



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

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

**TOWN OF DEPEW, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Board of Trustees

Robert Talley	Mayor
Randy Campbell	Trustee
Janet Jones	Trustee
Mylora Tuttle	Trustee
Hoyt Beasley	Trustee

Town Clerk

Susan B. Case

Chief of Police

Stephen Baber

**City Hall
407 East Main
PO Box 357
Depew, Oklahoma 74028
(918) 324-5251**

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INDEPENDENT AUDITOR'S REPORT

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Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, GFOA

3119 E 87th Street
Tulsa, Oklahoma 74137

918-361-2133
Fax: 918-512-4280

Independent Auditor's Report

Honorable Mayor and Board of Trustees
Depew, 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 Town of Depew, 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 Depew, Oklahoma'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.

As discussed in Note 1, the Town of Depew, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Depew, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 31, 2013, on my consideration of the Town of Depew, 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 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Depew, Oklahoma's financial statements as a whole. The budgetary

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comparison information on page 34 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma

May 31, 2013

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 63,596	\$ 56,723	\$ 120,319
Restricted cash and cash equivalents		19,800	19,800
Capital assets:			
Land	112,391	145,156	257,547
Construction in progress	23,205	-	23,205
Other capital assets, net of depreciation	183,561	853,997	1,037,558
 Total assets	 \$ 382,753	 \$ 1,075,676	 \$ 1,458,429
Liabilities:			
Meter deposit liability		9,734	9,734
Long term liabilities:			
Due within one year	5,094	5,468	10,562
Due in more than one year	16,450	298,746	315,196
 Total liabilities	 21,544	 313,948	 335,492
Net Assets:			
Invested in capital assets, net of related debt	297,613	694,939	992,552
Restricted for debt service		19,800	19,800
Unrestricted	63,596	46,989	110,585
 Total net assets	 \$ 361,209	 \$ 761,728	 \$ 1,122,937

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Assets</u>		
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 259,562	\$ 30,518	\$ 23,205	\$ 127,250	\$ (78,589)	\$ -	\$ (78,589)
Public safety	74,008	22,414	-	4,413	(47,181)	-	(47,181)
Highways and streets	6,695	-	-	-	(6,695)	-	(6,695)
Total governmental activities	<u>340,265</u>	<u>52,932</u>	<u>23,205</u>	<u>131,663</u>	<u>(132,465)</u>	<u>-</u>	<u>(132,465)</u>
Business-type activities:							
Water	60,806	85,704	-	-	-	24,898	24,898
Sewer	92,671	35,738	-	-	-	(56,933)	(56,933)
Sanitation	33,046	33,653	-	-	-	607	607
	<u>186,523</u>	<u>155,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,428)</u>	<u>(31,428)</u>
Total primary government	\$ 526,788	\$ 208,027	\$ -	\$ 131,663	(132,464)	(31,428)	(163,893)
General revenues:							
Taxes:							
Sales and use tax					84,582	-	84,582
Franchise and public service taxes					15,296	-	15,296
Intergovernmental revenue					6,683	-	6,683
Investment income					3	101	104
Donations and fundraising					25,364		25,364
Miscellaneous					6,593		6,593
Total general revenues					<u>138,521</u>	<u>101</u>	<u>138,622</u>
Change in net assets					6,056	(31,327)	(25,271)
Net assets - beginning					355,153	793,055	1,148,208
Net assets - ending					<u>\$ 361,209</u>	<u>\$ 761,728</u>	<u>\$ 1,122,937</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 63,596
Total Assets	<u>\$ 63,596</u>
Fund Balance:	
Unrestricted:	
Assigned - budgetary	\$ 38,687
Unassigned	24,909
Total Fund Balance	<u>\$ 63,596</u>

See accompanying notes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2012

	General Fund
Revenues:	
Taxes	\$ 99,878
Intergovernmental	6,683
Fire policies	8,900
Grant revenue	154,868
Fines and forfeitures	13,514
Licenses and permits	5,228
Rental income	25,290
Donations and fundraiser	25,364
Refunds	3,308
Investment income	3
Miscellaneous	3,284
	346,320
Expenditures:	
General government	120,366
Public safety	62,740
Highways and streets	5,275
HOMES grant expenditures	135,361
Capital outlay:	
Lagoon project	23,205
Public safety	23,896
Highways and streets	2,050
	372,893
Net change in fund balance	(26,573)
Fund balance – beginning	90,169
Fund balance – ending	\$ 63,596

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	\$ 63,596
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$512,699, net of accumulated depreciation of \$193,542 are not financial resources and, therefore, are not reported in the funds.	319,157
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements	(21,544)
Net assets of governmental activities	\$ 361,209

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net changes in fund balances - total governmental funds	\$ (26,573)
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 acquisitions	70,696
Depreciation expense	(16,523)
	54,173
Issuance of debt to finance capital assets (not reported in governmental funds)	(21,544)
Change in net assets of governmental activities	\$ 6,056

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	Depew Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 56,723
Noncurrent assets:	
Restricted cash and cash equivalents	19,800
Capital assets, net of accumulated depreciation	999,153
Total noncurrent assets	1,021,273
Total assets	\$ 1,075,676
LIABILITIES	
Current Liabilities:	
Note payable - current portion	5,468
Total current liabilities	5,468
Noncurrent Liabilities:	
Meter deposit liability	9,734
Notes payable - long term portion	298,746
Total Noncurrent Liabilities	308,480
Total liabilities	313,948
NET ASSETS	
Invested in capital assets, net of related debt	694,939
Restricted for:	
Debt service	22,120
Unrestricted	44,669
Total net assets	\$ 761,728

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) –
Year Ended June 30, 2012**

	Depew Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 85,704
Sewer	35,738
Sanitation	33,653
Total operating revenues	155,095
Operating expenses:	
Costs of sales and services:	
Water	54,687
Sewer	52,790
Sanitation	30,634
Administration	9,647
Depreciation	24,550
Total operating expenses	172,308
Operating income	(17,213)
Nonoperating revenue (expense):	
Interest expense	(14,215)
Investment income	101
Total nonoperating expense	(14,114)
Change in net assets	(31,327)
Net assets – beginning	793,055
Net assets – ending	\$ 761,728

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

	Depew Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 155,095
Payments to suppliers	(78,584)
Payments to employees (including benefits)	(69,174)
Net cash provided by (used in) operating activities	7,337
 Cash flows from capital and related financial activities:	
Investment income	101
Increase in meter deposit liability	1,988
Principal paid on capital debt	(5,585)
Interest paid on capital debt	(14,215)
Net cash provided by (used in) capital and related financing activities	(17,711)
 Net increase (decrease) in cash and cash equivalents	 (10,374)
 Cash and equivalents - beginning of year	 67,097
 Cash and equivalents - end of year	 \$ 56,723
 Reconciliation to State of Net Assets:	
Operating income	(17,213)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	24,550
Net cash provided by operating activities	\$ 7,337

See accompanying notes to the basic financial statements.

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FOOTNOTES 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 Depew** – 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 governing body is an elected five-member Board of Trustees with the Mayor serving as president of the Board.
- **The Depew Public Works Authority (DPWA)** – a trust that operates the water, wastewater, and sanitation services of the Town. The Town of Depew is the beneficiary of DPWA. There are five trustees for the DPWA; three of the Town's elected officials are appointed by the Town Board of Trustees to serve and two members are appointed at large from the community.

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:

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

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based inter-fund receivables and payables
- other cash-based receivables/payables

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- investments
- utility deposit liabilities

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

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

- General government: License and permits 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 general fund. The general fund is reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. This fund financial statement uses fund balance as its measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund financial statement 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 Depew Public Water 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 general fund is legally required to adopt an annual budget or appropriations. The public trust (DPWA) 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. Capital Assets and Depreciation

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Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. 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, 2004, the Town did not maintain capital asset records. Since that time, cash expenditures for capital assets have been recorded at cost but management has not estimated or otherwise valued assets acquired prior to that date. On July 1, 2009, the Town added assets shown on its insurance records to improve disclosure to its citizens. The assets were valued at replacement cost as shown by the insurer, deflated to estimated acquisition date (for equipment) or effective age (for buildings) using the Consumer Price Index. The addition of the assets resulted in a restatement of beginning net assets in the amount of \$73,048 for the General Fund and \$90,267 for the DPWA fund.

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

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

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. 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 resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

G. Fund Balances and Net Assets

Fund Balances:

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

- a. Nonspendable* – amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact
- b. Restricted* – amounts constrained for a specific purpose by creditors, grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation
- c. Committed* – amounts constrained for a specific purpose by the Town’s Board of Trustees
- d. Assigned* – residual amounts for any funds other than the general fund; in the general fund, amounts constrained by the Board for a specific purpose
- e. 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.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Net Assets:

Net assets are displayed in three components:

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

H. Internal and Inter-fund Balances and Transfers

The Town’s policy is to eliminate inter-fund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

I. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. The following instance of noncompliance is considered material to the financial statements

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A. Budgetary Noncompliance

For the year ended June 30, 2012, general fund expenditures exceeded appropriations by \$133,043.

3. Deposits and Investments

For the year ended June 30, 2012, the Town recognized \$104 of investment income. At June 30, 2012, all of the Town's cash was deposited in demand accounts with Spirit Bank bearing little to no interest.

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

<u>Type</u>	<u>Financial Institution</u>	<u>Carrying Value</u>
Demand deposits	Spirit Bank	\$ 140,119
Reconciliation to the statement of net assets:		
Cash and cash equivalents		\$ 120,319
Restricted cash and cash equivalents		<u>19,800</u>
Total		<u>\$ 140,119</u>

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

As of June 30, 2012 all deposits were covered by FDIC insurance. Spirit Bank has not pledged collateral to the Town.

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

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

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service.

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4. Capital Assets and Depreciation

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

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2012</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 112,391	\$ -	\$ -	\$ 112,391
Construction in progress	-	23,205	-	23,205
Total capital assets not depreciated	<u>112,391</u>	<u>23,205</u>	<u>-</u>	<u>135,596</u>
Capital assets being depreciated:				
Building	76,690	-	-	76,690
Infrastructure	57,627	-	-	57,627
Equipment	195,296	47,490	-	242,786
Total capital assets being depreciated	<u>329,613</u>	<u>47,490</u>	<u>-</u>	<u>377,103</u>
Less accumulated depreciation:				
Building	38,641	3,834	-	42,475
Infrastructure	1,012	1,153	-	2,165
Equipment	137,366	11,536	-	148,902
Total accumulated depreciation	<u>177,019</u>	<u>16,523</u>	<u>-</u>	<u>193,542</u>
Governmental, net capital assets	<u>\$ 264,985</u>	<u>\$ 54,172</u>	<u>\$ -</u>	<u>\$ 319,157</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 145,156	\$ -	\$ -	\$ 145,156
Capital assets being depreciated:				
Sewer system and equipment	925,119	-	-	925,119
Water system and equipment	179,367	-	-	179,367
Total capital assets being depreciated	<u>1,104,486</u>	<u>-</u>	<u>-</u>	<u>1,104,486</u>
Less accumulated depreciation				
Sewer system and equipment	135,708	20,843	-	156,551
Water system and equipment	90,231	3,707	-	93,938
Total accumulated depreciation	<u>225,939</u>	<u>24,550</u>	<u>-</u>	<u>250,489</u>
Business-type, net capital assets	<u>\$ 1,023,703</u>	<u>\$ (24,550)</u>	<u>\$ -</u>	<u>\$ 999,153</u>

On July 1, 2004, the Town began recording capital acquisitions at cost. Prior to that date, there were no fixed asset records. On July 1, 2009, the Town added assets shown on its insurance records to improve disclosure to its citizens. The assets were valued at replacement cost as shown by the insurer, deflated to estimated acquisition date (for equipment) or effective age (for buildings) using the Consumer Price Index.

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

Governmental activities:		Business-type activities:	
General government	\$ 3,835	Sewer	\$ 20,843
Public safety	11,268	Water	3,707
Streets and alleys	1,420		
Total depreciation	<u>\$ 16,523</u>	Total depreciation	<u>\$ 24,550</u>

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5. Long-Term Debt and Debt Service Requirements

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

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
Governmental					
Note payable	\$ -	\$ 21,544	\$ -	\$ 21,544	\$ 5,094
Business-type:					
Note payable	\$ 309,800	\$ -	\$ 5,586	\$ 304,214	\$ 5,468

At June 30, 2012 the Town had the following debt outstanding, arising from cash transactions, to be repaid from governmental activities:

Note payable to Kansas State Bank for a 2010 Dodge Charger, payable in annual installments of \$5,896.91, including principal and interest at 3.40%, final payment due December 2015. \$ 21,544

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

Note payable to USDA, Rural Development for sewer improvements, payable in monthly installments of \$1,650, including principal and interest at 4.75%, final payment due May 2041. \$304,214

Payment Requirements to Maturity:

<u>June 30,</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,094	\$ 803	\$ 5,468	\$ 14,332
2014	5,284	613	5,733	14,067
2015	5,481	416	6,012	13,788
2016	5,685	212	6,303	13,497
2017			6,609	13,191
2018 to 2022			38,184	60,816
2023 to 2027			48,397	50,603
2028 to 2032			61,342	37,658
2033 to 2037			77,750	21,250
2038 to 2042			48,416	3,153
Total	<u>\$ 21,544</u>	<u>\$ 2,044</u>	<u>\$ 304,214</u>	<u>\$ 242,355</u>

6. Risk Management

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

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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.

7. Employee Retirement Plan Participation

The Town of Depew 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 \$480 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, Contingencies, and Subsequent Events

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are not reflected in the basic financial statements. It is the practice of the current Town's management to require that leave is taken in the same fiscal year in which it is earned. Consequently, there were no unused leave balances as of June 30, 2012.

Litigation:

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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 Depew participates in various federal or state grant/loan programs from year to year. In 2012, the Town's involvement in federal and state award programs was not significant. 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.

Oklahoma Department of Environmental Quality

On February 1, 2007, the Oklahoma Department of Environmental Quality (ODEQ) and the Town of Depew agreed to consent order (CO) Case No. 06-338 that requires the Town to correct deficiencies found in the Town's wastewater treatment plant (WWTP). On June 16, 2011, the ODEQ approved a land application system in lieu of a disinfection system to address the problem.

On April 25, 2012, the Town agreed to Loan and Grant Conditions from the United States Department of Agriculture Rural Development (USDA-RD) related to approvals not to exceed \$761,000 and \$407,000, respectively, to fund the Sewer System Improvement Project.

Subsequently, questions about the integrity of the WWTP's liners prompted the requirement of a study to measure the influent and effluent flow of the sewer lagoon and consequent deferral of the previously approved land application system proposal. On January 14, 2013, the ODEQ issued Addendum B which adjusted the compliance schedule pending results of the study. The Addendum requires the submission of a revised engineering report by December 1, 2013.

On January 2, 2013, the USDA-RD granted an extension of their loan and grant approvals discussed above until September 23, 2013.

Building Code Deficiencies – City Hall

On March 19, 2013, the State of Oklahoma Office of the State Fire Marshal conducted an inspection of the Depew City Hall resulting in the finding of 6 deficiencies to be corrected within 30 days. As of May, 2013, the Town's management believed that all issues had been corrected with the exception of a roof repair or replacement estimated to cost approximately \$40,000.

Subsequent Events

These financial statements considered subsequent events through May 31, 2013, the date the financial statements were available to be issued.

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9. Operating Leases

Effective June 1, 2007 the Town entered into a lease agreement with Cellco partnership d/b/a Verizon Wireless to allow Cellco to place equipment on the Town's water tower. Effective December 1, 2011, the Town agreed to an amendment providing for an increase in the annual rental rate from \$12,000 to \$18,600 and extension term renewals each 5 years at 115% of the previous annual rental amount. The lease provides for cancellation on the annual anniversary with a 90-day notification from Cellco. The revenue generated by the lease agreement is deposited into the General Fund.

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OTHER INFORMATION

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

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Beginning budgetary fund balance	\$ 90,688	\$ 90,688	\$ 90,169	\$ (519)
Resources (inflows)				
Taxes	83,303	83,303	99,878	16,575
Intergovernmental	6,079	6,079	6,683	604
Fines and forfeitures	13,500	13,500	13,514	14
Licenses and permits	-	-	5,228	5,228
Fire policies	7,200	7,200	8,900	1,700
Grant revenue	26,650	26,650	154,868	128,218
Donations and fundraiser			25,364	25,364
Rental income		-	25,290	25,290
Investment income	65	65	3	(62)
Miscellaneous	32,275	32,275	6,592	(25,683)
Total resources (inflows)	<u>169,072</u>	<u>169,072</u>	<u>346,320</u>	<u>177,248</u>
Amounts available for appropriation	<u>259,760</u>	<u>259,760</u>	<u>436,489</u>	<u>176,729</u>
Charges to appropriations (outflows):				
General and streets	185,000	179,000	286,257	(107,257)
Police	38,900	44,900	70,168	(25,268)
Fire	15,950	15,950	16,468	(518)
Total charges to appropriations	<u>239,850</u>	<u>239,850</u>	<u>372,893</u>	<u>(133,043)</u>
Ending budgetary fund balance	<u>\$ 19,910</u>	<u>\$ 19,910</u>	<u>\$ 63,596</u>	<u>\$ 43,686</u>

Footnotes to Budgetary Comparison Schedule:

1. The Town prepares its annual budget under the provisions of the Oklahoma Municipal Budget Act in Title 11 which requires:
 - a. Preparation of financial statements for close of prior year by the first Monday in August
 - b. Preparation of the estimate of needs forms and submission to county excise board by August 22
 - c. An affidavit of publication must be filed with the county excise board no later than 5 days after filing the estimate of needs

2. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

3. The legal level of appropriation control is the fund level. Supplemental appropriations require the Board of Trustees' approval.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Anne Marie Elfrink, MS, CPA

Certified Public Accountant

3119 E 87th Street
Tulsa, Oklahoma 74137

918-361-2133
Fax: 918-512-4280

**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 Depew, 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 Depew, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Depew, Oklahoma's basic financial statements – modified cash basis and have issued my report thereon dated May 31, 2013. As discussed in Note 1, the Town of Depew prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Depew, Oklahoma'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

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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 other matters that I reported to management of the Town of Depew in a separate letter dated May 31, 2013.

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

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
May 31, 2012

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. This is somewhat mitigated by considerable onsite supervision by the Mayor.

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 control of daily 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 bank reconciliations, preparation of financial reports to the Board, and 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 grants and donations 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.

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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.