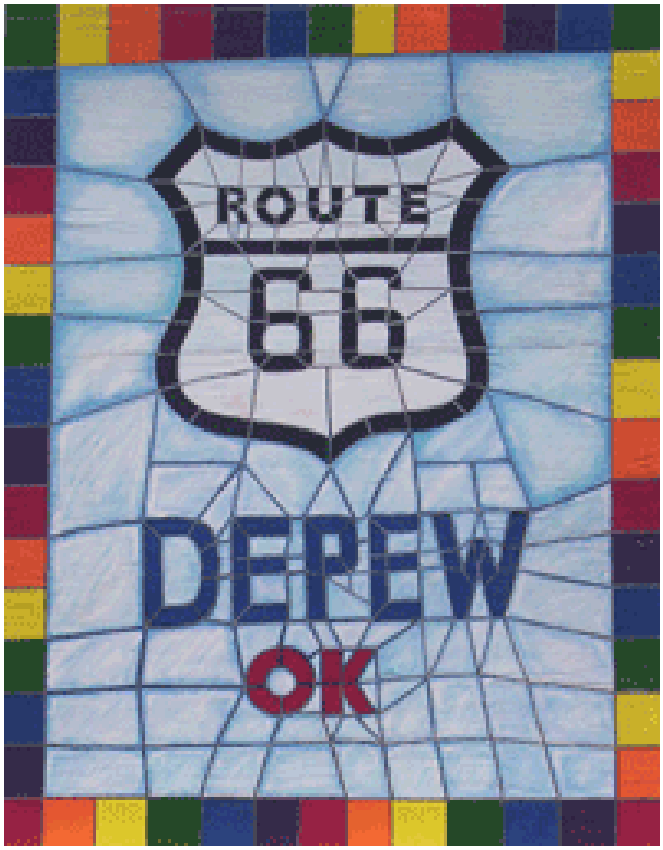

THE TOWN OF DEPEW, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Board of Trustees

Robert Talley	Mayor
Randy Campbell	Trustee
Janet Jones	Trustee
Jimmy Hightower	Trustee
Michael Gulliver	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, OSCPA, GFOA

3119 E 87th Street
Tulsa, Oklahoma 74137

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Board of Trustees
Town of Depew, State Oklahoma

I have audited the accompanying financial statements-modified cash basis of the Town of Depew, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements-modified cash basis, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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, and the general fund of the Town of Depew, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

Basis of Accounting

I draw attention to Note 1B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Depew, Oklahoma's basic financial statements. The budgetary comparison information on page 35, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 17, 2013, on my consideration of the Town of Depew, 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* in considering Town of Depew, Oklahoma's internal control over financial reporting and compliance.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
September 17, 2013

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET POSITION AND ACTIVITIES

Statement of Net Position (Modified Cash Basis) – June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 40,655	$ 60,248	$ 100,903
Capital assets:			
Land	114,191	145,156	259,347
Construction in progress	42,476	-	42,476
Other capital assets, net of depreciation	179,096	847,911	1,027,007
Total assets	376,418	1,053,315	1,429,733
Liabilities:			
Meter deposit liability		8,924	8,924
Long term liabilities:			
Due within one year	5,284	5,713	10,997
Due in more than one year	11,165	293,443	304,608
Total liabilities	16,449	308,080	324,529
Net Position:			
Net investment in capital assets	319,314	693,911	1,013,225
Restricted for debt service		19,800	19,800
Unrestricted	40,655	31,524	72,179
Total net position	$ 359,969	$ 745,235	$ 1,105,204

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Change in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Capital Grants**	**Operating Grants**	**Governmental Activities**	**Business-type Activities**	**Total**
Primary government:							
Governmental activities:							
General government	$ 291,332	$ 29,758	$ -	$ 165,628	$ (95,946)	$ -	$ (95,946)
Public safety	109,747	64,832	-	4,484	(40,431)	-	(40,431)
Highways and streets	2,545	-	-	-	(2,545)	-	(2,545)
Total governmental activities	403,624	94,590	-	170,112	(138,922)	-	(138,922)
Business-type activities							
Water	59,718	77,807	-	-	-	18,089	18,089
Sewer	89,773	36,987	14,795	-	-	(37,991)	(37,991)
Sanitation	30,544	33,868	-	-	-	3,324	3,324
						-	-
	180,035	148,662	14,795	-	-	(16,578)	(16,578)
Total primary government	$ 583,659	$ 243,252	$ 14,795	$ 170,112	(138,922)	(16,578)	(155,500)
General revenues:							
Taxes:							
Sales and use tax					109,169	-	109,169
Franchise and public service taxes					16,196	-	16,196
Intergovernmental revenue					7,635	-	7,635
Investment income					5	85	90
Donations and fundraising					2,128	-	2,128
Gain on sale of asset					500	-	500
Miscellaneous					2,049	-	2,049
Total general revenues					137,682	85	137,767
Change in net position					(1,240)	(16,493)	(17,733)
Net position - beginning					361,209	761,728	1,122,937
Net position - ending					$ 359,969	$ 745,235	$ 1,105,204

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

		General Fund
Assets:		
Cash and cash equivalents	$	40,655
Total Assets		40,655
Fund Balance:		
Unrestricted:		
Assigned – encumbrance		14,000
Unassigned		26,655
Total Fund Balance	$	40,655

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2013

	General Fund
Revenues:	
Taxes	$ 125,365
Intergovernmental	7,635
Fire policies	9,500
Grant revenue	170,112
Fines and forfeitures	55,332
Licenses and permits	7,468
Rental income	22,290
Donations and fundraiser	2,128
Investment income	5
Miscellaneous	2,049
Asset sale proceeds	500
Total Revenues	402,384
Expenditures:	
General government	146,947
Public safety	103,007
HOMES grant expenditures	140,550
Capital outlay:	
General government	34,821
Total expenditures	425,325
Net change in fund balance	(22,941)
Fund balance - beginning	63,596
Fund balance - ending	$ 40,655

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Fund balances of governmental funds	$ 40,655
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of $519,559, net of accumulated depreciation of $183,796 are not financial resources and, therefore, are not reported in the funds.	335,763
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements	(16,449)
Net position of governmental activities	$ 359,969

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	$ (22,941)
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:	
Cash purchases of capital assets	34,821
Depreciation expense	(18,215)
	16,606
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:	
Debt obligation principal payments	5,095
Change in net position of governmental activities	$ (1,240)

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2013

	Depew Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	$ 31,524
Noncurrent assets:	
Restricted cash and cash equivalents	28,724
Capital assets, net of accumulated depreciation	993,067
Total noncurrent assets	1,021,791
Total assets	1,053,315
LIABILITIES	
Current Liabilities:	
Note payable - current portion	5,713
Total current liabilities	5,713
Noncurrent Liabilities:	
Meter deposit liability	8,924
Notes payable - long term portion	293,443
Total noncurrent liabilities	302,367
Total liabilities	308,080
NET POSITION	
Net investment in capital assets	693,911
Restricted for:	
Debt service	19,800
Unrestricted	31,524
Total net position	$ 745,235

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013

	Depew Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	$ 74,204
Sewer	35,274
Sanitation	32,300
Penalties	6,884
Total operating revenues	148,662
Operating expenses:	
Costs of sales and services:	
Water	54,856
Sewer	51,560
Sanitation	29,389
Administration	4,621
Depreciation	24,867
Total operating expenses	165,293
Operating income	(16,631)
Nonoperating revenue (expense):	
Grant income	14,795
Interest expense	(14,742)
Investment income	85
Total nonoperating expense	138
Change in net position	(16,493)
Net position - beginning	761,728
Net position - ending	$ 745,235

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2013

	Depew Public Works Authority
Cash flows from operating activities:	
Receipts from customers	$ 148,662
Payments to suppliers	(72,232)
Payments to employees (including benefits)	(68,194)
Refunds of customer utility deposits	(810)
Net cash provided by (used in) operating activities	7,426
Cash flows from capital and related financial activities:	
Capital grant received for construction of capital assets	14,795
Purchase of capital assets	(18,781)
Investment income	85
Principal paid on capital debt	(5,058)
Interest paid on capital debt	(14,742)
Net cash provded by (used in) capital and related financing activities	(23,701)
Net increase (decrease) in cash and cash equivalents	(16,275)
Cash and equivalents - beginning of year	76,523
Cash and equivalents - end of year	$ 60,248
Reconciliation to State of Net Position:	
Operating income	(16,631)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	24,867
Decrease in meter deposit liability	(810)
Net cash provided by operating activities	$ 7,426

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. Town's Financial Reporting Entity

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

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

- **The Town of 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 created pursuant to 60 O.S. Section 176 to operate 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 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 Council Statement No. 14, as amended by Statement No. 61, *The financial Reporting Entity*, and includes all component unites for which the Town is financially accountable.

The component unit is a Public Trust pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Board of Trustees to delegate certain functions to the governing body of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority-generated resources. The Town, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Implementation of New Accounting Standards:

The Town has implemented the effect of the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):
Statement 60 – Service Concession Arrangements (no material effect)
Statement 61 – The Financial Reporting Entity (no material effect)
Statement 62 – Codification of pre-1989 FASB standards and AICPA pronouncements (no material effect)
Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (change in statement titles, totals, and subtotals)
Statement 65 – Items Previously reported as Assets and Liabilities (adopted early, with no material effect)

Government-Wide Financial Statements:

The statement of net position 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
- 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, rents, and operating grants
- Public safety: Fine revenue, fire runs, rural fire policies, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

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 position, 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

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 position 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 Position

Fund Statements:
Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

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* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance.
d. *Assigned* – includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Board of Trustees action or management decision when the Town's Board has delegated the authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
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 position:
Net position is displayed in three components:
a. *Net investment in capital assets* - 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 position* - Consists of net position 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 position* - All other net position 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 position 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 instances of noncompliance are considered material to the financial statements

.

A. Budgetary Noncompliance

For the year ended June 30, 2013, general fund expenditures exceeded appropriations by $248,041.

3. Related Party Transactions

During the 2013 fiscal year, the Town and DPWA contracted with a DPWA Board of Trustee member to provide cleaning services for the City Hall. The total transactions with the Town and the DPWA were $2,468 and $1,104, respectively.

4. Deposits and Investments

For the year ended June 30, 2013, the Town recognized $90 of investment income. At June 30, 2013, all of the Town's cash was deposited in demand accounts with Spirit Bank bearing little to no interest.

At June 30, 2013, the primary government held the following deposits and investments:

Type	Financial Institution	Carrying Value
Demand deposits	Spirit Bank	$ 100,903
Reconciliation to the statement of net position:		
Cash and cash equivalents		$ 81,103
Restricted cash and cash equivalents		19,800
Total		$ 100,903

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, 2013 all deposits were covered by FDIC insurance and the Town was not exposed to custodial credit risk as defined above. Spirit Bank has not pledged collateral to the Town.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town has no investment policy that limits investments based on maturity. The Town discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

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.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Town (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Town has no investment policy regarding concentration of credit risk.

At June 30, 2013, the Town had no investment interest rate risk, investment credit risk, or concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for debt service and for utility deposits of the Depew Public Works Authority. The restricted assets as of June 30, 2013 are as follows:

Type	Current Cash and Cash Equivalents
Debt service	$ 19,800
Utility deposits	8,924
Total	$ 28,724

5. Sales Tax Revenue

Sales tax revenue represents a 4.0 cent local tax on each dollar of sales within the Town to be used for general operations of the Town.

6. Property Tax Levy

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

7. Internal and Interfund Balances and Transfers

There were no internal cash transfers between funds and activities for the year ended June 30, 2013

On May 16, 2011 the Depew Public Works Authority issued an on-demand promissory note to the Town in the amount of $103,879 in exchange for the transfer of land to be used for a planned future expansion of

the sewer lagoon. Due to the modified cash basis of accounting, this transaction is not recorded in the financial statements as no cash inflows or outflows were involved. The note is unsecured, non interest bearing, and is due no later than May 16, 2016.

8. Capital Assets and Depreciation

For the year ended June 30, 2013, capital asset balances changed as follows:

	Balance at July 1, 2012	Additions	Deductions	Balance at June 30, 2013
Governmental:				
Capital assets not being depreciated:				
Land	$ 112,391	$ 1,800	$ -	$ 114,191
Construction in progress	23,205	19,271	-	42,476
Total capital assets not depreciated	135,596	21,071	-	156,667
Capital assets being depreciated:				
Building	127,730	-	-	127,730
Infrastructure	57,627	-	-	57,627
Equipment	191,746	13,750	27,961	177,535
Total capital assets being depreciated	377,103	13,750	27,961	362,892
Less accumulated depreciation:				
Building	66,719	6,385	-	73,104
Infrastructure	2,165	1,153	-	3,317
Equipment	124,658	10,677	27,961	107,374
Total accumulated depreciation	193,542	18,215	27,961	183,796
Governmental, net capital assets	$ 319,157	$ 16,606	$ -	$ 335,763
Business-type				
Capital assets not being depreciated:				
Land	$ 145,156	$ -	$ -	$ 145,156
Capital assets being depreciated:				
Sewer system and equipment	925,119	18,781		943,900
Water system and equipment	179,367	-		179,367
Total capital assets being depreciated	1,104,486	18,781	-	1,123,267
Less accumulated depreciation				
Sewer system and equipment	156,551	21,160		177,711
Water system and equipment	93,938	3,707		97,645
Total accumulated depreciation	250,489	24,867	-	275,356
Business-type, net capital assets	$ 999,153	$ (6,086)	$ -	$ 993,067

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.

On May 23, 2011, the Town executed a warranty deed to convey land purchased by the Town for the expansion of the sewer lagoon to the DPWA in exchange for an on-demand note. Due to the modified cash basis of accounting, the transaction has not been recorded in the financial statements and the land remains to be shown as an asset of the Town as the transaction did not involve an inflow or outflow of cash.

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	$ 21,160
Public safety	11,835	Water	3,707
Streets and alleys	2,545		
Total depreciation	$ 18,215	Total depreciation	$ 24,867

9. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2013, the reporting entity's long-term debt changed as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amount Due Within One Year
Governmental					
Note payable	21,544	-	5,095	16,449	5,284
Business-type:					
Note payable	304,214	-	5,058	299,156	5,713

At June 30, 2013 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.	$ 16,449

At June 30, 2013 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.	$299,156

Payment Requirements to Maturity:

`	Governmental activities		Business-type activities	
June 30,	Principal	Interest	Principal	Interest
2014	$ 5,284	$ 613	$ 5,713	$ 14,087
2015	5,481	416	5,991	13,809
2016	5,685	212	6,282	13,518
2017			6,587	13,213
2018			6,906	12,894
2019 to 2023			39,898	59,102
2024 to 2028			50,570	48,430
2029 to 2033			64,097	34,903
2034 to 2038			81,242	17,758
2039 to 2043			31,870	1,350
Total	$ 16,450	$ 1,241	$ 299,156	$ 229,064

10. 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.

11. Employee Retirement Plan Participation

The Town of Depew does not provide retirement benefits to its employees, but, as employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ full-time or volunteer firefighters.

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

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

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

The OFPRS contributions are as follows:

Fiscal year	Required Contribution	Amount Contributed
2011	$680	$680
2012	$480	$480
2013	$480	$480

12. 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, 2013.

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 Depew participates in various federal or state grant/loan programs from year to year. In 2013, 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, 2012, the ODEQ approved a land application system in lieu of a disinfection system to address the problem.

On April 25, 2013, 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 June, 2013, the Town's management believed that all issues had been corrected with the exception of a roof repair or replacement which was approximately 60% complete.

Encumbrances

As of June 30, 2013, the Town had a remaining commitment of $14,000 to a contractor for repair of the City Hall roof.

Subsequent Events

These financial statements considered subsequent events through September 17, 2013, the date the financial statements were available to be issued.

13. 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, 2012, 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.

OTHER INFORMATION

Budgetary Comparison Statements (Modified Cash Basis) – Year Ended June 30, 2013 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
Beginning budgetary fund balance	$ 63,366	$ 63,366	$ 63,596	$ 230
Resources (inflows)				
Taxes	87,262	87,262	125,365	38,103
Intergovernmental	6,748	6,748	7,635	887
Fines and forfeitures	7,115	7,115	55,332	48,217
Licenses and permits	5,960	5,960	7,468	1,508
Fire policies	9,288	9,288	9,500	212
Grant revenue	-	-	170,112	170,112
Donations and fundraiser	-	-	2,128	2,128
Rental income	-	-	22,290	22,290
Investment income	-	-	5	5
Miscellaneous	22,224	22,224	2,549	(19,675)
Total resources (inflows)	138,597	138,597	402,384	263,787
Amounts available for appropriation	**201,963**	**201,963**	**465,980**	**264,017**
Charges to appropriations (outflows):				
General and streets	120,943	114,943	322,318	(207,375)
Police	41,110	47,110	82,876	(35,766)
Fire	15,231	15,231	20,131	(4,900)
Total charges to appropriations	177,284	177,284	425,325	(248,041)
Ending budgetary fund balance	$ 24,679	$ 24,679	$ 40,655	$ 15,976

Footnotes to Budgetary Comparison Schedule:

1. The Town prepares its annual budget under the Estimate of Needs laws (Oklahoma Statutes 68 section 3001-33 and 62 section 461) which is applicable to all municipalities that have not opted, by resolution, to come under the Municipal Budget Act in Title 11. Budgets are only required for the General Fund and, if applicable the Sinking Fund, and "cash fund" budgets for certain other funds only as cash is received. These statutes require:

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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCPA, and GFOA

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INDEPENDENT AUDITOR'S 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*

To the Honorable Mayor and Members of the Board of Trustees
Town of Depew, Oklahoma

I have audited, in accordance with the 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, the financial statements-modified cash basis of the governmental activities, the business-type activities, and the general fund of the Town of Depew, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Depew, Oklahoma's basic financial statements-modified cash basis and have issued my report thereon dated September 17, 2013. As described in Note 1B, the Town of Depew, Oklahoma has elected to report on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Depew, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Depew, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of Town of Depew, Oklahoma's internal control.

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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies. [2013-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Depew, Oklahoma's financial statements are free from 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*.[2013-02]

Town of Depew, Oklahoma's Response to Findings

The Town of Depew, Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings. The Town of Depew, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
September 17, 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.

2013-01 – 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.

2013-02 – Negative Budget Variances

CONDITION: The Town had expenditures of $248,041 during the year ended June 30, 2013 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.

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.