

**TOWN OF VELMA, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2021
WITH INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Velma, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash-basis 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, 2021, 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 accounting principles generally accepted in the United States of America; this includes 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Velma, Oklahoma, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note One 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. Our opinions are not modified with respect to this matter.

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 missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 November 2, 2021 on our consideration of the Town of Velma, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of 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 Town of Velma, Oklahoma's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 2, 2021

Town of Velma, Oklahoma
Statement of Net Position - Modified Cash Basis
June 30, 2021

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash in bank - unrestricted	130,177.09	181,665.41	311,842.50
Cash in bank - restricted	307,820.61		307,820.61
Total current assets	437,997.70	181,665.41	619,663.11
Noncurrent assets:			
Net capital assets	582,163.90		582,163.90
Total noncurrent assets	582,163.90		582,163.90
Total assets	<u>\$ 1,020,161.60</u>	<u>\$ 181,665.41</u>	<u>\$ 1,201,827.01</u>
Liabilities			
Current liabilities			
Current Portion of Loans and Capital Leases	37,313.67		37,313.67
Total current liabilities	37,313.67		37,313.67
Noncurrent Liabilities			
Loans and Capital Leases - Net of Current Portion	43,114.08		43,114.08
Total Noncurrent Liabilities	43,114.08		43,114.08
Total Liabilities	80,427.75		80,427.75
Net Assets			
Invested in capital assets, net of related debt	501,736.15		501,736.15
Restricted	307,820.61		307,820.61
Unrestricted	130,177.09	181,665.41	311,842.50
Total net assets	939,733.85	181,665.41	1,121,399.26
Total liabilities and net assets	<u>\$ 1,020,161.60</u>	<u>\$ 181,665.41</u>	<u>\$ 1,201,827.01</u>

The accompanying notes are an integral part of these financial statements.

Town of Velma, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2021

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business - Type Activities	
Primary government						
Governmental activities						
General government	201,405.44			(201,405.44)		(201,405.44)
Police	86,915.05			(86,915.05)		(86,915.05)
Emergency	118,392.05	37,824.98		(80,567.07)		(80,567.07)
Cemetary	204.17			(204.17)		(204.17)
Streets	85,836.54			(85,836.54)		(85,836.54)
Fire	67,848.90			(67,848.90)		(67,848.90)
Park	30,924.09			(30,924.09)		(30,924.09)
Total governmental activities	591,526.24	37,824.98		(553,701.26)		(553,701.26)
Business-type activities						
Garbage department	107,625.11	172,126.04			64,500.93	64,500.93
Total business-type activities	107,625.11	172,126.04			64,500.93	64,500.93
Total primary government	\$ 699,151.35	\$ 209,951.02		\$ (553,701.26)	\$ 64,500.93	\$ (489,200.33)

General revenues:				
Sales and Use Taxes - Unrestricted		472,326.38	472,326.38	
Sales and Use Taxes - Restricted		75,102.75	75,102.75	
Other Taxes		30,500.04	30,500.04	
Other Income		46,774.25	1,144.24	47,918.49
Transfers In (Out)		22,660.56	(22,660.56)	
Total general revenues		647,363.98	(21,516.32)	625,847.66
Change in net assets		93,662.72	42,984.61	136,647.33
Net assets - beginning		846,071.13	138,680.80	984,751.93
Net assets - ending		\$ 939,733.85	\$ 181,665.41	\$ 1,121,399.26

The accompanying note are an integral part of these financial statements.

Town of Velma, Oklahoma
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2021

	General Fund	Fire Fund	Ambulance Fund	Non-Major Funds	Total Governmental Funds
Assets					
Cash in bank	130,177.09				130,177.09
Cash in bank - restricted	158,706.51	116,522.92	11,886.86	20,704.32	307,820.61
Total assets	\$ 288,883.60	\$ 116,522.92	\$ 11,886.86	\$ 20,704.32	\$ 437,997.70
Fund Balances					
Unassigned	130,177.09				130,177.09
Restricted	158,706.51	116,522.92	11,886.86	20,704.32	307,820.61
Net assets	\$ 288,883.60	\$ 116,522.92	\$ 11,886.86	\$ 20,704.32	\$ 437,997.70

*Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities as of June 30, 2021*

Total Governmental Fund Balances	437,997.70
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements. therefore are not reported in the fund financial statements.	582,163.90
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the fund financial statements.	(80,427.75)
Net Assets of Governmental Activities	\$ 939,733.85

The accompanying notes are an integral part of these financial statements.

Town of Velma, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ending June 30, 2021

	General Fund	Fire Fund	Ambulance Fund	Non-Major Funds	Total Governmental Funds
Revenues					
Sales and Use Taxes	364,546.49	91,746.02	91,136.62		547,429.13
Other Taxes	25,206.23			5,293.81	30,500.04
Charges for Services			37,824.98		37,824.98
Other revenues	<u>52,330.50</u>			<u>-5,556.25</u>	<u>46,774.25</u>
Total revenues	442,083.22	91,746.02	128,961.60	-262.44	662,528.40
Expenditures					
Salaries and Wages	209,455.07		89,460.39		298,915.46
Maintenance and Operations	168,855.62	31,049.02	17,935.67	13,190.00	231,030.31
Debt Service	35,939.08				35,939.08
Capital Outlay	<u>4,727.88</u>				<u>4,727.88</u>
Total Expenditures	<u>418,977.65</u>	<u>31,049.02</u>	<u>107,396.06</u>	<u>13,190.00</u>	<u>570,612.73</u>
Excess revenues over (under) expenditures	23,105.57	60,697.00	21,565.54	(13,452.44)	91,915.67
Other Financing Sources and Uses					
Transfers In (Out)	<u>66,812.70</u>	<u>(30,278.62)</u>	<u>(21,565.54)</u>	<u>7,692.02</u>	<u>22,660.56</u>
Total Other Financing Sources and Uses	<u>66,812.70</u>	<u>(30,278.62)</u>	<u>(21,565.54)</u>	<u>7,692.02</u>	<u>22,660.56</u>
Net Changes in Fund Balances	89,918.27	30,418.38		(5,760.42)	114,576.23
Fund balance at beginning of year	<u>198,965.33</u>	<u>86,104.54</u>	<u>11,886.86</u>	<u>26,464.74</u>	<u>323,421.47</u>
Fund balance at end of year	<u>\$ 288,883.60</u>	<u>\$ 116,522.92</u>	<u>\$ 11,886.86</u>	<u>\$ 20,704.32</u>	<u>\$ 437,997.70</u>

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ending June 30, 2021

Net Changes in Fund Balances	114,576.23
Principal paid on capital leases is an expenditure in the fund financial statements.	35,939.08
Capital outlay is an expenditure for the fund statements.	4,727.88
Depreciation is recorded in the government-wide financial statements but not in the fund financial statements.	<u>(61,580.47)</u>
Change in Net Position per the Government Wide Financial Statements	<u>\$ 93,662.72</u>

The accompanying notes are an integral part of these financial statements.

Town of Velma, Oklahoma
Proprietary Funds
Statement of Net Position - Modified Cash Basis
June 30, 2021

	<u>Velma Public Works Authority</u>
Assets	
Current assets:	
Cash in bank - unrestricted	<u>181,665.41</u>
Total current assets	<u>\$ 181,665.41</u>
Net Position	
Unrestricted	<u>181,665.41</u>
Total Net Position	<u>\$ 181,665.41</u>

Town of Velma, Oklahoma
Proprietary Funds
Statement of Revenues Over Expenditures and Changes in Net Position - Modified Cash Basis
For the Year Ending June 30, 2021

	<u>Velma Public Works Authority</u>
Operating Revenues:	
Sanitation	172,126.04
Other Revenue	1,144.24
Total operating revenues	<u>173,270.28</u>
Operating expenses	
Maintenance and Operations	<u>107,625.11</u>
Total operating expenses	<u>107,625.11</u>
Operating Income (Loss)	65,645.17
Nonoperating Revenues (Expenses)	
Transfers In (Out)	<u>(22,660.56)</u>
Change in Net Assets	42,984.61
Net assets at beginning of year	138,680.80
Net assets at end of year	<u><u>\$ 181,665.41</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Velma, Oklahoma
Proprietary Funds
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2021

	<u>Velma Public Works Authority</u>
Cash flows from operating activities	
Cash received from customers	173,270.28
Cash paid to suppliers	<u>(107,625.11)</u>
Net cash provided by operating activities	65,645.17
Cash flows from noncapital financing activities	
Transfers in (out)	<u>(22,660.56)</u>
Net cash provided (used) from noncapital financing activities	<u>(22,660.56)</u>
Net increase (decrease) in cash and cash equivalents	42,984.61
Cash and cash equivalents at beginning of year	<u>138,680.80</u>
Cash and cash equivalents at end of year	<u><u>\$ 181,665.41</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>65,645.17</u>
Net cash provided (used) by operating activities	<u><u>\$ 65,645.17</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Velma, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

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, 2020, 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, fire fund, ambulance fund and cemetery care 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, 2021 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, 2021.

	<u>Transfers In (Out)</u>
General Fund	(66,813)
Fire Fund	30,279
Ambulance Fund	21,566
Non-Major Funds	(7,692)
Public Works Authority	22,660
	<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	158,707
Cemetery Care	Cemetery	20,604
Street & Alley Fund	Streets and Alleys	100
Fire Fund	Fire Operations	116,523
Ambulance Fund	Ambulance Operations	11,886
		<u>\$ 307,820</u>

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, 2020, was as follows:

Governmental Funds	Beginning Balance	Additions	Reductions	Ending Balance	Interest Paid	Due in One Year
Crawler Dozer	97,868	-	(28,374)	69,494	2,463	29,209
Backhoe	18,497	-	(7,564)	10,933	1,044	8,105
Totals	\$ 116,365	\$ -	\$ (35,938)	\$ 80,427	\$ 3,507	\$ 37,314

The crawler dozer capital lease purchased a bull dozer for \$143,371. The lease carries an interest rate of 2.9% with monthly payments of \$2,570. The asset was capitalized at \$143,371.

The backhoe capital lease purchased a backhoe for \$30,000. The lease carries an interest rate of 6.924% with monthly payments of \$717.33. The asset was capitalized at \$30,000.

Principal and interest required to amortize these obligations are as follows:

Principal Due

	Crawler		
	Dozer	Backhoe	Totals
2021/2022	29,209	8,105	37,314
2022/2023	30,067	2,828	32,895
2023/2024	10,218	-	10,218
Totals	<u>\$ 69,494</u>	<u>\$ 10,933</u>	<u>\$ 80,427</u>

Interest Due

	Crawler		
	Dozer	Backhoe	Totals
2021/2022	1,629	504	2,133
2022/2023	771	41	812
2023/2024	62	-	62
Totals	<u>\$ 2,462</u>	<u>\$ 545</u>	<u>\$ 3,007</u>

NOTE 4. CAPITAL ASSETS AND DEPRECIATION

Governmental Funds

	Beginning	Increases	Decreases	Ending	Depreciation
	Balance			Balance	
Ambulance	241,000	-	-	241,000	9,933
Fire	989,841	-	-	989,841	36,799
Park	29,500	-	-	29,500	-
Police	97,338	4,728	-	102,066	9,080
Streets	251,833	-	-	251,833	5,768
Total Assets	1,609,512	4,728	-	1,614,240	<u>\$ 61,580</u>
Accumulated Depreciation	(970,496)	(61,580)	-	(1,032,076)	
Total Assets, Net	<u>\$ 639,016</u>			<u>\$ 582,164</u>	

As of June 30, 2021, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where cost was not available. Depreciation expense for the year was \$61,580 and was recorded to the departments as listed above.

NOTE 5. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 2, 2021, 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 policies. 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.

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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 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, 2021, 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 November 2, 2021.

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 2021-1 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 "Russell & Williams CPAs PC". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
November 2, 2021

Town of Velma, Oklahoma
Schedule of Current Findings
Year Ending June 30, 2021

2021-1 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.