THE TOWN OF DAVENPORT, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Trustees
Town of Davenport, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davenport, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Davenport's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davenport, Oklahoma, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 10, 2013, on my consideration of the Town of Davenport, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

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

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
June 10, 2013

Management's Discussion and Analysis

The management of the Town of Davenport is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2012. 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 $118,274 and the assets of the Town exceeded its liabilities at June 30, 2012, by $3,203,870 (net assets). Of this amount, $252,743 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the unassigned fund balance for the General Fund was $117,804 or 75% of General Fund revenues for the year.

ABOUT THE TOWN

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

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

The Town's Financial Reporting Entity

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

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

- **The Town of Davenport** – an incorporated Town established in 1906 that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the Town – *reported as part of the primary government as "governmental" activities.*

- **The Davenport Utilities Authority** – a public trust created in 1973 pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the Town – *considered part of the primary government presentation for reporting purposes; reported as "business-type" activities.*

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements report the Town's operations in more detail than the government-wide statements by providing information about the Town's governmental funds.

Reporting the Town as a Whole

Government-wide financial statements

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

The Statement of Net Assets and Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities: *Governmental activities* - Most of the Town's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the Town's General Fund - Fund Financial Statements

Fund Financial Statements

The Town's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

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

governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the Town, through the Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28-35 of this report.

Other Information

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

THE TOWN AS A WHOLE

For the year ended June 30, 2012, net assets for the governmental and business-type activities increased $118,274.

Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Beginning net assets	$ 500,095	$ 2,585,501	$ 3,085,596
Increase	199,832	(81,558)	118,274
Ending net assets	$ 699,927	$ 2,503,943	$ 3,203,870

The following is a summary of net assets for the Town of Davenport as of June 30, 2012.

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

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	$ 294,917	$ 168,148	$ 463,065
Capital assets, net	421,372	2,721,264	3,142,636
Total assets	716,289	2,889,412	3,605,701
Liabilities:			
Short-term liabilities	10,903	16,481	27,384
Long-term liabilities	5,459	368,988	374,447
Total liabilities	16,362	385,469	401,831
Net assets:			
Invested in capital assets, net	421,372	2,388,919	2,810,291
Restricted	136,517	4,319	140,836
Unrestricted	142,038	110,705	252,743
Total net assets	$ 699,927	$ 2,503,943	$ 3,203,870

Changes in Net Assets
Year Ended June 30, 2012

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 63,408	$ 326,278	$ 389,686
Grants	258,023	9,483	267,506
General revenues:			
Sales and use tax	165,125	-	165,125
Other taxes	49,810	-	49,810
Other general revenues	27,971	117	28,088
Total revenues	564,337	335,878	900,215
Program expenses:			
General government	253,749	-	253,749
Public safety	130,787	-	130,787
Streets and alleys	27,068	-	27,068
Cemetery	11,949	-	11,949
Water and sewer		365,301	365,301
Sanitation		52,135	52,135
Total expenses	423,553	417,436	840,989
Change in accounting principle	58,698	-	58,698
Gain (loss) on sale of assets	350	-	350
Increase/(decrease) net assets	199,832	(81,558)	118,274
Beginning net assets	500,095	2,585,501	3,085,596
Ending net assets	$ 699,927	$ 2,503,943	$ 3,203,870

Governmental Activities

The increase in net assets related to governmental activities of $199,832 is primarily attributable to the on-going construction of a new senior center facility, funded by capital grants, as well as a change in the recognition principle for revenues to adopt an "availability period" of 60 days after the end of the fiscal year for the recognition of revenue. This practice is consistent with that of most other municipalities that report on an accrual basis. The Town was required to move to an accrual basis of accounting as part of the conditions imposed by the USDA Rural Development loan.

Business-type Activities

The decrease of $81,558 for business-type activities is due to the insufficiency of utility billing rates to fully offset the cost of providing the services.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2012 fiscal year, Governmental Funds reported total fund balances of $278,555. For the year ended June 30, 2012, the Governmental Funds' total fund balances increased by $113,451.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues over final budget of $69,247 or a 42% favorable variance. General Fund actual expenditures exceeded final appropriations by $6,812 or a 4% unfavorable variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the Town had approximately $3.1 million in capital assets (net of accumulated depreciation), including land, construction in progress, buildings and improvements, utility systems, infrastructure and equipment. Below are details regarding the Town's capital assets for the year ended June 30, 2012:

	Capital Assets		
	Governmental Activities	Business-type Activities	Total
Land	$ 14,417	$ 32,000	$ 46,417
Construction in progress	64,603	-	64,603
Buildings	207,685	-	207,685
Equipment	567,696	-	567,696
Utility systems and equipment	-	4,043,102	4,043,102
Infrastructure	192,886	-	192,886
Totals	1,047,287	4,075,102	5,122,389
Less accumulated depreciation	(625,915)	(1,353,838)	(1,979,753)
Totals, net	$ 421,372	$ 2,721,264	$ 3,142,636

This year's capital asset additions include the following:

- The continuing construction of a metal senior services building for $64,603
- The transfer of an aluminum boat and related equipment from Lincoln County in the amount of $13,500
- Purchase of a hydraulic ambulance cot for $11,500

Debt Administration

There were no new loans during the year. The Town's business-type activities began to make payments to amortize the loan from the USDA Rural Utilities services received in the prior year. The loan bears an interest rate of 2.25% and is payable in monthly installments over a forty year period. The DUA plans to maintain a sufficient rate structure for its rural water customers in order to fully amortize the debt.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The Town continues to construct and equip the new senior center, funded by a joint REAP/CDBG grant

Contacting the Town's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk's office at P.O. Box 279, Davenport, Oklahoma, 74026-0279 or telephone at 918-377-2235.

Basic Financial Statements – Statement of Net Assets and Activities

Statement of Net Assets – June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 221,931	$ 139,497	$ 361,428
Restricted - cash and cash equivalents	-	4,319	$ 4,319
Receivables	72,986	24,332	97,318
Capital assets:			
Land and construction in progress	79,020	32,000	111,020
Other capital assets, net of depreciation	342,352	2,689,264	3,031,616
Total assets	716,289	2,889,412	3,605,701
Liabilities:			
Accounts payable	10,903	15,824	26,727
Payroll payable	-	472	472
Accrued interest payable	-	185	185
Compensated absences payable	5,459	2,563	8,022
Meter deposits	-	34,080	34,080
Notes payable:			
Due within one year	-	5,409	5,409
Due in more than one year	-	326,936	326,936
Total liabilities	16,362	385,469	401,831
Net Assets:			
Invested in capital assets, net of related debt	421,372	2,388,919	2,810,291
Restricted for:			
Streets and alleys	34,822	-	34,822
Cemetery	28,989	-	28,989
Capital improvements	72,706	-	72,706
Debt service	-	4,319	4,319
Unrestricted	142,038	110,705	252,743
Total net assets	$ 699,927	$ 2,503,943	$3,203,870

See accompanying notes to the basic financial statements.

Statement of Activities – Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Change in Net Assets		
Functions/Programs	Expenses	Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	$ 253,749	$ 913	$ 239,303	$ -	$ (13,533)	$ -	$ (13,533)
Public safety	130,787	54,870	13,807	4,913	(57,197)	-	(57,197)
Streets and alleys	27,068	-	-	-	(27,068)	-	(27,068)
Cemetery	11,949	7,625	-	-	(4,324)	-	$ -
Total governmental activities	423,553	63,408	253,110	4,913	(102,122)	-	(97,798)
Business-type activities							
Water and sewer	365,301	262,187	9,483	-	-	(93,631)	(93,631)
Sanitation	52,135	64,091	-	-	-	11,956	11,956
	417,436	326,278	9,483	-	-	(81,675)	(81,675)
Total primary government	$ 840,989	$ 389,686		$ 4,913	(102,122)	(81,675)	(179,473)
	General revenues:						
	Taxes:						
	Sales and use tax				165,125	-	165,125
	Franchise and public service taxes				24,778	-	24,778
	Intergovernmental revenue				25,032	-	25,032
	Investment and royalty income				3,015	117	3,132
	Donations				8,289	-	8,289
	Miscellaneous				16,667	-	16,667
	Total general revenues				242,906	117	243,023
	Gain on disposition of asset				350	-	350
	Net effect of change in accounting principle				58,698	-	-
	Change in net assets				199,832	(81,558)	118,274
	Net assets - beginning*				500,095	2,585,501	3,085,596
	Net assets - ending				$ 699,927	$ 2,503,943	$ 3,203,870

See accompanying notes to the basic financial statements.

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Basic Financial Statements – Governmental Funds

Governmental Funds Balance Sheet – June 30, 2012

	General Fund	Street and Alley Fund	Cemetery Fund	Capital Improvements Fund	Total Governmental Funds
Assets:					
Cash and cash equivalents	$ 93,974	$ 30,618	$ 29,574	$ 67,765	$ 221,931
Receivables	62,841	5,204	-	4,941	72,986
Total Assets	156,815	35,822	29,574	72,706	294,917
Liabilities and fund balances:					
Liabilities					
Accounts payable	9,318	1,000	585	-	10,903
Payroll payable	-	-	-	-	-
Compensated absences payable	5,459	-	-	-	5,459
Total liabilities	14,777	1,000	585	-	16,362
Fund Balances:					
Restricted	-	34,822	25,334	72,706	132,862
Unrestricted					
Committed	-	-	3,655	-	3,655
Assigned - budgetary	24,234	-	-	-	24,234
Unassigned	117,804	-	-	-	117,804
Total fund balances	142,038	34,822	28,989	72,706	278,555
Total liabilities and fund balances	$ 156,815	$ 35,822	$ 29,574	$ 72,706	$ 294,917

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances – Year Ended June 30, 2012

	General Fund	Street and Alley Fund	Cemetery Fund	Capital Improvements Fund	Total Governmental Funds
Revenues:					
Taxes	$ 130,783	$ 29,560	$ -	$ 29,560	$ 189,903
Intergovernmental	17,696	7,336	-	-	25,032
Fire dues and services	12,890	-	-	-	12,890
Grant revenue	14,913	-	-	243,110	258,023
Licenses and permits	913	-	-	-	913
Cemetery sales	-	-	7,625	-	7,625
Fines and forfeitures	7,403	-	-	-	7,403
Ambulance Services	34,577	-	-	-	34,577
Royalties	2,805	-	-	-	2,805
Donations	5,245	-	3,044	-	8,289
Investment income	57	-	42	111	210
Miscellaneous	2,159	27	811	170	3,167
Total Revenues	229,441	36,923	11,522	272,951	550,837
Expenditures:					
General government	74,094	-	-	64,603	138,697
Public safety	119,027	-	-	27,345	146,372
Streets and alleys	-	24,726	-	-	24,726
Cemetery	-	-	11,939	-	11,939
HOMES program	-	-	-	174,700	174,700
Total expenditures	193,121	24,726	11,939	266,648	496,434
Excess (deficit) of revenues over expenditures	36,320	12,197	(417)	6,303	54,403
Other financing sources (uses):					
Transfer from (to) other governmental funds	14,532	-	468	(15,000)	-
Gain on sale of equipment	350	-	-	-	350
Net effect of change in accounting principle *	48,541	5,224	-	4,933	58,698
Total other financing sources (uses)	63,423	5,224	468	(10,067)	59,048
Net change in fund balance	99,743	17,421	51	(3,764)	113,451
Fund balance - beginning	42,295	17,401	28,938	76,470	165,104
Fund balance - ending	$ 142,038	$ 34,822	$ 28,989	$ 72,706	$ 278,555

*See note 1D

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	$ 278,555
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of $1,047,287, net of accumulated depreciation of $625,915 are not financial resources and, therefore, are not reported in the funds.	421,372
Net assets of governmental activities	$ 699,927

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net changes in fund balances - total governmental funds	$113,451
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 and donations capitalized	100,822
Depreciation expense	(32,144)
	68,678
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	17,703
Change in net assets of governmental activities	$199,832

See accompanying notes to the basic financial statements.

Basic Financial Statements – Proprietary Funds

Proprietary Funds Statement of Net Assets – June 30, 2012

	DUA Operating	Rural Water	Davenport Utilities Authority
ASSETS			
Current assets:			
Cash and cash equivalents	$ 121,000	$ 18,497	$ 139,497
Restricted cash	-	4,319	4,319
Receivables	24,332	-	24,332
Total noncurrent assets	145,332	22,816	168,148
Noncurrent assets:			
Capital assets, net of accumulated depreciation	1,985,103	736,161	2,721,264
Total assets	$ 2,130,435	$ 758,977	$ 2,889,412
LIABILITIES			
Current liabilities:			
Accounts payable	15,824	-	15,824
Payroll payable	422	50	472
Accrued compensated absences	2,563	-	2,563
Accrued interest payable	-	185	185
Note payable, current portion	-	5,409	5,409
Total current liabilities	18,809	5,644	24,453
Noncurrent Liabilities:			
Note payable	-	326,936	326,936
Customer deposits payable	34,080	-	34,080
Total noncurrent liabilities	34,080	326,936	361,016
NET ASSETS			
Invested in capital assets, net of related debt	1,985,103	403,816	2,388,919
Restricted - debt service	-	4,319	4,319
Unrestricted	92,443	18,262	110,705
Total net assets	$ 2,077,546	$ 426,397	$ 2,503,943

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets – Year Ended June 30, 2012

	DUA Operating	Rural Water	Davenport Utilities Authority
Operating revenues:			
Charges for sales and services:			
Water	$ 164,811	$ -	$ 164,811
Rural water	45,843	-	45,843
Sewer	41,343	-	41,343
Sanitation	64,091	-	64,091
Penalities and late fees	8,958	-	8,958
Miscellaneous	1,232	-	1,232
Total operating revenues	326,278	-	326,278
Operating expenses:			
Costs of sales and services:			
Personal services	87,789	-	87,789
Personal services - rural water	13,963	-	13,963
Maintenance & operations	71,625	138	71,763
Maintenance & operations - rural water	6,137	-	6,137
Water purchases	109,570	-	109,570
Sanitation purchases	52,135	-	52,135
Depreciation	56,593	12,506	69,099
Total operating expenses	397,812	12,644	410,456
Operating income	(71,534)	(12,644)	(84,178)
Nonoperating revenue (expense):			
Transfer (to) from other DUA fund	(7,844)	7,844	-
Capital grant revenue	-	9,483	9,483
Investment income	98	19	117
Interest expense	-	(6,980)	(6,980)
	(7,746)	10,366	2,620
Change in net assets	(79,280)	(2,278)	(81,558)
Net assets - beginning*	2,156,826	428,675	2,585,501
Net assets - ending	$ 2,077,546	$ 426,397	$ 2,503,943

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Cash Flows – Year Ended June 30, 2012

	Davenport Utilities Authority
Cash flows from operating activities:	
Receipts from customers	$ 342,694
Payments to suppliers	(238,978)
Payments to employees	(102,800)
Net cash provided by (used in) operating activities	916
Cash flows from capital and related financial activities:	
Principal paid on capital debt	(3,655)
Interest paid on capital debt	(11,054)
Capital grant revenue	9,483
Net cash provided by (used in) capital and related financing activities	(5,226)
Cash flows from investing activities	
Interest and dividends	117
Net increase (decrease) in cash and cash equivalents	(4,193)
Cash and equivalents - beginning of year	148,009
Cash and equivalents - end of year	$ 143,816
Reconciliation to State of Net Assets:	
Operating income (loss)	(84,178)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Decrease (increase) in receivables	8,094
Increase (decrease) in accounts payable	627
Increase (decrease) in payroll liabilities	(3,611)
Increase (decrease) in accrued compensated absences	2,563
Increase (decrease) in customer deposits payable	8,322
Depreciation expense	69,099
Net cash provided by (used in) operating activities	$ 916

See accompanying notes to the basic financial statements.

Footnotes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

- **The Town of Davenport** – operates the public safety, streets, and administrative activities of the Town. The Town is governed under the statutory town board of trustees form of government.

- **The Davenport Public Works Authority (DUA)** – a trust that operates the water, wastewater, and sanitation services of the Town. The Town of Davenport is the beneficiary of DUA. The Town's trustees also serve as trustees for the DUA.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*" and includes all component units for which the Town is financially accountable.

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

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

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

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

The operating statements present sources and uses of available spendable financial resources during a given period. The fund financial statements use fund balance as its measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

The Town accounts for all proprietary activities through the Davenport Utilities Authority fund. For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

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

C. Cash, Cash Equivalents, and Investments

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

D. Receivables and Payables

Governmental receivables include taxes and ambulance service fees earned but not received by the end of the fiscal year. Effective July 1, 2011, the Town has elected to define its “availability period” for recognition of revenue as funds available to be collected within 60 days after the close of a fiscal year. This change in accounting principle resulted in a one-time increase to both receivables and net assets at June 30, 2012 of $58,698. In the business-type funds, receivables include utility services provided and billed for which cash payment has not been received as of the end of the fiscal year, less an allowance for uncollectible accounts.

E. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital

assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

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

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

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

F. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

G. Compensated Absences

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

H. Fund Balances and Net Assets

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

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

c. *Unassigned* – in the general fund, residual amounts not classified in another classification; for all other funds, only residual deficit amounts

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

Net Assets:

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

I. 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.

J. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2012, the Town recognized $337 of investment income. Due to the minimal rates of return on allowable investments in the current environment, the Town's deposits are in demand and short-term time deposits.

At June 30, 2012, the primary government held the following deposits and investments:

Type	Financial Institution	Governmental Funds	Business-type Funds	Total
Demand deposits	Spirit Bank	$ 195,224	$ 143,816	$ 339,040
	CFOCU	1,673	-	1,673
Time deposits	Spirit Bank	25,034	-	25,034
Total		$ 221,931	$ 143,816	$ 365,747
Reconciliation to the statement of net assets:				
Cash and cash equivalents		$ 221,931	$ 139,497	$ 361,428
Restricted cash and cash equivalents		-	4,319	4,319
Total		$ 221,931	$ 143,816	$ 365,747

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The Town is governed by the State Public Deposit Act which requires that the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name. At June 30, 2012, all of the Town's deposits were either insured or collateralized

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

Investment Credit Risk - The Town has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the Town's public trusts.

As of June 30, 2012, the Town did not hold any securities with credit ratings since they are all non-negotiable time or demand deposits.
Concentration of Investment Credit Risk - the Town places no limit on the amount it may invest in any one issuer.
Restricted Cash and Investments – The Town's DUA maintained restricted cash balances for debt service in the amount of $4,319 at June 30, 2012.

3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital asset balances changed as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Governmental:				
Capital assets not being depreciated:				
Land	$ 14,417	-	-	$ 14,417
Construction in progress	-	64,603	-	64,603
Total capital assets not depreciated	14,417	64,603	-	79,020
Capital assets being depreciated:				
Building	207,685	-	-	207,685
Infrastructure	192,886	-	-	192,886
Equipment	596,477	36,219	65,000	567,696
Total capital assets being depreciated	997,048	36,219	65,000	968,267
Less accumulated depreciation:				
Building	30,083	3,260	-	33,343
Infrastructure	175,836	2,342	-	178,178
Equipment	452,852	26,542	65,000	414,394
Total accumulated depreciation	658,771	32,144	65,000	625,915
Governmental, net capital assets	$ 352,694	68,678	-	$ 421,372

Business-type				
Capital assets not being depreciated:	$ 32,000			$ 32,000
Land	32,000	-	-	32,000
Capital assets being depreciated:				
Sewer system and equipment	2,696,254	-	-	2,696,254
Water system and equipment	1,186,848	-	-	1,186,848
Unallocated equipment	160,000	-	-	160,000
Total capital assets being depreciated	4,043,102	-	-	4,043,102
Less accumulated depreciation				
Sewer system and equipment	996,115	43,019	-	1,039,134
Water system and equipment	205,041	6,552	-	211,593
Unallocated equipment	83,583	19,528	-	103,111
Total accumulated depreciation	1,284,739	69,099	-	1,353,838
Business-type, net capital assets	$ 2,790,363	(69,099)	-	$ 2,721,264

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

Governmental activities:		**Business-type activities:**	
General government	$ 4,955	Sewer	$ 43,019
Public safety	24,837	Water	6,552
Streets and alleys	2,342	Unallocated	19,528
Cemetery	10		
Total depreciation	$ 32,144	Total depreciation	$ 69,099

4. Long-Term Debt

For the year ended June 30, 2012, the Town's long-term debt changed as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Amount Due Within One Year
Business-type:					
Note payable	336,000	-	3,655	332,345	5,409

At June 30, 2012 the Town had the following debt outstanding to be repaid from business-type activities:

USDA Rural Development loan, dated October 22, 2010, in the amount of $336,000 with a fixed interest rate of 2.25%, payable in monthly installments of $1,079 beginning November 22, 2012 with a final payment due October 22, 2050.

Payment Requirements to Maturity:

Year ended	Business-type Activities	
June 30,	Principal	Interest
2013	5,409	7,587
2014	5,535	7,461
2015	5,663	7,333
2016	5,795	7,201
2017	5,930	7,066
2018 to 2022	31,780	33,200
2023 to 2027	35,650	29,330
2028 to 2032	39,990	24,990
2033 to 2037	44,859	20,121
2038 to 2042	50,320	14,660
2043 to 2047	56,447	8,533
2048 to 2051	44,967	1,921
	332,345	169,403

6. Risk Management

The Town and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

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

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

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

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

The Group holds funds in reserve for the Town of Davenport. These funds represent both current and past plan year participation with the Loss Fund balances in respect to the Town's worker's compensation retention. CompSource Oklahoma provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma to honor its obligations could result in losses to the Plan. However, OMAG's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.

7. Employee Retirement Plan Participation

The Town of Davenport does not provide retirement benefits to its employees, but contributes an amount as required by State law to the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of volunteer firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ fulltime or volunteer firefighters. For 2012, the Town's annual required contribution was $1,064 for the OFPRS plan which was equal to the Town's actual contribution.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS
4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

8. Commitments and Contingencies

Compensated Absences:
Full time permanent employees are awarded paid vacation leave at the rate of one week per year after one year of service, two weeks per year after two years of service, and three weeks per year after seven years of service. Unused vacation time expires one year after the award. Personal leave is paid at the rate of 12 hours per month for police officers and 8 hours per month for other employees and may be accumulated up to 120 hours. Each employee accrues 48 hours of sick leave per year which may be accumulated up to 120 hours. Upon termination, employees are paid for unused vacation time but forfeit any unused personal or sick leave balances. At June 30, 2012 the provision for compensated absences in the governmental funds was $5,459 and in proprietary funds was $2,563.

Litigation:
From time to time, the Town and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however the town's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the Town. (This provision is not available to public trusts.) The Town also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:
The Town of Davenport participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements.

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Required Supplemental Information

Budgetary Comparison Statements (Modified Cash Basis) – Year Ended June 30, 2012 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning budgetary fund balance	$ 57,465	$ 57,465	$ 42,295	$ (15,170)
Resources (inflows)				
Taxes	98,600	98,600	118,634	20,034
Intergovernmental	9,100	9,100	17,614	8,514
Fines and forfeitures	15,000	15,000	7,403	(7,597)
Licenses and permits	-	-	913	913
Fire dues and services	-	-	12,890	12,890
Grant revenue	-	-	14,913	14,913
Mediclaims ambulance service	33,800	33,800	36,782	2,982
Royalties	2,000	2,000	2,805	805
Investment income	50	50	57	7
Miscellaneous	6,500	6,500	7,754	1,254
Transfers from other funds	-	-	14,532	14,532
Total resources (inflows)	165,050	165,050	234,297	69,247
Amounts available for appropriation	**222,515**	**222,515**	**276,592**	**54,077**
Charges to appropriations (outflows):				
General and streets	67,912	67,912	64,803	3,109
Public safety	107,894	107,894	117,815	(9,921)
Transfers to other funds	-	-	-	-
Total charges to appropriations	175,806	175,806	182,618	(6,812)
Ending budgetary fund balance	$ 46,709	$ 46,709	$ 93,974	$ 47,265

Reconciliation to General Fund Balance at 6/30/2012:	
Revenue earned at 6/30/2012 but not received:	
Taxes	45,033
Intergovernmental	16,267
Other	1,541
Amounts due for goods and services received but not paid at 6/30/2012:	
General and streets	(10,816)
Public safety	(3,961)
General fund balance - governmental funds balance sheet	$ 142,038

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on a cash basis as governmental funds whereas the fund financial statements are reported on a modified cash basis.

2. The legal level of appropriation control is at the fund level. Transfer appropriations require the Mayor's approval and supplemental appropriations require the Board of Trustee's approval.

Independent Auditor's Report on Internal Control and Compliance

Anne Marie Elfrink, MS, CPA

Certified Public Accountant

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

Honorable Mayor and Board of Trustees
Town of Davenport, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davenport, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Davenport, Oklahoma's basic financial statements and have issued my report thereon dated June 10, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Davenport, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Davenport, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Davenport, Oklahoma's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies in internal control over financial reporting: 2012-01, 2012-03, 2012-04. 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 Town of Davenport's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed 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 2012-02.

I noted certain matters that I reported to the management of the Town of Davenport, Oklahoma in a separate letter dated June 10, 2013.

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

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
June 10, 2013

SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the "*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".* Consideration of items listed should be made in conjunction with that report.

2012-01 – Segregation of Duties

CONDITION: The Town uses essentially two positions to perform certain duties that are incompatible with effective internal control.

CRITERIA: The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town's assets and ensure accurate financial reporting.

CAUSE OF CONDITION: The Town's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The Town's Board should continue to exercise oversight of essential functions. The Town should consider retaining an accountant familiar with municipal finance to assist in the preparation of budgets and reports to the Board as well as cash reconciliations.

RESPONSE: Town management is aware of the risk and will continue to look for opportunities to strengthen internal controls. The Town has entered into an agreement with an accounting firm that is experienced with municipal finance to assist in trial balance preparation.

2012-02 – Negative Budget Variances

CONDITION: The Town had expenditures during the year ended June 30, 2012 in excess of appropriations in the General Fund.

CRITERIA: Oklahoma Title 11 section 17-101 requires that a municipal governing body may not draw any order on the treasurer for monies unless the same has been appropriated in the manner provided by law.

CAUSE OF CONDITION: The Town received additional revenues that were not included in the original budget and the Town's Board did not approve supplemental appropriations prior to expenditure.

POTENTIAL EFFECT OF CONDITION: The Town could be in violation of Oklahoma Statutes governing municipal finances in that expenditures could be approved by the Town's Board of Trustees which exceed available appropriations.

RECOMMENDATION: The Town Board should confirm available appropriations prior to approving expenditures. When appropriations are insufficient for an identified need, a budget revision should be approved by the Board prior to approving the additional expenditures.

RESPONSE: Town management will assure that the Board is provided with an accurate reporting of available appropriations (total budgeted appropriations less expenditures, encumbrances, and commitments) prior to approving additional expenditures, encumbrances, or commitments.

2012-03 – Lack of Board Control over Fire Department Expenditures

CONDITION: Lincoln County earmarks a portion of their county sales tax for equipment for rural fire departments. The rural fire department submits a purchase order for direct payment of the related invoice by the County. The Town's Board and financial managers were not aware of the availability of these funds or that purchases had been paid for benefit of the Town's Fire Department. In the fiscal year ended June 30, 2012, fire equipment with a total cost of $8,261 was purchased under this program and at year end the County showed unencumbered appropriations earmarked for the Davenport Fire Department in the amount of $15,494.

CRITERIA: The purchases on behalf of the Town should be included in the Town's financial statements and any equipment meeting the capitalization threshold of the Town should be added to the Town's depreciation schedule. In addition, the Town's Board and financial management should be aware of the availability and use of the funds in order to coordinate the needs of the Town's Fire Department in an effective and efficient manner.

CAUSE OF CONDITION: The Town's Fire Chief has been submitting the purchase order to the County and taking receipt of the equipment and supplies without knowledge of the Town's Board or management.

POTENTIAL EFFECT OF CONDITION: Financial statements could be misstated, invoices could be paid in duplicate (by both the Town and the County), or assets could be misappropriated or used for a purpose other than the original intention.

RECOMMENDATION: The Fire Chief submits purchase order requests through the Town's Clerk and/or Board of Trustees prior to submission to the County. The balances and transactions should be included in the financial reporting for the Town to improve transparency and accountability. Capital assets acquired under the program should be included in the Town's fixed asset listing.

RESPONSE: The Town will require the Fire Chief to submit purchase orders to the Town Clerk and Board of Trustees prior to submission to the County. The Town Clerk will request an annual ledger report from the Lincoln County Clerk and assure that the balances and transactions are included in financial reporting for the Town.

2012-04 – Unauthorized Bank Account

CONDITION: A bank account had been opened at the Central Oklahoma Federal Credit Union under the name of the Davenport Fire Department, which is a department of the Town and does not have separate legal status or tax identification number. The Fire Chief was the only authorized signer. In addition to proceeds from several fund raisers and/or general donations, two grants from the Sac and Fox Nation to the Davenport Fire Department were deposited in the

account, one for $10,000 in the current year and one for $10,000 in the prior year. The funds were used to purchase a defibrillator in the prior year and paid to the Town to purchase a hydraulic ambulance cot in the current year. The grants were solicited under the name of the Davenport Fire Department. The Town's treasurer and Board had no knowledge of the bank account, grant award, or purchase with the grant funds in the prior year.

CRITERIA: Title 62 O.S. 2001, § 335 of the Oklahoma State Statutes requires that when any money is due any town in this state it shall be paid over to the lawful treasurer thereof. The governing board shall have authority to direct by written resolution duly entered in the minutes of its meeting at the time such money is received or prior thereto that such money shall be credited to the fund account from which such property was derived or from which payment has been or will be made for such services rendered or other purposes. If there be no resolution by the governing board directing the disposition of the money received as contemplated herein it shall be the duty of the treasurer to credit such money so received to the general fund.

. CAUSE OF CONDITION: The Town's Fire Chief was unaware of the applicable statute regarding public funds.

POTENTIAL EFFECT OF CONDITION: Financial statements could be misstated or assets could be misappropriated or used for a purpose other than the original intention.

RECOMMENDATION: An accounting of all deposits and disbursements related to this account should be provided to the Town's treasurer and the bank account should be closed with any residual funds transferred to an authorized bank account of the Town.

RESPONSE: The Town has received an accounting of the funds from the Fire Chief and the bank account has been closed with all residual funds transferred to the Town's general fund.