



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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOWN OF DEPEW, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2015

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Board of Trustees

Doug Tuttle	Mayor
Randy Campbell	Trustee
Neva Webb	Trustee
Jim Hightower	Trustee
Darrell McGuire	Trustee

Town Clerk

Gale LeFrain

Chief of Police

Jimmy Boyett

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

**TOWN OF DEPEW, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

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TOWN OF DEPEW, OKLAHOMA
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As of and for the Year Ended June 30, 2015

Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, and GFOA

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Tulsa, Oklahoma 74137

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Board of Trustees
Town of Depew, State of 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, 2015, 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.

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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, 2015, 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 32, 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 February 3, 2016, 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 the Town of Depew, Oklahoma’s internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
February 3, 2016

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**BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND
ACTIVITIES**

TOWN OF DEPEW, OKLAHOMA
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Statement of Net Position (Modified Cash Basis) – June 30, 2015

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 160,532	\$ 103,207	\$ 263,739
Restricted cash and cash equivalents	-	27,845	27,845
Capital assets:			
Land	116,191	145,155	261,346
Construction in progress	28,105	18,601	46,706
Other capital assets, net of depreciation	187,902	897,532	1,085,434
Total assets	492,730	1,192,340	1,685,070
Liabilities:			
Meter deposit liability		8,045	8,045
Long term liabilities:			
Due within one year	5,685	6,282	11,967
Due in more than one year	-	281,172	281,172
Total liabilities	5,685	295,499	301,184
Net Position:			
Net investment in capital assets	326,513	755,233	1,081,746
Restricted for debt service	-	19,800	19,800
Unrestricted	160,532	121,808	282,340
Total net position	\$ 487,045	\$ 896,841	\$ 1,383,886

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 165,191	\$ 5,012	\$ 81,000	\$ -	\$ (79,179)	\$ -	\$ (79,179)
Public safety	56,072	58,259	-	-	2,187	-	2,187
Highways and streets	9,646	-	-	-	(9,646)	-	(9,646)
Total governmental activities	230,909	63,271	81,000	-	(86,638)	-	(86,638)
Business-type activities							
Water and sewer	122,624	170,974	-	-	-	48,350	48,350
Sanitation	29,389	36,203	-	-	-	6,814	6,814
	152,013	207,177	-	-	-	55,164	55,164
Total primary government	\$ 382,922	\$ 270,448	\$ 81,000	\$ -	(86,638)	55,164	(31,474)
General revenues:							
Taxes:							
Sales and use tax					133,606	-	133,606
Franchise and public service taxes					15,053	-	15,053
Intergovernmental revenue					8,600	-	8,600
Donations and fundraising					902	-	902
Vendor proceeds					18,712	-	18,712
Investment income					194	23	217
Miscellaneous					757	-	757
Transfers, net					(81,271)	81,271	-
Total general revenues					96,553	81,294	177,847
Change in net position					9,915	136,458	146,373
Net position - beginning					477,130	760,383	1,237,513
Net position - ending					\$ 487,045	\$ 896,841	\$ 1,383,886

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, 2015

	General Fund
	<hr/>
Assets:	
Cash and cash equivalents	\$ 160,532
Total Assets	<hr/> <hr/> 160,532
Fund Balance:	
Unrestricted:	
Assigned - fire department	122,771
Unassigned	37,761
Total Fund Balance	<hr/> <hr/> \$ 160,532

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, 2015

	General Fund
Revenues:	
Taxes	\$ 148,659
Intergovernmental	8,600
Fire runs and policies	15,112
Grant revenue	81,000
Fines and forfeitures	43,147
Licenses and permits	1,562
Rental income and event fees	3,450
Donations and fundraiser	902
Investment income	193
Vendor proceeds	18,712
Miscellaneous	757
Total Revenues	322,094
Expenditures:	
General government	160,160
Public safety	49,275
Highways and streets	5,819
Capital outlay:	
General government	6,900
Total expenditures	222,154
Change in fund balance before transfers	99,940
Transfers to DPWA, net	(81,271)
Net change in fund balance	18,669
Fund balance - beginning	141,863
Fund balance - ending	\$ 160,532

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Fund balances of governmental funds	\$ 160,532
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of \$558,017, net of accumulated depreciation of \$225,819 are not financial resources and, therefore, are not reported in the funds.	332,198
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements	(5,685)
Net position of governmental activities	<u>\$ 487,045</u>

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	\$ 18,669
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	6,900
Depreciation expense	<u>(21,134)</u>
	<u>(14,234)</u>
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	5,480
Change in net position of governmental activities	<u>\$ 9,915</u>

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 Position (Modified Cash Basis) – June 30, 2015

	<u>Depew Public Works Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 103,207
Noncurrent assets:	
Restricted cash and cash equivalents	27,845
Capital assets, net of accumulated depreciation	<u>1,061,288</u>
Total noncurrent assets	<u>1,089,133</u>
Total assets	<u><u>1,192,340</u></u>
LIABILITIES	
Current Liabilities:	
Note payable - current portion	<u>6,282</u>
Total current liabilities	<u>6,282</u>
Noncurrent Liabilities:	
Meter deposit liability	8,045
Note payable - long term portion	<u>281,172</u>
Total Noncurrent Liabilities	<u>289,217</u>
Total liabilities	<u><u>295,499</u></u>
NET POSITION	
Net investment in capital assets	773,834
Restricted for:	
Debt service	19,800
Unrestricted	<u>103,207</u>
Total net position	<u><u>\$ 896,841</u></u>

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
– Year Ended June 30, 2015

	<u>Depew Public Works Authority</u>
Operating revenues:	
Charges for sales and services:	
Water	\$ 71,160
Sewer	68,663
Sanitation	36,203
Rent	23,265
Penalties	7,888
Total operating revenues	<u>207,179</u>
Operating expenses:	
Costs of sales and services:	
Water and sewer	79,656
Sanitation	29,389
Administration	4,718
Depreciation	24,443
Total operating expenses	<u>138,206</u>
Operating income	<u>68,973</u>
Nonoperating revenue (expense) and transfers:	
Interest expense	(13,809)
Investment income	23
Transfers from Town, net	81,271
Total nonoperating expense	<u>67,485</u>
Change in net position	<u>136,458</u>
Net position - beginning	760,383
Net position - ending	<u><u>\$ 896,841</u></u>

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, 2015

	<u>Depew Public Works Authority</u>
Cash flows from operating activities:	
Receipts from customers	\$ 207,179
Payments to suppliers	(53,466)
Payments to employees (including benefits)	(60,297)
Net cash provided by (used in) operating activities	<u>93,416</u>
Changes from non-capital financing activities:	
Transfer from primary government	<u>81,271</u>
Net cash used in non-capital financing activities	<u>81,271</u>
Cash flows from capital and related financial activities:	
Purchase of capital assets	(96,297)
Principal paid on capital debt	(5,991)
Interest paid on capital debt	(13,809)
Net cash used in capital and related financing activities	<u>(116,097)</u>
Cash flows from investing activities:	
Investment income	<u>23</u>
Net cash provided by investing activities	<u>23</u>
Net increase in cash and cash equivalents	58,613
Cash and equivalents - beginning of year	<u>72,439</u>
Cash and equivalents - end of year	<u>\$ 131,052</u>
Reconciliation to the Statement of Net Position:	
Cash and cash equivalents	\$ 103,207
Restricted cash and cash equivalents	<u>27,845</u>
Total cash and cash equivalents	<u>\$ 131,052</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 68,973
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	<u>24,443</u>
Net cash provided by operating activities	<u>\$ 93,416</u>

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. 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 August 11, 1997 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. The five trustees of the Town also serve as trustees for the DPWA.

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

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

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

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

- General government: License and permits, rents, and 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

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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.

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.

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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, 2015, general fund expenditures exceeded appropriations by \$111,449.

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3. Deposits and Investments

For the year ended June 30, 2015, the Town recognized \$217 of investment income

At June 30, 2015, the primary government held the following deposits and investments:

<u>Type</u>	<u>Financial Institution</u>	<u>Carrying Value</u>
Demand deposits	Spirit Bank	\$ 167,833
Demand deposits	Community Bank	123,751
		<u>\$ 291,584</u>
Reconciliation to the statement of net assets:		
Cash and cash equivalents		\$ 263,739
Restricted cash and cash equivalents		27,845
Total		<u>\$ 291,584</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, 2015 all deposits were covered by FDIC insurance and the Town was not exposed to custodial credit risk as defined above. Both Spirit Bank and Community Bank have 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.

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At June 30, 2015, 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, 2015 are as follows:

<u>Type</u>	<u>Carrying Value</u>
Debt service	\$ 19,800
Utility deposits	8,045
Total	<u>\$ 27,845</u>

4. 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.

5. 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.

6. Rental Income

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 Depew Public Works Authority Fund.

7. Internal and Interfund Balances and Transfers

Internal transfers between funds and activities for the year ended June 30, 2015 were related to a grant deposited in the General Fund that was used for a water project.

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.

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8. Capital Assets and Depreciation

For the year ended June 30, 2015, capital asset balances changed as follows:

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2015</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 114,191	\$ 2,000	\$ -	\$ 116,191
Construction in progress	23,205	4,900	-	28,105
Total capital assets not depreciated	<u>137,396</u>	<u>6,900</u>	<u>-</u>	<u>144,296</u>
Capital assets being depreciated:				
Building	151,658	-	-	151,658
Infrastructure	57,627	-	-	57,627
Equipment	204,436	-	-	204,436
Total capital assets being depreciated	<u>413,721</u>	<u>-</u>	<u>-</u>	<u>413,721</u>
Less accumulated depreciation:				
Buildings	80,647	7,583	-	88,230
Infrastructure	4,469	1,153	-	5,622
Equipment	119,569	12,398	-	131,967
Total accumulated depreciation	<u>204,685</u>	<u>21,134</u>	<u>-</u>	<u>225,819</u>
Governmental, net capital assets	<u>\$ 346,432</u>	<u>\$ (14,234)</u>	<u>\$ -</u>	<u>\$ 332,198</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 145,156	\$ -	\$ -	\$ 145,156
Construction in progress	18,601	-	-	18,601
Land	<u>163,757</u>	<u>-</u>	<u>-</u>	<u>163,757</u>
Capital assets being depreciated:				
Sewer system and equipment	945,650	-	-	945,650
Water system and equipment	180,617	96,297	-	276,914
Total capital assets being depreciated	<u>1,126,267</u>	<u>96,297</u>	<u>-</u>	<u>1,222,564</u>
Less accumulated depreciation				
Sewer system and equipment	199,217	19,899	-	219,116
Water system and equipment	101,373	4,544	-	105,917
Total accumulated depreciation	<u>300,590</u>	<u>24,443</u>	<u>-</u>	<u>325,033</u>
Business-type, net capital assets	<u>\$ 989,434</u>	<u>\$ 71,854</u>	<u>\$ -</u>	<u>\$ 1,061,288</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.

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.

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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	\$ 5,031	Sewer	\$ 19,899
Public safety	12,276	Water	4,544
Highways and streets	3,827		
Total depreciation	<u>\$ 21,134</u>	Total depreciation	<u>\$ 24,443</u>

9. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2015, the reporting entity's long-term debt changed as follows:

	Balance			Balance	Amount Due
	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>	<u>Within One Year</u>
Governmental					
Note payable	\$ 11,165	-	\$ 5,480	\$ 5,685	\$ 5,685
Business-type:					
Note payable	\$ 293,445	-	\$ 5,991	\$ 287,454	\$ 6,282

At June 30, 2015 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. \$ 5,685

At June 30, 2015 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. \$287,454

Payment Requirements to Maturity:

June 30,	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 5,685	\$ 212	\$ 6,282	\$ 13,518
2017			6,586	13,214
2018			6,906	12,894
2019			7,242	12,558
2020			7,593	12,207
2021 to 2025			43,866	55,134
2026 to 2030			55,599	43,401
2031 to 2035			70,471	28,529
2036 to 2040			82,909	9,716
Total	<u>\$ 5,685</u>	<u>\$ 212</u>	<u>\$ 287,454</u>	<u>\$ 201,171</u>

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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

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contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2013	\$680	\$680
2014	\$360	\$360
2015	\$680	\$680

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, 2015.

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 2015, 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

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adjusted the compliance schedule pending results of the study. The Addendum required the submission of a revised engineering report by December 1, 2013 which was completed.

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

Subsequent Events

These financial statements considered subsequent events through February 3, 2016, the date the financial statements were available to be issued.

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OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2015 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 17,293	\$ 17,293	\$ 141,863	\$ 124,570
Resources (inflows)				
Taxes	106,316	106,316	148,659	42,343
Intergovernmental	7,170	7,170	8,600	1,430
Fines and forfeitures	48,000	48,000	43,147	(4,853)
Licenses and permits	6,248	6,248	1,562	(4,686)
Fire policies	5,700	5,700	15,112	9,412
Grant revenue	4,000	4,000	81,000	77,000
Donations and fundraiser	-	-	902	902
Rental income	3,600	3,600	22,162	18,562
Miscellaneous	9,500	9,500	950	(8,550)
Total resources (inflows)	<u>190,534</u>	<u>190,534</u>	<u>322,094</u>	<u>131,560</u>
Amounts available for appropriation	<u>207,827</u>	<u>207,827</u>	<u>463,957</u>	<u>256,130</u>
Charges to appropriations (outflows):				
General and streets	116,650	110,650	172,879	(62,229)
Police	70,226	76,226	40,568	35,658
Fire	5,100	5,100	8,707	(3,607)
Net transfers to DPWA	-	-	81,271	(81,271)
Total charges to appropriations	<u>191,976</u>	<u>191,976</u>	<u>303,425</u>	<u>(111,449)</u>
Ending budgetary fund balance	<u>\$ 15,851</u>	<u>\$ 15,851</u>	<u>\$ 160,532</u>	<u>\$ 144,681</u>

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. In the fiscal year ended June 30, 2015 the Town’s charges to appropriations exceeded appropriations by \$111,449.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCP, 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, 2015, 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 February 3, 2016. 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

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accompanying schedule of findings and responses that I consider to be significant deficiencies. [2015-01].

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*. [2015-02]

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 and responses. 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

Tulsa, Oklahoma
February 3, 2016

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.

2015-01 – 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.

RESPONSE: Town management is aware of the risk and will continue to look for opportunities to strengthen internal controls.

2015-02 – Negative Budget Variances

CONDITION: The Town had expenditures of \$111,449 during the year ended June 30, 2015 in excess of appropriations in the General Fund. This is continued from 2014.

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 did not monitor expenditures during the year to assure that legal appropriations were not exceeded.

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’s 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.

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RESPONSE: The Town's 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.