

**TOWN OF VELMA, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDING JUNE 30, 2017  
WITH INDEPENDENT AUDITOR'S REPORT**

## Table of Contents

Independent Auditor's Report .....	1-2
Statement of Net Position - Modified Cash Basis .....	3
Statement of Activities - Modified Cash Basis .....	4
Fund Financial Statements	
Balance Sheet-Modified Cash Basis-Governmental Funds .....	5
Statement of Revenues, Expenditures and Changes in in Net Position-Modified Cash Basis-Governmental Funds .....	6
Statement of Net Position-Modified Cash Basis-Proprietary Fund .....	7
Statement of Revenues, Expenses, and Changes in Net Position-Modified Cash Basis-Proprietary Funds .....	8
Notes to the Basic Financial Statements .....	9-16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17-18
Schedule of Findings and Responses.....	19

# Russell & Williams CPAs, PC

Casey J. Russell, C.P.A., M.B.A.  
Autumn L. Williams, C.P.A., Esq.  
Member AICPA & OSCP

2812 NW 57<sup>th</sup> Street, Suite 102  
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743  
Fax: (405) 607-8744  
Email: caseycpa@hotmail.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Town of Velma, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the Town of Velma, Oklahoma as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Town'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 as described in Note 1.C. 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 fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
General Fund	Unmodified
Fire Department Fund	Unmodified
Ambulance Department Fund	Unmodified
Non-Major Funds	Unmodified
Proprietary Fund	Adverse

### **Basis for Adverse Opinion**

Accounting principles applicable to the Town's modified cash basis of accounting require that capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental wide activities and business-type activities. The Town had not capitalized any fixed assets as of June 30, 2017. The amounts by which this departure would affect the modified cash-basis assets and expenses of the governmental activities have not been determined.

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1C, the modified cash-basis financial position of the governmental wide activities of the Town of Velma, Oklahoma, as of June 30, 2016, and the change in modified cash-basis financial position thereof for the year then ended.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the major funds of the Town of Velma, Oklahoma as of June 30, 2017, and the respective changes in modified cash-basis financial position for the year then ended in conformity with the basis of accounting described in Note 1C.

### **Other Matters**

#### **Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such mission information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018, on our consideration of the Town of Velma's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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 Velma's internal control over financial reporting and compliance.

### **Basis of Accounting**

We draw attention to Note 1C of the financial statements that 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. Our opinions are not modified with respect to this matter.



Oklahoma City, Oklahoma  
June 26, 2018

**Town of Velma, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash in Bank - Unrestricted	\$ 25,771.17	\$ 102,530.32	\$ 128,301.49
Cash in Bank - Restricted	244,057.31	-	244,057.31
<b>Total Current Assets</b>	<u>269,828.48</u>	<u>102,530.32</u>	<u>372,358.80</u>
<b>Total Assets</b>	<u>\$ 269,828.48</u>	<u>\$ 102,530.32</u>	<u>\$ 372,358.80</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Current Portion Long Term Debt	43,245.00	-	43,245.00
<b>Total Current Liabilities</b>	<u>43,245.00</u>	<u>-</u>	<u>43,245.00</u>
<b>Noncurrent Liabilities:</b>			
Loans and Capital Leases	71,268.13	-	71,268.13
<b>Total Noncurrent Liabilities</b>	<u>71,268.13</u>	<u>-</u>	<u>71,268.13</u>
<b>Total Liabilities</b>	<u>114,513.13</u>	<u>-</u>	<u>114,513.13</u>
<b>Net Position</b>			
Investment in Capital Assets	(114,513.13)	-	(114,513.13)
Restricted	244,057.31	-	244,057.31
Unrestricted	25,771.17	102,530.32	128,301.49
<b>Total Net Position</b>	<u>155,315.35</u>	<u>102,530.32</u>	<u>257,845.67</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 269,828.48</u>	<u>\$ 102,530.32</u>	<u>\$ 372,358.80</u>

The accompanying notes are an integral part of these financial statements

**Town of Velma  
Statement of Activities  
For the Year Ending June 30, 2017**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary government</b>						
<b>Governmental activities:</b>						
General Government	\$ 122,967.25	\$ -	\$ -	\$ (122,967.25)	\$ -	\$ (122,967.25)
Police	132,109.02	-	-	(132,109.02)	-	(132,109.02)
Emergency	51,982.88	-	-	(51,982.88)	-	(51,982.88)
Parks	70,714.93	-	-	(70,714.93)	-	(70,714.93)
Streets	95,286.76	5,336.82	-	(89,949.94)	-	(89,949.94)
Fire	152,644.25	-	6,995.00	(145,649.25)	-	(145,649.25)
Ambulance	147,569.70	19,443.90	-	(128,125.80)	-	(128,125.80)
<b>Total Governmental Activities</b>	<b>773,274.79</b>	<b>24,780.72</b>	<b>6,995.00</b>	<b>(741,499.07)</b>	<b>-</b>	<b>(741,499.07)</b>
<b>Business-Type Activities</b>						
Trash	131,134.08	170,127.15	-	-	38,993.07	38,993.07
<b>Total Business-Type Activities</b>	<b>131,134.08</b>	<b>170,127.15</b>	<b>-</b>	<b>-</b>	<b>38,993.07</b>	<b>38,993.07</b>
<b>Total primary government</b>	<b>\$ 904,408.87</b>	<b>\$ 194,907.87</b>	<b>\$ 6,995.00</b>	<b>(741,499.07)</b>	<b>38,993.07</b>	<b>(702,506.00)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Sales Taxes and Use Taxes				239,436.92	-	239,436.92
<b>Restricted Taxes</b>						
Emergency Services				47,887.39		47,887.39
Fire Department				93,838.56		93,838.56
Ambulance Department				71,831.07		71,831.07
Other Taxes				23,682.34	-	23,682.34
Other Income				171,654.30	-	171,654.30
Transfers In/Out				38,774.76	(38,774.76)	-
<b>Total General Revenues</b>				<b>687,105.34</b>	<b>(38,774.76)</b>	<b>648,330.58</b>
<b>Change in Net Position</b>				<b>(54,393.73)</b>	<b>218.31</b>	<b>(54,175.42)</b>
<b>Net Position - Beginning</b>				<b>209,709.08</b>	<b>102,312.01</b>	<b>312,021.09</b>
<b>Net Position - Ending</b>				<b>\$ 155,315.35</b>	<b>\$ 102,530.32</b>	<b>\$ 257,845.67</b>

The accompanying notes are an integral part of these financial statements

**Town of Velma  
Governmental Funds  
Balance Sheet - Modified Cash Basis  
June 30, 2017**

	<b>General Fund</b>	<b>Fire Fund</b>	<b>Ambulance Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Fund</b>
<b>Assets</b>					
Cash in Bank - Unrestricted	\$ 25,771.17	\$ -	\$ -	\$ -	\$ 25,771.17
Cash in Bank - Restricted	<u>41,511.98</u>	<u>161,525.16</u>	<u>21,886.86</u>	<u>19,133.31</u>	<u>244,057.31</u>
<b>Total Assets</b>	<u><u>\$ 67,283.15</u></u>	<u><u>161,525.16</u></u>	<u><u>21,886.86</u></u>	<u><u>\$ 19,133.31</u></u>	<u><u>\$ 269,828.48</u></u>
<b>Liabilities</b>					
Fund Balance - Unrestricted	25,771.17	-	-	-	(25,771.17)
Fund Balance - Restricted	<u>41,511.98</u>	<u>161,525.16</u>	<u>21,886.86</u>	<u>19,133.31</u>	<u>244,057.31</u>
<b>Total Fund Balances</b>	<u><u>67,283.15</u></u>	<u><u>161,525.16</u></u>	<u><u>21,886.86</u></u>	<u><u>19,133.31</u></u>	<u><u>269,828.48</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 67,283.15</u></u>	<u><u>\$ 161,525.16</u></u>	<u><u>\$ 21,886.86</u></u>	<u><u>\$ 19,133.31</u></u>	<u><u>\$ 269,828.48</u></u>

***Reconciliation of Total Governmental Fund Balance  
to Net Position of Governmental Activities***

Total Governmental Net Position	269,828.48
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(114,513.13)</u>
Net position per the government wide financial statements	<u><u>\$ 155,315.35</u></u>

**Town of Velma**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ending June 30, 2017**

	<b>General Fund</b>	<b>Fire Fund</b>	<b>Ambulance Fund</b>	<b>Non-Major Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Taxes	\$ 311,006.65	85,498.92	71,831.07	\$ 5,336.82	\$ 473,673.46
Licenses and Permits	110.00	-	-	-	110.00
Charges for Services	-	-	19,443.90	613.72	20,057.62
Fines and Forfeitures	20,393.10	-	-	-	20,393.10
Other Revenues	132,559.10	8,339.64	-	-	140,898.74
Interest Revenues	27.97	-	-	-	27.97
Grants and Donations	17,626.25	6,995.00	-	324.16	24,945.41
<b>Total Revenues</b>	<u>481,723.07</u>	<u>100,833.56</u>	<u>91,274.97</u>	<u>6,274.70</u>	<u>680,106.30</u>
<b>Expenditures</b>					
Personnel Services	177,516.01	-	73,069.99	-	250,586.00
Maintenance and Operations	236,693.58	114,820.42	74,499.71	26,876.55	452,890.26
Debt Service	-	51,794.42	-	-	51,794.42
Capital Outlay	29,599.71	33,476.34	-	2,374.99	65,451.04
<b>Total Expenses</b>	<u>443,809.30</u>	<u>200,091.18</u>	<u>147,569.70</u>	<u>29,251.54</u>	<u>820,721.72</u>
Excess Revenues over Expenses	37,913.77	(99,257.62)	(56,294.73)	(22,976.84)	(140,615.42)
<b>Other Financing Sources and Uses</b>					
Transfers In/Out	(120,973.51)	99,167.22	59,534.62	1,046.43	38,774.76
<b>Total Other Financing Sources and Uses</b>	<u>(120,973.51)</u>	<u>99,167.22</u>	<u>59,534.62</u>	<u>1,046.43</u>	<u>38,774.76</u>
<b>Net Change in Fund Balances</b>	<u>(83,059.74)</u>	<u>(90.40)</u>	<u>3,239.89</u>	<u>(21,930.41)</u>	<u>(101,840.66)</u>
<b>Fund Balances, Beginning</b>	<u>150,342.89</u>	<u>161,615.56</u>	<u>18,646.97</u>	<u>41,063.72</u>	<u>371,669.14</u>
<b>Fund Balances, Ending</b>	<u>\$ 67,283.15</u>	<u>\$161,525.16</u>	<u>\$ 21,886.86</u>	<u>\$ 19,133.31</u>	<u>\$ 269,828.48</u>
<i>Net Change in Fund Balances - Total Governmental Funds</i>					(101,840.66)
<i>Principal paid on capital leases</i>					47,446.93
<i>Change in Net Position per the Governmental Wide Financial Statements</i>					<u>\$ (54,393.73)</u>

The accompanying notes are an integral part of these financial statements



**Town of Velma  
Proprietary Fund  
Statement of Net Position - Modified Cash Basis  
June 30, 2017**

**Assets**

Current Assets

Cash in Bank - Unrestricted

102,530.32

Total Current Assets

\$ 102,530.32

Net Position

Unrestricted

102,530.32

Total Net Position

\$ 102,530.32

**Town of Velma  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Position  
Modified Cash Basis  
For the Year Ending June 30, 2017**

Revenues	
Sanitation	169,920.11
Miscellaneous Revenue	<u>207.04</u>
Total Revenues	<u>170,127.15</u>
Operating Expenses	
Personnel Services	30,324.16
Maintenance and Operations	85,739.46
Other Services and Charges	<u>15,070.46</u>
Total Operating Expenses	<u>131,134.08</u>
Change in Net Position Before Transfers	<u>38,993.07</u>
Transfers In (Out)	(38,774.76)
Change in Net Position After Transfers	218.31
Beginning Net Position	<u>102,312.01</u>
Ending Net Position	<u><u>\$ 102,530.32</u></u>

**Town of Velma, Oklahoma  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2017**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented 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 (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The Town of Velma, Oklahoma operates under the Statutory Town Board of Trustees form of government. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2017, the Town has one component unit, the Velma Public Works Authority.

**1.B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

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

The funds of the financial reporting entity are described subsequently:

### **Governmental Funds**

#### **General Fund**

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

#### **Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, street and alley fund, cemetery care fund, lake fund and CIP fund.

### **Proprietary Funds**

#### **Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Velma Public Works Authority.

### **Interfund Balances and Transfers**

#### **Interfund Balances**

As of and for the year ending June 30, 2017 the Town had no interfund balances.

#### **Transfers In and Out**

The Town will transfer funds within the Town's fund structure in order to facilitate cash flow or for special purposes. The Town had the following transfers during the year ending June 30, 2017.

	<u>Transfers In (Out)</u>
General Fund	(130,974)
Fire Fund	99,167
Ambulance Fund	59,535
Non-Major Funds	11,046
Velma Public Works Authority	<u>(38,774)</u>
	<u>\$ -</u>

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their

related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

## **1.D. FINANCIAL POSITION**

### **CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

### **RESTRICTED CASH**

Restricted cash consists of the following:

General Fund	Emergency Funds	41,512
Cemetery Care	Cemetery	19,033
Street & Alley Fund	Streets and Alleys	100
Fire Fund	Fire Operations	161,525
Ambulance Fund	Ambulance Operations	21,887
		\$ 244,057

### **INVESTMENTS**

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

### **LONG-TERM DEBT**

#### **Government-Wide Statements**

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

#### **Fund-Financial Statements**

Long-term debt arising from cash transactions or events of 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 is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

## NET POSITION/FUND BALANCE CLASSIFICATIONS

### Government-Wide Statements

Net Position is classified and displayed in three components:

1. *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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### Fund Financial Statements

#### Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

Nonspendable. Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

Restricted. Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed. Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Velma, commitments are evidenced by adoption of an ordinance by the Town Council.)

Assigned. Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Velma, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

Unassigned. The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

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

#### Proprietary Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

### **1.E. REVENUES, EXPENDITURES, AND EXPENSES**

#### PROGRAM REVENUES

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Police, Fire, Cemetery, Nutrition, Parks, Municipal Court, Community Center, Streets & Alley, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

#### OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

### **1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

### **NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

### **NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS**

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Velma is considered a separate entity from the Valliant Municipal Authority for FDIC deposit insurance.



In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Velma's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Velma Public Works Authority. The remaining funds would be category 3.

**NOTE 3. CAPITAL LEASES**

Capital lease activity for the year ending June 30, 2017, was as follows:

Governmental Funds	Beginning Balance	Additions	Reductions	Ending Balance	Interest Paid	Due in One Year
Brush Trucks	156,440		(41,927)	114,513	4,257	43,245
Equipment	5,520		(5,520)	-	90	-
<b>Totals</b>	<b>\$ 161,960</b>	<b>\$ -</b>	<b>\$ (47,447)</b>	<b>\$ 114,513</b>	<b>\$ 4,347</b>	<b>\$ 43,245</b>

The brush trucks capital lease purchased two vehicles for \$213,658. The lease carries an interest rate of 3.10% with monthly payments of \$3,485.

Principal required to amortize these obligations is as follows:

	Brush Trucks
2017/2018	43,245
2018/2019	44,605
2019/2020	26,663
	<b>\$ 114,513</b>

**NOTE 4. PENSION PLANS**

**Defined Contribution Pension Plans**

Eligible Town employees participate in the Town of Velma defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF), administered by Bank One of Oklahoma Town. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF to the respective employer entities. All full-time regular employees of the Town, other than the Town manager, who are not covered by another plan, are eligible to participate in the OMRF and are fully vested after 7 years. Covered employees are required to contribute 3% of their gross payroll for the year ending. Town contributions were 6.31% for the year ending June 2017. The covered payroll for Town employees for the

year was \$119,259. Town and employee and employer contributions for the year were \$3578 and \$7,525 respectively.

#### **NOTE 5. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 26, 2018, which is the date the financial statements were issued.

#### **NOTE 6. RISK MANAGEMENT**

The Town is exposed to various risks of losses related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance polices. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

## Russell & Williams CPAs, PC

Casey J. Russell, C.P.A., M.B.A.  
Autumn L. Williams, C.P.A., Esq.  
Member AICPA & OSCPA

2812 NW 57<sup>th</sup> Street, Suite 102  
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743  
Fax: (405) 607-8744  
Email: caseycpa@hotmail.com

### 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 Board of Trustee  
Town of Velma, Oklahoma

We 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 of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Velma, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Velma, Oklahoma's basic financial statements and have issued our report thereon dated June 26, 2018.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Velma, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Velma, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Velma, 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See findings 2017-1 in the accompanying schedule of current findings.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Velma, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Velma, Oklahoma's Response to Findings**

Town of Velma, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Velma, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our 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.

A handwritten signature in black ink that reads "Ronald & Williams CPAs PC". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
June 26, 2018

2017-1 Segregation of Duties – Repeat Finding

*Criteria:* The segregation of incompatible financial duties is important to adequately protect the Town's assets and ensure accurate financial reporting.

*Condition:* Presently the same individual receiving cash also posts payments and adjustments to subsidiary accounts receivable and accounts payable ledgers.

*Cause:* The Town's limited population and resources result in its inability to provide sufficient staffing to fully segregate incompatible duties.

*Effect:* Without proper segregation of duties, the risk increases that errors and fraud related to the collection and expenditure activities could occur and not be detected within a timely basis.

*Recommendation:* Efficient segregation of duties in a small town environment is often difficult. However, the governing body and Town management should be aware of this risk associated with the lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of independent bank account reconciliation reviews, revenue posting report reviews, payment posting report reviews and adjusting entry reviews.