ 76,068	\$ -	\$ 7,197	\$ 68,871	\$ 7,565
Note payable	20,701	15,210	23,889	12,022	3,670
Total Governmental-Type Activities	<u>\$ 96,769</u>	<u>\$ 15,210</u>	<u>\$ 31,086</u>	<u>\$ 80,893</u>	<u>\$ 11,235</u>
Business-Type Activities:					
Notes Payable	\$ 431,704	\$ -	\$ 19,266	\$ 412,438	\$ 20,117
Deposits Subject to Refund	27,539	7,575	9,603	25,511	5,102
Total Business-Type Activities	<u>\$ 459,243</u>	<u>\$ 7,575</u>	<u>\$ 28,869</u>	<u>\$ 437,949</u>	<u>\$ 25,219</u>

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Governmental activities long-term debt payable from taxes and other general revenues include the following:

Capital Lease Payable:

\$85,700 capital lease payable to Welch State Bank payable in monthly installments of \$925, including principal and interest at 5.38%, final payment due July 2019, payable from Dedicated Sales Tax Fund.

Current portion	\$7,565
Non-current portion	<u>61,306</u>
Total Capital Lease Payable	<u>\$68,871</u>

Note Payable:

\$15,210 note payable to American Exchange Bank payable in monthly installments of \$356, including principal and interest at 5.7482%, final payment due January 2015, payable from General Fund.

	<u>\$12,022</u>
Current portion	\$3,670
Non-current portion	<u>8,352</u>
Total Note Payable	<u>\$12,022</u>

Business-type activities long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

Notes Payable:

Note payable to Rural Utilities Services, payable in monthly installments of \$1,315, including principal and interest at 5%, final payment due November 2019.

\$69,844

Note payable to Rural Utilities Services, payable in monthly installments of \$376, including principal and interest at 5%, final payment due December 2032.

58,113

Note payable to Rural Utilities Services, original amount of \$331,601, payable in monthly installments of \$1,521 after first year interest only payment of \$1,297, interest at 4.5%, final payment due April 2039.

284,481

Total Notes Payable

\$ 412,438

Current portion	\$20,117
Non-current portion	<u>392,321</u>
Total Notes Payable	<u>\$412,438</u>

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Customer Deposits:

Refundable customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.	<u>\$ 25,511</u>
Current portion	\$ 5,102
Non-current portion	<u>20,409</u>
Total Customer Deposits	<u>\$ 25,511</u>

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

Year Ended December 31,	Governmental Type Activities				Business Type Activities	
	Capital Lease Payable		Note Payable		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	7,565	3,540	3,670	596	20,117	18,859
2013	7,993	3,112	3,886	379	21,172	17,804
2014	8,434	2,671	4,116	150	22,229	16,747
2015	8,899	2,205	350	4	23,336	15,640
2016	9,385	1,720	-	-	22,287	14,519
2017-2021	26,595	1,960	-	-	49,540	64,280
2022-2026	-	-	-	-	62,414	51,407
2027-2031	-	-	-	-	78,642	35,179
2032-2036	-	-	-	-	77,873	16,844
2037-2038	-	-	-	-	34,828	1,678
Total	<u>\$ 68,871</u>	<u>\$ 15,208</u>	<u>\$ 12,022</u>	<u>\$ 1,129</u>	<u>\$ 412,438</u>	<u>\$ 252,957</u>

Short-term Note Payable

<u>Type of Debt</u>	<u>Balance Due January 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due December 31, 2011</u>	<u>Amount Due Within One Year</u>
Governmental-Type Activities:					
Note payable	\$ -	\$ 17,076	\$ 7,532	\$ 9,544	\$ 9,544
Total Governmental-Type Activities	<u>\$ -</u>	<u>\$ 17,076</u>	<u>\$ 7,532</u>	<u>\$ 9,544</u>	<u>\$ 9,544</u>

Governmental activities:

Note payable:

\$9,544 note payable to American Exchange Bank payable in one installment of \$9,831, including principal and interest of 6%, final payment due June 2012, payable from General Fund

\$9,544

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6. Net Assets and Fund Balances

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.

Restricted for other purposes:

Fire Operations	\$	3,662
Street and Alley Maintenance		43,033
Fire and Street Equipment and Maintenance		45,590
	\$	<u>92,285</u>

c. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

7. Sales Tax Revenue

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the Town, of which 1 cent is voter-restricted for fire equipment and street maintenance or improvements in accordance with Town Ordinance 136.

8. Property Tax Levy

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

9. 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.

Interfund balances at December 31, 2011, were as follows:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose</u>
Dedicated Sales Tax Fund	General Fund	\$ 15,524	Debt payments
DPWA	General Fund	20,115	Insurance proceeds
Total Interfund Balances		<u>\$ 35,639</u>	

Reconciliation to Statement of Net Assets:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Activities	\$ 35,639	\$ (15,524)	\$ 20,115
Business-Type Activities	-	(20,115)	(20,115)
	<u>\$ 35,639</u>	<u>\$ (35,639)</u>	<u>\$ -</u>

Internal transfers between funds and activities for the year ended December 31, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
DPWA	General Fund	\$ 20,000	CD cashed in for operations
General Fund	DPWA	14,232	PWA expense paid by GF
Street and Alley Fund	General Fund	20,338	SAF expense paid by GF in prior year
DPWA	Governmental Assets	10,509	Transfer of land to town purchased by PWA
Total		<u>\$ 65,079</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$40,338	(34,570)	\$5,768
Proprietary Funds	14,232	(30,509)	(16,277)
	<u>\$54,570</u>	<u>(\$65,079)</u>	<u>(10,509)</u>

Reconciliation to Statement of Activities:

Net Transfers	\$ 5,768
Transfer of capital assets to governmental activities	10,509
	<u>\$ 16,277</u>

10. Risk Management

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

11. Commitments and Contingencies

Litigation:

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

Federal and State Award Programs:

The Town of Dewar participates in various federal or state grant/loan programs from year to year. In 2011, the Town's involvement in federal and state award programs was not material. 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.

12. Pension Plan Participation

The Town of Dewar participates in one pension or retirement plan:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan

Firefighter Pension System:

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

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

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

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The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$660	\$660
2010	\$720	\$720
2011	\$720	\$720

13. Material Noncompliance

The following is a listing of expenditures that exceeded legal appropriations for the year ended December 31, 2011:

General Fund – General Government	\$98,188
General Fund – Police	16,952
General Fund – Fire	1,421
General Fund – Transfers Out	14,232
Street and Alley Fund – Transfers Out	20,338
Dedicated Sales Tax Fund – Fire	13,955
Dedicated Sales Tax Fund – Street	5,379

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SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended December 31, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 6,127	\$ 6,127	\$ 6,704	\$ 577
Resources (Inflows):				
Taxes	127,000	127,000	99,733	(27,267)
Intergovernmental	6,100	6,100	44,188	38,088
Charges for Services	6,500	6,500	450	(6,050)
Fines and Forfeitures	55,000	55,000	60,685	5,685
Licenses and Permits	200	200	310	110
Interest	-	-	287	287
Miscellaneous	17,000	17,000	72,561	55,561
Other financing sources - transfers in	40,000	40,000	40,338	338
Note proceeds	-	-	32,286	32,286
Total Revenue	<u>251,800</u>	<u>251,800</u>	<u>350,838</u>	<u>99,038</u>
Amounts available for appropriation	<u>257,927</u>	<u>257,927</u>	<u>357,542</u>	<u>99,615</u>
Charges to Appropriations (Outflows):				
General Government	125,475	117,874	216,062	(98,188)
Police	102,352	110,685	127,637	(16,952)
Fire	21,600	21,600	23,021	(1,421)
Streets	8,500	-	-	-
Other financing uses - transfers out	-	-	14,232	(14,232)
Total Charges to Appropriations	<u>257,927</u>	<u>250,159</u>	<u>380,952</u>	<u>(130,793)</u>
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ 7,768</u>	<u>\$ (23,410)</u>	<u>\$ (31,178)</u>

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended December 31, 2011
(Continued)

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 56,260	\$ 56,260	\$ 56,005	\$ 1,745
Resources (Inflows):				
Intergovernmental	6,700	6,700	7,309	609
Total Revenue	<u>6,700</u>	<u>6,700</u>	<u>7,309</u>	<u>609</u>
Amounts available for appropriation	<u>62,960</u>	<u>62,960</u>	<u>65,314</u>	<u>2,354</u>
Charges to Appropriations (Outflows):				
Streets	6,700	6,700	1,943	4,757
Other financing uses - transfers out	-	-	20,338	(20,338)
Total Charges to Appropriations	<u>6,700</u>	<u>6,700</u>	<u>22,281</u>	<u>(15,581)</u>
Ending Budgetary Fund Balance	<u>\$ 56,260</u>	<u>\$ 56,260</u>	<u>\$ 43,033</u>	<u>\$ (13,227)</u>

	DEDICATED SALES TAX FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 40,000	\$ 40,000	\$ 49,734	\$ 9,734
Resources (Inflows):				
Taxes	32,000	32,000	26,294	(5,706)
Total Resources	<u>32,000</u>	<u>32,000</u>	<u>26,294</u>	<u>(5,706)</u>
Amounts available for appropriation	<u>72,000</u>	<u>72,000</u>	<u>76,028</u>	<u>4,028</u>
Charges to Appropriations:				
Fire	9,700	11,104	25,059	(13,955)
Street	3,500	-	5,379	(5,379)
Total Charges to Appropriations	<u>13,200</u>	<u>11,104</u>	<u>30,438</u>	<u>(19,334)</u>
Ending Budgetary Fund Balance	<u>\$ 58,800</u>	<u>\$ 60,896</u>	<u>\$ 45,590</u>	<u>\$ (15,306)</u>

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Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require Town Council approval.
3. In the General Fund, the Street and Alley Fund, and the Dedicated Sales Tax Fund, the Town had negative variances in the following category levels and for the following amount:

General Fund – General Government	\$98,188
General Fund – Police	16,952
General Fund – Fire	1,421
General Fund – Transfers Out	14,232
Street and Alley Fund – Transfers Out	20,338
Dedicated Sales Tax Fund – Fire	13,955
Dedicated Sales Tax Fund – Street	5,379

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Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended December 31, 2011

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
<u>DEPARTMENT OF COMMERCE:</u>				
Passed through Eastern Oklahoma Department of Commerce:				
CDBG 10	14.228	14291 CDBG 10 Phase I	\$ 26,309	\$ 26,309
CDBG 11	14.228	14718 CDBG 11 Phase II	\$ 273,065	\$ 99,189
<u>DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT:</u>				
Passed through State of Oklahoma Dept of Emergency Management				
FEMA-PA-1988-PW-00198 (0)	97.036	FEMA-PA-1988	8,071	8,071
FEMA-PA-1988-PW-00199 (0)	97.036	FEMA-PA-1988	802	802
TOTAL FEDERAL AWARDS			\$ 300,176	\$ 134,371
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Passed through Eastern Oklahoma Development District				
Rural Fire Grant	N/A	N/A	\$ 4,413	\$ 751
<u>EASTERN OKLAHOMA DEVELOPMENT DISTRICT:</u>				
2010 REAP	N/A	N/A	25,000	12,356
2011 REAP	N/A	N/A	25,000	25,000
<u>OKLAHOMA WATER RESOURCES BOARD:</u>				
OWRB REAP Grant No. FAP-09-0023-R	N/A	N/A	99,999	49,999
TOTAL STATE AWARDS			\$ 154,412	\$ 88,106

Footnotes to Schedule of Expenditures of Federal and State Awards:

1. The Schedule of Expenditures of Federal and State Awards is prepared on the modified cash basis.

**TOWN OF DEWAR, OKLAHOMA
ANNUAL FINANCIAL REPORT
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INTERNAL CONTROL AND COMPLIANCE

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

The Honorable Mayor and Members of the Town Board of the
Town of Dewar, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dewar, Oklahoma (the "Town"), as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 28, 2012. Our report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Finding 11-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 11-1 and 11-2.

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

This report is intended solely for the information and use of the Mayor, the Town Board of Trustees, and management, and is not intended to be and should not be used by anyone other than these specified parties.


Edmond, Oklahoma
December 28, 2012

**TOWN OF DEWAR, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011**

Finding 11-1

Criteria: Oklahoma State law prescribes that no encumbrances or expenditures may be authorized or made by an officer or employee which exceeds the available appropriations for each object category within a department or fund.

Condition: Expenditures exceeded appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Department</u>	<u>Amount</u>
General Fund	General Government	\$98,189
General Fund	Police	16,952
General Fund	Fire	1,421
General Fund	Transfers Out	14,232
Street and Alley Fund	Transfers Out	20,338
Dedicated Sales Tax Fund	Fire	13,955
Dedicated Sales Tax Fund	Street	5,379

Cause: Year-end adjustments are recorded in the preparation of the annual financial statements that result in charges to appropriations that may exceed the appropriations for a department.

Effect or Potential Effect: Expenditures may exceed appropriations at the legal level of control.

Recommendation: We recommend that the Town adopt formal budget amendments, especially at or near year-end by department.

Town's Response: The Town recently purchased new general ledger software, however Town staff did not receive any training on the use of the software. Certain financial activity for the 2011 year was not correctly processed through the system, making it difficult to monitor our budget to actual statements on a timely basis with any accuracy. Beginning in FY 2012, the Town has made significant improvements to the accounting records and has been involved in several training sessions regarding the use of the software. We have begun to monitor the budget to actual statements on a regular basis.

**TOWN OF DEWAR, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011**

Finding 11-2

Criteria: Oklahoma state law prescribes that the City may not have a negative fund balance.

Condition: The City's General fund reports a deficit fund balance of \$23,410.

Cause: The Town experienced some hard economic times during the past few years, partially due to turnover in the police department which, in turn, caused a decrease in one of the Town's significant revenue streams (fine revenue). In addition, the Town had to obtain outside assistance in helping us accurately create and improve our accounting system process, which was an increase in expenditures from the prior year. These two issues, along with the inability to monitor the budget to actual expenditures on a timely basis due to the issues described in finding 11-1, were the primary causes for the deficit.

Effect or Potential Effect: Negative fund balance is an indicator of financial stress on the Town, and can lead to cuts in services, increases in rates, or the inability of the City to effectively manage its cash flows and honor its financial obligations in a timely manner.

Recommendation: We recommend that the City put procedures in place to ensure that fund balances be monitored and spending constrained or the City reimburse this fund from other sources.

Town's Response: The Town is now monitoring our expenses and cutting back as necessary when the opportunity arises. In addition, we have made significant improvements to the accounting records and have been involved in several training sessions and are now able to determine our financial position on a daily basis and can make any needed changes in a more timely manner.