

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Delaware, Oklahoma
June 30, 2011**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
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**Town of Delaware, Oklahoma
Town Officials
June 30, 2011**

Board of Trustees

Mayor	Lynn McGrew
Vice-Mayor	Cocieta Collins
Member	Shannon Duncan

Treasurer

Kathy Smith

Clerk

Kathy Smith

**Town of Delaware, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Town of Delaware, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining funds information of the Town of Delaware, 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 Delaware, Oklahoma'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.

In our 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 Delaware, 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*, we have also issued our report dated May 10, 2013, on our consideration of the Town of Delaware, Oklahoma'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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 33 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 operations, 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 regarding 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.

The Town of Delaware, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Delaware, Oklahoma's basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TURNER & Associates, PLLC

Vinita, OK
May 10, 2013



**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 Town Council
Town of Delaware, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the Town of Delaware, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Delaware, Oklahoma's basic financial statements and have issued our report thereon dated May 10, 2013. The Town of Delaware did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Delaware, Oklahoma'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 of Delaware, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Delaware, Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2011-1, 2011-2, 2011-4, 2011-6, and 2011-7, described in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2011-3 and 2011-5, described in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Delaware, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-5 and 2011-6.

We noted certain matters that we reported to management of the Town of Delaware, Oklahoma, in a separate letter dated May 10, 2013.

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

This report is intended solely for the information and use of management, Town Council, Oklahoma State Auditor, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & Associates, PLLC

Vinita, OK
May 10, 2013

Town of Delaware, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 75,301.10	\$ 8,166.29	\$ 83,467.39
Accounts Receivable	-	5,629.66	5,629.66
Due from Other Governments	6,150.63	-	6,150.63
Prepaid Insurance	1,118.67	3,040.62	4,159.29
Total Current Assets	<u>82,570.40</u>	<u>16,836.57</u>	<u>99,406.97</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	-	25,826.13	25,826.13
Capital Assets:			
Property, Plant and Equipment, net	216,580.84	1,339,646.81	1,556,227.65
Total Noncurrent Assets	<u>216,580.84</u>	<u>1,365,472.94</u>	<u>1,582,053.78</u>
TOTAL ASSETS	<u>299,151.24</u>	<u>1,382,309.51</u>	<u>1,681,460.75</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,397.96	5,820.95	7,218.91
Payroll Taxes Payable	1,255.06	9,115.92	10,370.98
Accrued Interest Payable	-	744.20	744.20
Current Portion of Notes Payable	-	21,505.39	21,505.39
Total Current Liabilities	<u>2,653.02</u>	<u>37,186.46</u>	<u>39,839.48</u>
Noncurrent Liabilities:			
Payable from Restricted Assets:			
Meter Deposits Payable	-	11,144.29	11,144.29
Notes Payable	-	346,660.99	346,660.99
Total Noncurrent Liabilities	<u>-</u>	<u>357,805.28</u>	<u>357,805.28</u>
TOTAL LIABILITIES	<u>2,653.02</u>	<u>394,991.74</u>	<u>397,644.76</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	216,580.84	971,480.43	1,188,061.27
Restricted	-	25,826.13	25,826.13
Unrestricted	79,917.38	(9,988.79)	69,928.59
TOTAL NET ASSETS	<u>\$ 296,498.22</u>	<u>\$ 987,317.77</u>	<u>\$ 1,283,815.99</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Personal Services	\$ 15,655.30	\$ -	\$ -	\$ -	\$ (15,655.30)
Maintenance and Operation	26,080.31	-	-	-	(26,080.31)
Total General Government	41,735.61	-	-	-	(41,735.61)
Public Safety and Judiciary:					
Fire	23,619.16	14,251.75	-	50,000.00	40,632.59
Total Public Safety and Judiciary	23,619.16	14,251.75	-	50,000.00	40,632.59
Transportation:					
Street and Alley	(1,959.99)	-	-	-	1,959.99
Parks and Recreation:					
Community Center	673.46	-	-	-	(673.46)
Parks	233.42	-	-	-	(233.42)
Fireworks	2,311.02	-	-	-	(2,311.02)
Total Culture, Parks, Recreation	3,217.90	-	-	-	(3,217.90)
Total Governmental Activities	66,612.68	14,251.75	-	50,000.00	(2,360.93)
Business-Type Activities					
Utilities	194,383.79	175,312.87	-	396,771.71	377,700.79
Total Business-Type Activities	194,383.79	175,312.87	-	396,771.71	377,700.79
Total Primary Government	\$ 260,996.47	\$ 189,564.62	\$ -	\$ 446,771.71	\$ 375,339.86

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2011

	Governmental Activities		
	Governmental Activities	Business- Type Activities	Total
Changes in Net Asset:			
Net (Expense)/Revenue	\$ (2,360.93)	\$ 377,700.79	\$ 375,339.86
General Revenues:			
Taxes:			
Sales and Use Taxes	26,560.63		26,560.63
Franchise and Public Service Taxes	8,256.74	-	8,256.74
Motor Vehicle Collections	3,464.50	-	3,464.50
Alcoholic Beverage Tax	4,687.80	-	4,687.80
Gasoline Tax	391.66	-	391.66
Tobacco Tax	343.87	-	343.87
Investment Income	163.25	39.84	203.09
Rental or Lease of Property	70.00	-	70.00
Donations	7,000.00	-	7,000.00
Miscellaneous	106.93	1,821.82	1,928.75
Total General Revenues and Transfers	51,045.38	1,861.66	52,907.04
Change in Net Assets	48,684.45	379,562.45	428,246.90
Net Assets, Beginning of Year	247,813.77	607,755.32	855,569.09
Net Assets, End of Year	\$ 296,498.22	\$ 987,317.77	\$ 1,283,815.99

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2011

	<u>Total Governmental Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 75,301.10
Due from Other Governments	6,150.63
Prepaid Insurance	1,118.67
TOTAL ASSETS	<u>\$ 82,570.40</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 1,397.96
Payroll Taxes Payable	1,255.06
Total Liabilities	<u>2,653.02</u>
Fund Balances:	
Cash Fund Balance, Unreserved	<u>79,917.38</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 82,570.40</u>
 <u>Reconciliation to the Statement of Net Assets</u>	
Total Governmental Funds Balance	79,917.38
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$333,491.67 and the accumulated depreciation is \$116,910.83 for a net book value of \$216,580.84	<u>216,580.84</u>
Net assets of Governmental Activities	<u>\$ 296,498.22</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>
Revenues:	
Taxes	\$ 43,705.20
Charges for Services	14,251.75
Donations	7,000.00
Investment Income	163.25
Miscellaneous	106.93
Sale/Lease of Property	70.00
Total Revenues	<u>65,297.13</u>
Expenditures:	
General Government	
Salaries and Taxes	15,655.30
Maintenance and Operation	25,331.14
Public Safety and Judiciary	
Fire	12,820.51
Transportation	
Street and Alley	2,007.96
Parks and Recreation	
Community Center	673.46
Parks	233.42
Fireworks	2,311.02
Total Expenditures	<u>59,032.81</u>
Net Change in Fund Balance	6,264.32
Fund Balance, Beginning of Year	73,653.06
Fund Balance, End of Year	<u>\$ 79,917.38</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds	\$	6,264.32
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Depreciation expense	(12,178.87)	
Donated Assets	50,000.00	
Asset addition	<u>4,599.00</u>	<u>42,420.13</u>

Change in Net Assets of Governmental Activities	\$	<u><u>48,684.45</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Net Assets – Proprietary Fund
June 30, 2011

	<u>Public Works Authority Enterprise Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 8,166.29
Accounts Receivable	5,629.66
Prepaid Insurance	3,040.62
Total Current Assets	<u>16,836.57</u>
Non-Current Assets:	
Restricted Assets:	
Cash and Cash Equivalents	25,826.13
Capital Assets:	
Non-depreciable assets	14,370.00
Property, Plant and Equipment, net of Accumulated Depreciation	1,325,276.81
Total NonCurrent Assets	<u>1,365,472.94</u>
TOTAL ASSETS	<u>1,382,309.51</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	5,820.95
Payroll Taxes Payable	9,115.92
Accrued Interest	744.20
Current Portion of Notes Payable	21,505.39
Total Current Liabilities	<u>37,186.46</u>
Noncurrent Liabilities	
Payable from Restricted Assets:	
Meter Deposits Payable	11,144.29
Notes Payable	346,660.99
Total Noncurrent Liabilities	<u>357,805.28</u>
TOTAL LIABILITIES	<u>394,991.74</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	971,480.43
Restricted	25,826.13
Unrestricted	(9,988.79)
TOTAL NET ASSETS	<u><u>\$ 987,317.77</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
Operating Revenues	
Utility Revenue	\$ 175,312.87
Operating Expenses	
Salaries	44,950.00
Bad Debt Expense	569.00
Trash Contract	32,813.00
Chemicals and Supplies	7,368.07
Depreciation	39,288.52
Utilities	10,736.02
Payroll Taxes	6,134.63
Repairs and Maintenance	6,785.98
Insurance	4,306.49
Dues and Subscriptions	513.52
Office Supplies	2,823.36
Testing	4,963.95
Truck Expense	5,906.43
Mileage	1,761.00
Reimbursements	1,307.31
Miscellaneous	1,041.24
Administrative Expenses	6,710.58
Total Operating Expenses	<u>177,979.10</u>
Operating Income (Loss)	<u>(2,666.23)</u>
Non-Operating Revenues (Expenses)	
Interest Income	39.84
Interest Expense	(16,404.69)
Capital Grants	396,771.71
Miscellaneous Income	1,821.82
Total Non-Operating Revenues (Expenses)	<u>382,228.68</u>
Change in Net Assets	379,562.45
Net Assets, Beginning of Year	<u>607,755.32</u>
Net Assets, End of Year	<u><u>\$ 987,317.77</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2011

	<u>Public Works Authority Enterprise Fund</u>
Cash Flows from Operating Activities	
Cash Inflows:	
Payments Received from Customers	\$ 176,318.38
Meter Deposits Received	2,475.00
Total Cash Provided	<u>178,793.38</u>
Cash Outflows:	
Payments for Salaries and Benefits	45,607.84
Payments for Goods and Services	86,499.71
Meter Deposits Refunded	1,825.44
Total Cash Used	<u>133,932.99</u>
Net Cash Provided (Used) by Operating Activities	<u>44,860.39</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(417,531.12)
Grant Proceeds	396,771.71
Misc Income	1,821.82
Principal Paid on Capital Debt	(22,723.43)
Interest Paid on Capital Debt	(16,512.15)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(58,173.17)</u>
Cash Flows from Investing Activities	
Interest	<u>39.84</u>
Net Cash Inflow (Outflow) from All Activities	(13,272.94)
Cash and Cash Equivalents, Beginning of Year	<u>47,265.36</u>
Cash and Cash Equivalents, End of Year	<u>\$ 33,992.42</u>
Cash and Cash Equivalents	
Unrestricted	\$ 3,166.29
Restricted	30,826.13
	<u>\$ 33,992.42</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2011

		<u>Public Works Authority Enterprise Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$	(2,666.23)
Depreciation		39,288.52
(Increase) Decrease in:		
Accounts Receivable		1,005.51
Prepaid Insurance		(201.01)
Increase (Decrease) in:		
Accounts Payable		1,307.52
Payroll Taxes Payable		5,476.79
Meter Deposits Payable		649.29
		<hr/>
Net Cash Provided (Used) by Operating Activities	\$	<u>44,860.39</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies

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

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

For the fiscal year ended June 30, 2004, the Town implemented the new financial reporting requirements of GASB Statements No. 33 and 34. As a result, an entirely new financial presentation format was implemented. This implementation has affected comparability with reports issued in prior years.

A. Reporting Entity

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

Primary Government: Town of Delaware

Blended Component Unit: Delaware Public Works Authority

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

Blended Component Units

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

Discretely Presented Component Units

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

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Blended Component Units

Component units that are blended into the reporting activity types of the Town's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Delaware Public Works Authority	Created to finance, develop and operate the utility services activities. The current Town Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the Town Council.	Enterprise Fund

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

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

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

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Proprietary Fund

Enterprise Fund

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

Delaware Public Works Authority	Accounts for activities of the public trust in providing utility services to the public.
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Major and Non-Major Funds

Major: General Fund
 Proprietary Fund: Delaware Public Works Authority

Non-Major: None

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Measurement Focus (continued)

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

Cash and Investments

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

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes, and franchise taxes. Business-type activities report water charges as its major receivable. Other receivables in the proprietary fund include loan proceeds not yet advanced by a lender.

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

Fixed Assets

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

Government-Wide Statements

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

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

Management determines on an item-by-item basis whether to capitalize or expense.

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

Buildings	60 years
Machinery and Equipment	10-20 years
Utility System	40-60 years

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Fixed Assets (continued)

Fund Financial Statements

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

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the promissory notes with RECD require that funds be held in a reserve account. Under the terms and provisions of the promissory notes, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits, which are refundable to the customer.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications

Government-Wide Statements

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

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

Fund Statements

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

E. Revenues, Expenditures and Expenses

Sales Tax

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

Use Tax

The Town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption “Due from other governments.”

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

E. Revenues, Expenditures and Expenses (continued)

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By operating and non-operating

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

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

F. GASB Pronouncements

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement). Certain of the significant changes in the Statement will require the following:

Fund balances for each of the Town's General Fund will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purpose for which resources can be used:

- Nonspendable fund balance – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted fund balance – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

F. GASB Pronouncements (continued)

- Committed fund balance – amounts that can be spent only for specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned fund balance – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance – amounts that are available for any purpose; these amounts can be reported only in the Town’s General Fund.

The Statement also establishes several new presentation and disclosure requirements, including requirements related to stabilization arrangements (i.e., “rainy day” amounts).

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the Town can report in special revenue funds.

The provisions of GASBS No. 54 must be implemented by the Town no later than the fiscal year beginning July 1, 2011. Implementation will require the Town to restate existing fund balances for the governmental funds.

II. Stewardship, Compliance and Accountability

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

A. Fund Accounting Requirements

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

<u>Fund</u>	<u>Required By</u>
Public Works Authority Fund	Trust Indenture

B. Deposit and Investments Laws and Regulations

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

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability (continued)

C. Revenue Restrictions

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

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

For the year ended June 30, 2011, the Town complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the Town had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2011, the Town incurred no such indebtedness.

Notes Payable

The various loan agreements relating to the notes payable issuances of Delaware Public Works Authority contain some financial restrictions or covenants. These include covenants such as the required reserve account balances. The following presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2011.

Requirement

Reserve Account Requirement - (RECD Loan Agreement): The account balance should be equal to \$24,127.20. Previously the Public Works Authority was given permission to spend monies accumulated in the reserve account. Due to new loan agreements, beginning October 24, 2009, a total monthly payment of \$276.30 should be deposited until the balance reaches \$24,127.20, which is the equivalent of 12 months of debt service payments.

In addition, the Public Works Authority must fund a depreciation reserve for short-lived assets by depositing a sum of \$556.25 monthly, in addition to that required for the debt service reserve. Payments will accrue until the balance is equal to the total replacement cost of \$68,750.00 which is determined by the project engineer.

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants (continued)

Level of Compliance

The debt service account balance at June 30, 2011 was \$14,250.29 resulting in a deficiency of \$9,876.91. During the fiscal year ended June 30, 2011, \$3,500 in deposits were made into the reserve account and interest of \$22.04 was earned.

The Public Works Authority has not set up the depreciation reserve account at this time, resulting in a deficiency of \$6,675.00.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2011.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2011, none of Town's deposits were exposed to custodial credit risk.

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Public Works Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2011 are as follows:

Meter Deposits	\$ 11,174.10
Reserve Accounts	14,250.29
Grant Accounts	401.74
	\$ 25,826.13

Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

III. Detailed Notes on Transaction Classes/Accounts (continued)

C. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. Accounts receivable of the business-type activities consists of utilities receivable.

Accounts receivable as of June 30, 2011 is as follows:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	<u>\$ 6,150.63</u>	<u>\$ 5,629.66</u>	<u>\$ 11,780.29</u>

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes on Transaction Classes/Accounts (continued)

D. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 5,850.00	\$ -	\$ -	\$ 5,850.00
	<u>5,850.00</u>	<u>-</u>	<u>-</u>	<u>5,850.00</u>
Depreciable assets:				
Buildings/Improvements	102,600.00	-	-	102,600.00
Machinery and Equipment	97,442.67	4,599.00	-	102,041.67
Vehicles	73,000.00	50,000.00	-	123,000.00
	<u>273,042.67</u>	<u>54,599.00</u>	<u>-</u>	<u>327,641.67</u>
Total	<u>278,892.67</u>	<u>54,599.00</u>	<u>-</u>	<u>333,491.67</u>
Accumulated Depreciation:				
Buildings/Improvements	(30,989.97)	(1,710.00)	-	(32,699.97)
Machinery and Equipment	(42,900.32)	(5,628.39)	-	(48,528.71)
Vehicles	(30,841.67)	(4,840.48)	-	(35,682.15)
	<u>(104,731.96)</u>	<u>(12,178.87)</u>	<u>-</u>	<u>(116,910.83)</u>
Depreciable assets, net	<u>168,310.71</u>	<u>42,420.13</u>	<u>-</u>	<u>210,730.84</u>
Net Capital Assets	<u>\$ 174,160.71</u>	<u>\$ 30,241.26</u>	<u>\$ -</u>	<u>\$ 216,580.84</u>
Business-Type Activities:				
Non-depreciable assets:				
Construction in Progress	\$ 653,754.26	\$ 416,320.32	\$ (1,070,074.58)	\$ -
Land	14,370.00	-	-	14,370.00
	<u>668,124.26</u>	<u>416,320.32</u>	<u>(1,070,074.58)</u>	<u>14,370.00</u>
Depreciable assets:				
Equipment	\$ 74,297.95	\$ -	\$ -	\$ 74,297.95
Sewer System	174,753.18	-	-	174,753.18
Water System	490,725.90	1,071,285.38	-	1,562,011.28
	<u>739,777.03</u>	<u>1,071,285.38</u>	<u>-</u>	<u>1,811,062.41</u>
Total	<u>739,777.03</u>	<u>1,071,285.38</u>	<u>-</u>	<u>1,811,062.41</u>
Accumulated Depreciation:				
Equipment	(18,533.52)	(3,149.73)	-	(21,683.25)
Sewer System	(26,077.83)	(2,912.56)	-	(28,990.39)
Water System	(401,885.73)	(33,226.23)	-	(435,111.96)
	<u>(446,497.08)</u>	<u>(39,288.52)</u>	<u>-</u>	<u>(485,785.60)</u>
Depreciable assets, net	<u>293,279.95</u>	<u>1,031,996.86</u>	<u>-</u>	<u>1,325,276.81</u>
Net Capital Assets	<u>\$ 961,404.21</u>	<u>\$ 1,031,996.86</u>	<u>\$ -</u>	<u>\$ 1,339,646.81</u>

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes on Transaction Classes/Accounts (continued)

D. Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

General Government	\$	749.17
Public Safety and Judiciary		
Fire		10,798.65
Transportation		
Street and Alley		631.05
Total Depreciation Expense	\$	12,178.87

E. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2011, there were no governmental long-term debt obligations.

Business-Type Activities

As of June 30, 2011, the long-term debt payable from proprietary fund resources consisted of the following:

A note payable (#91-01) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$338,000.00 was issued on December 2, 1980. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$1,660.00 starting December 2, 1983.

The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 13,015.75	\$ 6,904.25	\$ 19,920.00
2013	13,681.64	6,238.36	19,920.00
2014	14,381.63	5,538.37	19,920.00
2015	15,117.45	4,802.55	19,920.00
2016	15,890.87	4,029.13	19,920.00
2017-2020	71,910.14	7,553.66	79,463.80
Totals	\$ 143,997.48	\$ 35,066.32	\$ 179,063.80

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

A note payable (#91-02) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$54,300.00 was issued on December 2, 1980. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$267.00 starting December 2, 1980.

The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 2,103.60	\$ 1,100.40	\$ 3,204.00
2013	2,211.20	992.80	3,204.00
2014	2,324.35	879.65	3,204.00
2015	2,443.26	760.74	3,204.00
2016	2,568.28	635.72	3,204.00
2017-2020	11,313.06	1,159.52	12,472.58
	<u>\$ 22,963.75</u>	<u>\$ 5,528.83</u>	<u>\$ 28,492.58</u>

A note payable (#91-05) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$104,000.00 was approved January 30, 2007 however proceeds were not disbursed until September 24, 2009. The note bears interest at 4.125% with monthly installments of \$444.00 starting October 24, 2009.

The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 1,218.86	\$ 4,109.14	\$ 5,328.00
2013	1,270.09	4,057.91	5,328.00
2014	1,323.48	4,004.52	5,328.00
2015	1,379.14	3,948.86	5,328.00
2016	1,437.11	3,890.89	5,328.00
2017-2021	8,144.14	18,495.86	26,640.00
2022-2026	10,006.10	16,633.90	26,640.00
2027-2031	12,293.79	15,346.21	27,640.00
2032-2036	15,104.44	11,835.56	26,940.00
2037-2041	18,557.69	8,082.31	26,640.00
2042-2046	22,800.50	3,839.50	26,640.00
2047-2048	6,634.94	187.77	6,822.71
Totals	<u>\$ 100,170.28</u>	<u>\$ 94,432.43</u>	<u>\$ 194,602.71</u>

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

A note payable (#91-07) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$101,000.00 was approved January 30, 2007 however proceeds were not disbursed until September 24, 2009. The note bears interest at 3.50% with monthly installments of \$392.00 starting October 24, 2009.

The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,323.16	\$ 3,380.84	\$ 4,704.00
2013	1,370.19	3,333.81	4,704.00
2014	1,418.94	3,285.06	4,704.00
2015	1,469.41	3,234.59	4,704.00
2016	1,521.68	3,182.32	4,704.00
2017-2021	8,459.73	15,060.27	23,520.00
2022-2026	10,075.07	13,444.93	23,520.00
2027-2031	11,998.82	11,521.18	23,520.00
2032-2036	14,289.94	9,230.06	23,520.00
2037-2041	17,018.48	6,501.52	23,520.00
2042-2046	20,268.01	3,251.99	23,520.00
2047-2048	7,977.42	258.99	8,236.41
Totals	<u>\$ 97,190.85</u>	<u>\$ 75,685.56</u>	<u>\$ 172,876.41</u>

A note payable due in 10 years to Community Resource Group, Inc. in the principal amount of \$17,175.25 was issued on April 1, 2005 to finance the cost of engineering fees related to a wastewater project. The note bears interest at 4.9% and is payable in monthly installments of \$241.95 beginning in May of 2005. This note was paid off during the current year.

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

The PWA executed a lease to purchase a 2007 Case 580M Turbo Loader Backhoe from Welch State Bank. The amount of the lease is \$13,200 payable in 36 installments of \$389.71 beginning April 2, 2009. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,844.02	\$ 66.79	\$ 3,910.81

Debt service requirements for all business-type activities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 21,505.39	\$ 15,561.42	\$ 37,066.81
2013	18,533.12	14,622.88	33,156.00
2014	19,448.40	13,707.60	33,156.00
2015	20,409.26	12,746.74	33,156.00
2016	21,417.94	11,738.06	33,156.00
2017-2021	99,827.07	42,269.31	142,096.38
2022-2026	20,081.17	30,078.83	50,160.00
2027-2031	24,292.61	26,867.39	51,160.00
2032-2036	29,394.38	21,065.62	50,460.00
2037-2041	35,576.17	14,583.83	50,160.00
2042-2046	43,068.51	7,091.49	50,160.00
2047-2048	14,612.36	446.76	15,059.12
Totals	<u>\$ 368,166.38</u>	<u>\$ 210,333.17</u>	<u>\$ 563,887.19</u>

F. Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2011:

	<u>Balance June 30, 2010</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Notes Payable	390,889.81	-	22,723.43	368,166.38	21,505.39
Total Business-Type	<u>\$ 390,889.81</u>	<u>\$ -</u>	<u>\$ 22,723.43</u>	<u>\$ 368,166.38</u>	<u>\$ 21,505.39</u>

**Town of Delaware, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Proprietary Fund Rates and Charges

Water Rates and Charges	
Minimum monthly charge on first 1,000 gallons	\$ 33.00
Price per thousand gallons for next 6,000 gallons	4.50
Price per thousand gallons on gallons over 6,000	6.50
Deposits - Residential and Commercial	150.00
Tap Fee	175.00
Late Fee (Per Month)	10.00
Reconnect Fee	25.00
Returned Check Fee	25.00
Sewer Rates and Charges	
Minimum monthly charge on first 1,000 gallons	8.00
Price per thousand gallons on gallons over 1,000	25% of Water Charge
Garbage Rates and Charges	
Base Charge	\$ 16.75

REQUIRED SUPPLEMENTARY INFORMATION

Town of Delaware, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balances – Budget and Actual –
Regulatory Basis – General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Budget Variance	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Charges for Services	\$ 14,482.62	\$ 14,482.62	\$ 6,000.00	\$ -	\$ (6,000.00)
Local Sources	6,758.53	6,758.53	7,928.14	-	\$ (7,928.14)
Federal & State Sources	36,378.12	36,378.12	42,139.37	-	\$ (42,139.37)
Miscellaneous	241.93	241.93	8,335.18	-	\$ (8,335.18)
Total Revenues Collected	57,861.20	57,861.20	64,402.69	-	(64,402.69)
Expenditures:					
Managerial	650.00	650.00	650.00	-	-
Town Clerk	10,000.00	10,000.00	10,000.00	-	-
General Government	77,531.38	77,531.38	8,915.96	-	68,615.42
Street and Alley	12,000.00	12,000.00	12,006.96	-	(6.96)
Park	5,000.00	5,000.00	2,544.44	-	2,455.56
Police	-	-	-	-	-
Fire Department	15,000.00	15,000.00	23,880.85	-	(8,880.85)
Cemetery	-	-	-	-	-
Community Building	6,000.00	6,000.00	837.64	-	5,162.36
Transfers to PWA	-	-	-	-	-
Total Expenditures Paid	126,181.38	126,181.38	58,835.85	-	67,345.53
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	(68,320.18)	(68,320.18)	5,566.84	-	73,887.02
Cash Fund Balance Beginning of Year	68,320.18	68,320.18	68,320.18	-	-
Cash Fund Balance End of Year	\$ -	\$ -	\$ 73,887.02	\$ -	\$ 73,887.02

Amounts reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Amounts Due from Other Governments	6,150.63
Prepaid Insurance	1,118.67
Cash difference between budget and audit	(1,238.94)
Cash Fund Balance - General Fund	79,917.38

OTHER SUPPLEMENTARY INFORMATION

Town of Delaware, Oklahoma
Schedule of Expenditures of State and Federal Awards
For the Year Ended June 30, 2011

<u>Name of Agency or Grant</u>	<u>Expenditures</u>
Grand Gateway - REAP Grant	\$ 58,599.03
OWRB - REAP Grant	19,730.70
Department of Commerce - CDBG Grant	<u>338,166.98</u>
Total State & Federal Awards	<u>\$ 416,496.71</u>

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:

The Town's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:

As is the case with many smaller and medium-sized entities, the Town has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls. This is a repeat finding.

Cause:

Town personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:

As a result of this condition, without assistance from its external auditors or another outside source, the Town may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-1 Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP (continued)

Recommendation:

We recommend that the Town consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

No response.

Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-2 Material Adjusting Journal Entries

Criteria:

The Town's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The Town's trial balances for the year ended June 30, 2011, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; adjusting note activity for unrecorded debt; recording accounting activity for funds held at county; recording adjustments from the prior period; writing off outstanding checks; adjusting payroll taxes, prepaid insurance, accrued interest, interest earned, meter deposits payable, depreciation, and due from other governments.

Cause:

The Town's accounting and financial reporting staff does not possess the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-2 Material Adjusting Journal Entries (continued)

Effect:

As a result of this condition, without assistance from its external auditors, the Town lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation:

The Town should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

No response.

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-3 Bank Reconciliations

Criteria:

SAS 112 states that a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected by the Town's internal control.

Condition:

Several transactions and adjustments were made to cash accounts that still lacked bank reconciliations, such as the Enterprise Fund Reserve Account and Grant Accounts. This is a repeat finding.

Cause:

Bank reconciliations should be performed on a monthly basis to ensure there are no errors and to reduce the possibility of misstatements in the Town's financial statements.

Effect or Potential Effect:

The audit was delayed and led to a finding of significant deficiency in the Public Works Authority and the Town's internal control.

Recommendation:

The Town should perform monthly bank reconciliations on all bank accounts to ensure all transactions have been recorded properly and if any discrepancies exist, they can be addressed at that time.

Client Response:

No response.

Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-4 Unrecorded Transactions

Criteria:

SAS 112 states that a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected by the Town's internal control.

Condition:

Unrecorded transactions or incorrect posting of transactions in cash accounts related to income and expenses. This is a repeat finding.

Cause:

The Town did not record transactions in the grant account for grant income received in the amount of \$338,172.68; grant revenue expended for construction in progress in the amount of \$337,965.29; service charges of \$25.30; and interest income that had not been earned.

Effect or Potential Effect:

The Town's Activity Fund cash balance was understated and no activity was posted to record income or expenses.

Recommendation:

The Town should perform monthly bank reconciliations on all bank accounts to ensure all transaction have been recorded properly and if any discrepancies exist, they can be addressed at that time.

Client Response:

No response.

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-5 Identifiable Activities

Criteria:

GASBS No. 37, Para. 10, which is effective for audits of financial statements for periods ending on or after June 15, 1999, require activities within the enterprise fund to be presented with different identifiable activities. An identifiable activity has a specific revenue stream and related expenses that are accounted for separately. Different relates to the distinction between types of services or programs provided by activities. In other words, water would have its own revenue stream and related expenses, and the same would be true for the other departments such as sewer and trash.

Condition:

All utility expense activities are lumped together and a breakdown of departmental expenses is difficult if not impossible. This is a repeat finding.

Cause:

A lack of separation of expenses into the various departments within the Public Works Authority.

Effect or Potential Effect:

Comparisons for the various activities within the utility department are not possible.

Recommendation:

To comply with GASBS No. 37, Para. 10, the auditors recommend tracking expenses for the various departments within the Public Works Authority. This may require setting up a new chart of accounts and hiring assistance from an outside source to help with compliance.

Client Response:

No response.

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-6 Compliance with the Rural Development Reserve Requirement

Criteria:

The loan agreement provides that the Delaware Public Works Authority is to deposit 1/10 of the monthly payment into a reserve account until the account equals one hundred and twenty times the 1/10 amount (or the equivalent of 12 months of debt service payments, which is \$24,127.20). Having previously been approved to spend money accumulated in the reserve account, the agreement now stipulates the payments into the reserve account are to resume no later than April of 2000.

A new loan agreement provides that the Delaware Public Works Authority is to deposit \$556.25 monthly, in addition to that required for the debt service reserve to fund a depreciation reserve for short-lived assets.

Condition:

Reserve accounts remain under funded by \$16,551.91. This is a repeat finding.

Cause:

Monthly deposits were not made into the reserve account.

Effect or Potential Effect:

A lack of compliance with the terms of the loan agreement could lead to difficulty obtaining future financing.

Recommendation:

To comply with the reserve requirement per the loan agreement, it is recommended to make monthly deposits into the reserve account until the reserve is fully funded.

Client Response:

No response.

**Town of Delaware, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

2011-7 Payroll Tax payments

Criteria:

IRS Publication 15, Circular E, Employer's Tax Guide, the Oklahoma Employment Security Commission (OESC) Employers Guide, and the Oklahoma Tax Commission's Oklahoma Income Tax Withholding Tables Guide all outline the requirements for the payment of federal and state payroll taxes.

Condition:

Deposits were not made for all federal or state payroll withholding taxes during the year.

Cause:

The Town completed the payroll tax reports for both federal and state but did not make the required deposits for their payment, resulting in penalties and interest payments of \$502.30 being paid, and \$9,115.92 in unpaid taxes.

Effect or Potential Effect:

The Town is not in compliance with IRS and State payroll tax payment requirements and will continue to accrue interest and penalties.

Recommendation:

We recommend that all payroll tax documents be completed as required and all payments made when they are due. In addition we recommend that all penalty and interest payments be made.

Client Response:

No response.