

**THE TOWN OF SHATTUCK,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Shattuck, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Shattuck, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Shattuck. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of the Shattuck Hospital Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Shattuck Hospital Authority, is based on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As discussed in Note B, the Town of Shattuck prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. However, as discussed in Note B, the discretely presented component unit is presented on the accrual basis.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position – modified cash basis, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Shattuck, Oklahoma, as of June 30, 2012, and the respective changes in financial position – modified cash basis, and cash flows – modified cash basis, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2013, on our consideration of the internal control over financial reporting of the Town of Shattuck, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 41 through 43 be presented to supplement the basic financial statements. Such information, although not 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements of the Town of Shattuck as a whole. The combining general fund accounts and non-major governmental funds financial statements – modified cash basis, the schedule of expenditures of federal and state awards – modified cash basis, and the schedule of debt service coverage requirement, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining general fund accounts and non-major fund financial statements, the schedules of expenditures of federal and state awards – modified cash basis, and the schedule of debt service coverage requirement are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
June 18, 2013

TOWN OF SHATTUCK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

The management of the Town of Shattuck is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2012. Management of the Town is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The Town reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the Town's total net assets increased by \$263,752, and the assets of the Town exceed its liabilities at June 30, 2012, by \$1,214,662.
- At June 30, 2012, the Town's governmental funds reported combined ending fund balances on a modified cash basis of a \$813,130.
- At June 30, 2012, the Town's general fund reported an ending fund balance on a modified cash basis of a \$128,427.

ABOUT THE TOWN

The Town of Shattuck is a Town form of government with a population of approximately 1,274 located in Ellis County in northwestern Oklahoma. The Town is governed by a five-member council and operates under state law and Town ordinances through the three branches of democratic government.

- Legislative – the Town Council is five-member governing body elected by the citizens at large
- Executive – the Town Mayor is the Chief Executive Officer and is selected from among the Town Council by the Town Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the Town Council

The Town provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, streets, cemetery, water, sewer, and sanitation services.

The Town's Financial Reporting Entity

This annual report includes all activities for which the Town Council 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 primary government (Town of Shattuck), one blended component unit and one discretely presented component unit as follows.

- **The Town of Shattuck** – that operates the public safety, street and alley maintenance, parks and recreation, and cemetery services

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- **The Shattuck Municipal Authority (SMA)** – public trust created June 10, 1996, pursuant to 60 O.S. § 176 that operates the water, sewer, and sanitation services of the Town

- **The Shattuck Hospital Authority (SHA)** – public trust created August 6, 1964, pursuant to 60 O.S. § 176 that operates Newman Memorial Hospital, Inc. The hospital primarily earns revenue by providing inpatient, outpatient and emergency care services in Shattuck, Oklahoma and also operates a home health agency in the same geographic area

For the above public trust, the Shattuck Municipal Authority (SMA), the Town of Shattuck is the beneficiary of the trust and the entire Town Council serves as the governing body of the trusts. In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the Town Council. This is considered sufficient imposition of will to include the trust within the Town's financial reporting entity. This public trust does not issue separate annual financial statements.

For the above public trust, the Shattuck Hospital Authority (SHA), the Town of Shattuck is the beneficiary of the trust. The Town Council appointed the original Trustees of the Authority and selects the replacement Trustees from a list of names provided by the remaining Trustees of the Authority. Separate audited component unit financial statements are issued by the Shattuck Hospital Authority and may be obtained by contacting their administrative offices.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the Town of Shattuck (the "Town"), and the Shattuck Municipal Authority (the "Municipal Authority") and other component units. Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, along with the discreetly presented component unit. This discussion and analysis focuses on the primary government, composed of the Town of Shattuck and the Shattuck Municipal Authority.

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus as applicable to the modified cash basis of accounting. These statements include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt), resulting from modified cash basis transactions. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the Town's finances is, "Has the Town's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole

TOWN OF SHATTUCK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the Town's sales tax base, the condition of the Town's roads, and quality of service to assess the overall health of the Town. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those Town assets and liabilities resulting from cash transactions with selected modifications.

In the Statement of Net Assets and the Statement of Activities, we divide the Town's primary government into two kinds of activities: *Governmental activities* - Most of the Town's basic services are reported here, including the police, fire, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's water, sewer, and sanitation utilities are reported as business-type activities. *Discretely-presented component units* are reported in a separate column in the Statement of Net Assets and the Statement of Activities; these account for activities of the City's reporting entity that do not meet the criteria for blending, in this case, the Shattuck Hospital Authority.

Reporting the Town's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the Town's most significant (major) funds -- not the Town as a whole. Some funds are required to be established by State law and by debt covenants. However, the Town Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds - *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

Proprietary funds - When the Town, through the Municipal Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The Town's proprietary fund is the Shattuck Municipal Authority that accounts for the operation of the water, sewer, and sanitation activities.

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Management's Discussion and Analysis
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Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 24-39 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and the Street and Alley Fund, federal and state award schedules, and debt service coverage schedule.

THE TOWN AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$263,752.

Following is a summary of net assets reported on a modified cash basis for the Town of Shattuck primary government.

Net Assets (Modified Cash Basis)
June 30, 2012

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2011		2012	2011		2012	2011	
Current assets	\$ 813	\$ 702	16%	\$ 437	\$ 280	56%	\$ 1,250	\$ 982	27%
Total assets	813	702	16%	437	280	56%	1,250	982	27%
Current liabilities	-	-	-	35	31	13%	35	31	13%
Total liabilities	-	-	-	35	31	13%	35	31	13%
Net assets									
Restricted	753	638	18%	-	-	-	753	638	18%
Unrestricted	60	64	-6%	402	249	61%	462	313	48%
Total net assets	\$ 813	\$ 702	16%	\$ 402	\$ 249	61%	\$ 1,215	\$ 951	28%

The largest portion of the Town's net assets is restricted for use by the street department. For 2012, the amount restricted for streets was \$656,014. The Town also has \$20,041 restricted for cemetery care, \$68,691 restricted for the fire truck, and \$8,698 restricted for library.

The remaining balance in unrestricted net assets of \$59,686 is available to meet the government's ongoing obligations to citizens and creditors.

The increase in unrestricted net assets in business-type activities of approximately \$152,578 or 61% was mainly due to an operating transfer from the General Fund.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets for both the governmental and business-type activities.

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Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. Dec.	Business-Type Activities		% Inc. Dec.	Total		% Inc. Dec.
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for services	\$ 64	\$ 48	33%	\$ 560	\$ 499	12%	\$ 624	\$ 547	14%
Operating grants and contributions	29	28	4%	-	-	-	29	28	4%
Capital grants and contributions	-	62	-100%	396	45	780%	396	107	270%
Taxes	779	772	1%	-	-	-	779	772	1%
Intergovernmental revenue	64	59	8%	-	-	-	64	59	8%
Investment income	-	-	-	1	3	-67%	1	3	-67%
Miscellaneous	230	214	7%	7	1	600%	237	215	10%
Total revenues	1,166	1,183	-1%	964	548	76%	2,130	1,731	23%
Expenses									
General government	273	277	-1%	-	-	-	273	277	-1%
Public safety	222	228	-3%	-	-	-	222	228	-3%
Highway and streets	103	75	37%	-	-	-	103	75	37%
Culture and recreation	269	322	-16%	-	-	-	269	322	-16%
Cemetery	6	-	100%	-	-	-	6	-	100%
Water	-	-	-	676	375	80%	676	375	80%
Sewer	-	-	-	159	59	169%	159	59	169%
Sanitation	-	-	-	158	118	34%	158	118	34%
Total expenses	873	902	-3%	993	552	80%	1,866	1,454	28%
Excess (deficiency) before transfers	293	281	4%	(29)	(4)	625%	264	277	-5%
Transfers	(182)	(180)	1%	182	180	1%	-	-	-
Change in net assets	111	101	10%	153	176	-13%	264	277	-5%
Beginning net assets	702	601	17%	249	73	241%	951	674	41%
Ending net assets	\$ 813	\$ 702	16%	\$ 402	\$ 249	61%	\$ 1,215	\$ 951	28%

Governmental Activities

The Town's governmental activities had an increase in net assets of \$111,174. This increase is primarily due to the increase in charges for services of 33%. Total expenses also decreased 3%.

TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
General government	\$ 273	\$ 277	-1%	(\$273)	(\$277)	-1%
Public safety	222	228	-3%	(209)	(219)	-5%
Highways and streets	103	75	37%	(90)	(64)	41%
Culture, parks and recreation	269	322	-16%	(203)	(206)	-1%
Cemetery	6	-	100%	(5)	3	-267%
Total	\$ 873	\$ 902	-3%	\$ (780)	\$ (763)	2%

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Business-type Activities

The business-type activities had an increase in net assets of \$152,578. In reviewing the departmental net (expenses)/revenue, none of the utility activity charges were sufficient to cover expenses. However, the increase in expenses is due to a new 2012 OWRB Drinking Water SRF loan and the Town did receive loan proceeds of \$364,395 and these proceeds are not recorded in operating revenues but are recorded in general revenues at the bottom of the Statement of Activities (see page 16).

TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	Water	\$ 676	\$ 375	80%	\$ (357)	\$ (83)
Sewer	159	59	169%	(38)	57	-167%
Sanitation	<u>158</u>	<u>118</u>	34%	<u>(8)</u>	<u>19</u>	-142%
Total	<u>\$ 993</u>	<u>\$ 552</u>	80%	<u>\$ (403)</u>	<u>\$ (7)</u>	5657%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$813,130. For the year ended June 30, 2012, the General Fund's total fund balance increased by \$8,352 to a fund balance of \$128,427.

The Shattuck Municipal Authority Fund reported net assets of \$401,532.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues over final estimates by \$201,321 or a 26.2% negative variance. General Fund actual expenditures were under final appropriations by \$329,259 or a 30.5% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2013 budget is consistent to the prior year.

Contacting the Town's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk's office at PO Box 670 or 405 S Main, Shattuck, Oklahoma 73858 or telephone at 580-938-2916.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>Shattuck</u> <u>Hospital</u> <u>Authority</u>
ASSETS				
Cash and investments	\$ 813,130	\$ 436,294	\$1,249,424	\$ 3,181,932
Patient accounts receivable, net of allowance	-	-	-	1,449,754
County appropriations and other receivables	-	-	-	586,996
Supplies and prepaid expenses	-	-	-	305,637
Capital Assets, net	-	-	-	8,393,658
Deferred Financing Costs	-	-	-	22,535
County Appropriations Receivable	-	-	-	461,110
Total Assets	<u>813,130</u>	<u>436,294</u>	<u>1,249,424</u>	<u>14,401,622</u>
LIABILITIES				
Deposit liability	-	34,762	34,762	-
Current maturities of long-term debt	-	-	-	365,933
Accounts payable	-	-	-	948,946
Accrued Expenses	-	-	-	387,353
Estimated amounts due to third-party payers	-	-	-	990,000
Interest payable	-	-	-	4,298
Long-Term Debt	-	-	-	4,556,877
Total Liabilities	<u>-</u>	<u>34,762</u>	<u>34,762</u>	<u>7,253,407</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	3,489,085
Restricted by:				
Enabling legislation:				
Streets	656,014	-	656,014	-
Statutory requirements:				
Cemetery	19,991	-	19,991	-
External contracts:				
Fire truck	68,691	-	68,691	-
Library	8,698	-	8,698	-
Cemetery	50	-	50	-
Restricted - expendable for debt service	-	-	-	277,208
Restricted - expendable for operations	-	-	-	2,003,013
Unrestricted	59,686	401,532	461,218	1,378,909
Total Net Assets	<u>\$ 813,130</u>	<u>\$ 401,532</u>	<u>\$1,214,662</u>	<u>\$ 7,148,215</u>

See accompanying notes to the basic financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Shattuck Hospital Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental activities:								
General Government	\$ 273,213	\$ -	\$ -	\$ -	\$ (273,213)	\$ -	\$ (273,213)	-
Public Safety	221,476	8,140	4,413	-	(208,923)	-	(208,923)	-
Highways and Streets	102,961	-	12,607	-	(90,354)	-	(90,354)	-
Culture and Recreation	269,190	55,038	11,450	-	(202,702)	-	(202,702)	-
Cemetery	5,970	1,000	-	-	(4,970)	-	(4,970)	-
Total governmental activities	<u>872,810</u>	<u>64,178</u>	<u>28,470</u>	<u>-</u>	<u>(780,162)</u>	<u>-</u>	<u>(780,162)</u>	<u>-</u>
Business-type activities:								
Water	675,482	287,446	-	30,628	-	(357,408)	(357,408)	-
Sewer	159,317	121,556	-	-	-	(37,761)	(37,761)	-
Sanitation	158,294	150,770	-	-	-	(7,524)	(7,524)	-
Total business-type activities	<u>993,093</u>	<u>559,772</u>	<u>-</u>	<u>30,628</u>	<u>-</u>	<u>(402,693)</u>	<u>(402,693)</u>	<u>-</u>
Total primary government	<u>\$1,865,903</u>	<u>\$ 623,950</u>	<u>\$ 28,470</u>	<u>\$ 30,628</u>	<u>(780,162)</u>	<u>(402,693)</u>	<u>(1,182,855)</u>	<u>-</u>
Component Unit:								
Shattuck Hospital Authority	<u>9,542,452</u>	<u>9,001,191</u>	<u>121,166</u>	<u>373,487</u>				<u>(46,608)</u>
Total Component Unit	<u>\$9,542,452</u>	<u>\$9,001,191</u>	<u>\$ 121,166</u>	<u>\$ 373,487</u>				<u>\$ (46,608)</u>
General revenues:								
Taxes:								
Sales and use tax					714,803	-	714,803	-
Franchise and public service taxes					64,415	-	64,415	-
Intergovernmental revenue not restricted to specific programs					63,747	-	63,747	-
Investment income					332	766	1,098	12,619
Proceeds from long term debt					-	364,965	364,965	-
Miscellaneous:								
Royalties					136,733	-	136,733	-
Other					93,475	7,371	100,846	-
Internal transfers					(182,169)	182,169	-	-
County appropriations - unrestricted					-	-	-	1,531,196
Interest expense					-	-	-	(86,995)
Total general revenues and transfers					<u>891,336</u>	<u>555,271</u>	<u>1,446,607</u>	<u>1,456,820</u>
Change in net assets					111,174	152,578	263,752	1,410,212
Net assets - beginning					701,956	248,954	950,910	5,738,003
Net assets - ending					<u>\$ 813,130</u>	<u>\$ 401,532</u>	<u>\$1,214,662</u>	<u>\$ 7,148,215</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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

	<u>General Fund</u>	<u>Street and Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 128,427	\$ 656,014	\$ 28,689	\$ 813,130
Total Assets	<u>128,427</u>	<u>656,014</u>	<u>28,689</u>	<u>813,130</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Fire truck	68,691	-	-	68,691
Streets and alleys	-	656,014	-	656,014
Library	-	-	8,698	8,698
Cemetery	50	-	19,991	20,041
Assigned to:				
Cemetery	10,480	-	-	10,480
Balance future year's budget	49,206	-	-	49,206
Total Fund Balances	<u>128,427</u>	<u>656,014</u>	<u>28,689</u>	<u>813,130</u>
Total Liabilities and Fund Balances	<u>\$ 128,427</u>	<u>\$ 656,014</u>	<u>\$ 28,689</u>	<u>\$ 813,130</u>

See accompanying notes to the basic financial statements.

TOWN OF SHATTUCK, OKLAHOMA
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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Street and Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 591,649	\$ 187,569	\$ -	\$ 779,218
Intergovernmental	68,160	12,607	11,450	92,217
Charges for services	55,921	-	1,000	56,921
Fines and forfeitures	4,862	-	-	4,862
Licenses and permits	2,395	-	-	2,395
Investment income	178	-	154	332
Miscellaneous	227,804	-	2,404	230,208
Total Revenues	<u>950,969</u>	<u>200,176</u>	<u>15,008</u>	<u>1,166,153</u>
Expenditures:				
Current:				
General Government:				
Managerial	125,915	-	-	125,915
City Attorney	7,050	-	-	7,050
City Clerk	49,943	-	-	49,943
General Government	90,305	-	-	90,305
Public Safety:				
Police	126,325	-	-	126,325
Animal Control	1,192	-	-	1,192
Fire	93,959	-	-	93,959
Highways and streets:				
Streets	2,074	100,887	-	102,961
Culture and Recreation:				
Community Development	18,972	-	-	18,972
Parks	152,174	-	-	152,174
Library	61,179	-	11,450	72,629
Cemetery	5,945	-	25	5,970
Capital Outlay	25,415	-	-	25,415
Total Expenditures	<u>760,448</u>	<u>100,887</u>	<u>11,475</u>	<u>872,810</u>
Excess (deficiency) of revenues over expenditures	190,521	99,289	3,533	293,343
Other Financing Sources (Uses):				
Transfers in	54,150	-	-	54,150
Transfers out	(236,319)	-	-	(236,319)
Total Other Financing Sources (Uses)	<u>(182,169)</u>	<u>-</u>	<u>-</u>	<u>(182,169)</u>
Net change in fund balances	8,352	99,289	3,533	111,174
Fund balances - beginning	120,075	556,725	25,156	701,956
Fund balances - ending	<u>\$ 128,427</u>	<u>\$ 656,014</u>	<u>\$ 28,689</u>	<u>\$ 813,130</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

TOWN OF SHATTUCK, OKLAHOMA
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Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Shattuck Municipal Authority</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 401,532
Restricted cash and cash equivalents	34,762
Total Assets	<u>436,294</u>
 LIABILITIES	
Current Liabilities:	
Deposit liability	34,762
Total Liabilities	<u>34,762</u>
 NET ASSETS	
Unrestricted	401,532
Total net assets	<u><u>\$ 401,532</u></u>

See accompanying notes to the basic financial statements.

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

	<u>Shattuck Municipal Authority</u>
Operating Revenues:	
Charges for services:	
Water	\$ 279,105
Sewer	118,029
Sanitation	146,397
Late charges	11,234
Reconnection fees	5,007
Total Operating Revenues	<u>559,772</u>
Operating Expenses:	
Administrative	71,972
Water	167,787
Sewer	42,226
Sanitation	136,889
Total Operating Expenses	<u>418,874</u>
Operating Income	140,898
Non-Operating Revenues (Expenses):	
Investment income	766
Miscellaneous	7,371
Loan proceeds	364,965
Debt service:	
Principal retirement	(269,059)
Interest expense and fees	(8,510)
Capital Outlay	(296,650)
Total Non-Operating Revenues (Expenses)	<u>(201,117)</u>
Net Income (Loss) Before Contributions and Transfers	(60,219)
Transfer in	220,669
Transfer out	(38,500)
Capital contributions	30,628
Change in net assets	152,578
Total net assets - beginning	248,954
Total net assets - ending	<u>\$ 401,532</u>

See accompanying notes to the basic financial statements.

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

	Shattuck Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$567,143
Payments to suppliers	(602,478)
Payments to employees	(113,046)
Receipts of customer utility deposits	4,234
Refunds of customer utility deposits	(200)
Net Cash Provided by Operating Activities	<u>(144,347)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	220,669
Transfers to other funds	(38,500)
Net Cash Provided by Noncapital Financing Activities	<u>182,169</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	30,628
Proceeds of debt	364,965
Principal paid on debt	(269,059)
Interest and fiscal agent fees paid on debt	(8,510)
Net Cash Provided by Capital and Related Financing Activities	<u>118,024</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	766
Net Cash Provided by (Used in) Investing Activities	<u>766</u>
Net Increase in Cash and Cash Equivalents	156,612
Balance - beginning of the year	279,682
Balance - end of the year	<u>\$436,294</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	401,532
Restricted cash and cash equivalents	34,762
Total cash and cash equivalents	<u>\$436,294</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	(\$155,752)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Other receipts	7,371
Change in assets and liabilities:	
Deposit liability	4,034
Net cash provided by (used in) operating activities	<u>(\$144,347)</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town's financial reporting entity includes the primary government, one blended component unit and one discretely-presented component unit as follows.

- **The Town of Shattuck** – that operates the public safety, highways and streets, culture and recreation, general government and cemetery, governed by the Town Council
- **The Shattuck Municipal Authority (SMA)** – public trust created June 10, 1996, pursuant to 60 O.S. § 176 that operates the water, sewer, and sanitation services of the Town, governed by trustees comprised of the entire Town Council
- **The Shattuck Hospital Authority (SHA)** – public trust created August 6, 1964, pursuant to 60 O.S. § 176 that operates Newman Memorial Hospital, Inc. The hospital primarily earns revenue by providing inpatient, outpatient and emergency care services in Shattuck, Oklahoma and also operates a home health agency in the same geographic area (discretely presented)

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

Each of the component units is a Public Trust established 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 to delegate certain functions to the governing body (Trustees) of the Authorities. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

The Shattuck Hospital Authority (the Authority) was created under a trust indenture dated August 6, 1964, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Shattuck, Oklahoma. The Authority operates Newman Memorial Hospital, Inc., a not-for-profit corporation, under an operation and maintenance contract. The contract term is from June 1, 1973 to July 1, 2003, or until such date as all indebtedness incurred by the Authority has been paid. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services in Shattuck, Oklahoma. It also operates a home health agency in the same geographic area. Separate audited component unit financial statements are issued by the Shattuck Hospital Authority and can be obtained by contacting their administrative offices.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions

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adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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

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

- General government: operating grants
- Public safety: Fine revenue
- Highways and streets: Gas excise taxes and commercial vehicle taxes
- Culture and recreation: Library fines, operating grants
- Cemetery: Lots sales, opening and closing fees

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

General Fund – The General Fund is the primary operating fund of the Town and is 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 – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Project Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Fund:

Enterprise Fund – These 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 Shattuck Municipal Authority enterprise fund. This fund accounts for activities of the public trust in providing water, sewer, and sanitation services to the public.

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The Town's governmental funds are comprised of the following:

Major Funds:

- General Fund – The general fund is the general operating fund of the Town. It is used to account for all financial resources except for those required to be accounted for in another fund. The major sources of revenue for this fund are sales and use taxes. For financial reporting purposes, the General Fund includes the Fire Truck Fund.
- Street and Alley Fund – A special revenue fund that accounts for state shared gasoline excise and commercial vehicle taxes and sales tax legally restricted for street and alley purpose.

Non-Major Funds (Reported as Other Governmental Funds):

- Library Fund – A special revenue fund that accounts for grant proceeds for library activities, as well as book sales and donations to the library.
- Cemetery Care Fund – A capital project fund that accounts for 12.5% of cemetery revenue restricted by state law for cemetery capital improvements.

The governmental funds are 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 sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Funds:

The Town's proprietary funds are comprised of the following:

Enterprise Funds:

- Shattuck Municipal Authority – accounts for the operation of the water, sewer, and sanitation activities.

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

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Shattuck Hospital Authority:

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. County appropriations, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements for the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

Since the Town is reporting on the modified cash basis of accounting and is not modifying the cash basis for capital asset transactions, there are no capital assets recorded in the financial statements.

E. Long-Term Debt

Also due to the Town reporting on the modified cash basis of accounting without modifying for long-term debt transactions, the Town's long-term debt is disclosed as a commitment in Note 13 and is not recorded in the financial 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. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due to employees upon termination is reported as a commitment in Note 13.

G. Fund Balances and Net Assets

Fund Balances:

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

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- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (a) external groups such as creditor, grantors, contributors, or laws and regulations of other governments, or (b) 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, while the SMA highest level of decision-making authority is made by resolution.
- 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 city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the Town’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund. On those funds, interest income is used first before other revenues.

Fund Balance Deficit Prohibition:

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The Town had no deficit fund balances for the year ended June 30, 2012.

Net Assets:

Net assets are displayed in two components:

- a. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted.”

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

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H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

Certain estimates may be made in the preparation of the financial statements. Estimates are based on management’s best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2012, the Town recognized \$1,098 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town’s deposits are in demand and short-term time deposits.

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

<u>Primary Government:</u>	<u>Carrying Value</u>
Deposits:	
Demand deposits	\$ 820,821
Time deposits	428,603
Total Deposits and Investments	<u>\$ 1,249,424</u>
 Reconciliation to Statement of Net Assets:	
Cash and investments	\$ 1,249,424
	<u>\$ 1,249,424</u>

Custodial Credit Risk

Exposure to custodial credit related to deposits exists when the Town holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Town holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Town’s name. The Town’s policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2012, the Town had no custodial credit risk.

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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. Title 60 public trusts are not limited by the same investment limitations of their municipal beneficiary. The investments held by the town and Municipal Authority are certificates of deposits.

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 based on maturity. The Town discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. As noted in the schedule of deposits and investments above, at June 30, 2012, the maturity dates of investments subject to interest rate risk have been disclosed.

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's has no investment policy regarding concentration of credit risk. At June 30, 2012, the Town had no concentration of credit risk as defined above.

Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for water deposits. The restricted assets as of June 30, 2012 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	<u>\$ 34,762</u>

Component Unit:

Shattuck Hospital Authority

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk is to collateralize its deposits with federal depository insurance and obligations of the U.S. Treasury and U.S. agencies or instrumentalities.

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At December 31, 2011, approximately \$964,000 of the Hospital's bank balances of \$2,026,196 were uninsured and have collateral held by the pledging financial institution in other than the Hospital's name. These amounts do not include funds held by Ellis County on behalf of the Hospital.

No legal opinion has been obtained regarding the enforceability of the collateral arrangements.

Investment Income

Investment income for the year ended December 31, 2011, consisted primarily of interest income.

3. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the Town, of which 1 cent is voter-restricted for debt service for the SMA and .85 cents is recorded in the Street and Alley fund, with the rest reported in the General fund.

4. County Appropriations

Shattuck Hospital Authority

During 2005, the citizens of Ellis County (the County) approved a 3/4 –cent sales tax for the support and operation of the Hospital for a five-year period from October 1, 2005 to September 30, 2010. During 2010, the County approved a 1/2-cent sales tax for a five-year period from October 1, 2010 to September 30, 2015. In 2011 and 2010, the Hospital received approximately 14% of its financial support from county appropriations related to the sales tax. Unexpended funds related to county appropriations are reflected on the accompanying balance sheets as held by county for operations.

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. Patient Accounts Receivable

Shattuck Hospital Authority

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2011, consisted of:

	<u>2011</u>
Patients	\$ 1,075,913
Insurance carriers	821,426
Medicare	698,601
Medicaid	183,814
	<u>2,779,754</u>
Less allowance for uncollectible accounts	1,330,000
Patient accounts receivable, net	<u>\$ 1,449,754</u>

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7. Charity Care and Other Community Benefits

Shattuck Hospital Authority

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2011
Charity allowances	\$ 242,000
Medicaid welfare	2,075,000
	\$ 2,317,000

In addition to uncompensated charges, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments and community educational services.

8. Capital Assets and Depreciation

Since the Town is reporting on the modified cash basis of accounting and is not modifying the cash basis for capital asset transactions, there are no capital assets recorded in the financial statements.

Shattuck Hospital Authority

Capital assets activity for the years ended December 31, 2011, was:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 33,025	\$ 8,000	\$ -	\$ -	\$ 41,025
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,944,151	-	-	-	3,944,151
Major moveable equipment	8,464,322	423,584	-	-	8,887,906
Construction in progress	963,637	5,657,591	-	-	6,621,228
	13,443,880	6,089,175	-	-	19,533,055
Less accumulated depreciation					
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,185,857	86,606	-	-	3,272,463
Major moveable equipment	7,396,653	431,536	-	-	7,828,189
	10,621,255	518,142	-	-	11,139,397
Capital assets, net	\$ 2,822,625	\$ 5,571,033	\$ -	\$ -	\$ 8,393,658

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9. Transfers

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	SMA	\$ 220,669	Sales tax transfer
SMA	General Fund	38,500	Operating transfer
Cemetery Reserve Fund	General Fund	15,650	Transfer of remaining balance
		<u>\$ 274,819</u>	

Reconciliation to Statement of Changes in Net Assets:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental	\$ 54,150	\$ (236,319)	\$ (182,169)
Business-Type	220,669	(38,500)	182,169
Total	<u>\$ 274,819</u>	<u>\$ (274,819)</u>	<u>\$ -</u>

10. Fund Equity

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54.

	<u>General Fund</u>	<u>Street and Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balance:				
Restricted for:				
Fire truck	\$ 68,691	\$ -	\$ -	\$ 68,691
Streets and alleys	-	656,014	-	656,014
Library	-	-	8,698	8,698
Cemetery	50	-	19,991	20,041
Sub-total Restricted	<u>68,741</u>	<u>656,014</u>	<u>28,689</u>	<u>753,444</u>
Assigned to:				
Cemetery	10,480	-	-	10,480
Balance future year's budget	49,206	-	-	49,206
Total Fund Balance	<u>\$ 128,427</u>	<u>\$ 656,014</u>	<u>\$ 28,689</u>	<u>\$ 813,130</u>

Restricted Net Assets – Governmental Activities:

The city has restricted fund balances of \$753,444. Of that amount, \$656,014 is restricted by enabling legislation for the purpose of construction, maintenance, repair, improvement or lighting of streets and alleys.

11. Risk Management

The primary government is 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 for participation in the Oklahoma Municipal Assurance Group risk entity pool for worker's compensation and tort liability

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coverage. 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.

12. Pension Plan Participation

The Town of Shattuck participates in two pension or retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan.
2. Oklahoma Public Employees Retirement System (OPERS) – a state-wide cost-sharing plan.

OFPRS

The Town of Shattuck, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter’s Pension and Retirement System (OFPRS) as a result of the employment of full-time firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ fulltime or volunteer firefighters. OFPRS plan members are required to contribute 8% to the plan. The Town is required by state law to contribute 13% per year of covered payroll for paid firefighters. For volunteer firefighters, the Town is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2012, the Town's annual required contribution was \$1,320 for the OFPRS plan and was equal to the Town's actual contribution.

Fiscal Year	OFPRS	
	Required Contribution	Amount Contributed
2010	1,260	100%
2011	1,320	100%
2012	1,320	100%

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 Town, OK 73105-3414

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Employee Plan:

The City provides a defined-contribution pension benefit for all of its full-time employees with the exception of the fire departments, through the Oklahoma Public Employees Retirement System (OPERS). The employee's contribution rate is 3.5%. The City's contribution is 16.5%. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	44,797	100%
2011	44,593	100%
2012	62,594	100%

A copy of the OPERS financial statements can be obtained from Oklahoma Public Employees Retirement System, 2101 N. Lincoln Blvd., Room 580, Oklahoma City, OK 73105.

13. Commitments and Contingencies

Accounts Payable and Accrued Expenses:

Shattuck Hospital Authority:

Accounts payable and accrued expenses included in current liabilities at December 31, 2011, consisted of:

Payable to suppliers and contractors	<u>2011</u> \$ 948,946
Payable to employees (including payroll taxes and benefits)	362,353
Payable for self-insured health claims	25,000
	<u>\$ 1,336,299</u>

Long-term Debt Commitments:

Shattuck Municipal Authority:

Note Payable:

OWRB Drinking Water SRF Loan, issued in February 2012, original amount \$1,485,000, due in semi-annual installments each March 15 and September 15, final installment due September 15, 2042, fixed interest rate of 2.90%. Issued by the SMA and secured by pledged sales tax and net revenues.

\$ 364,965

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Year Ended June 30,	Notes Payable	
	Principal	Interest
2013	\$ 15,648	\$ 21,663
2014	31,984	42,638
2015	32,924	41,697
2016	33,891	40,730
2017	34,887	39,734
2018-2022	190,433	182,676
2023-2027	220,109	153,001
2028-2032	254,411	118,698
2033-2037	294,058	79,052
2038-2042	339,881	33,227
2043	36,774	537
Total	\$ 1,485,000	\$753,653
Less: Remaining proceeds to be drawn	(1,120,035)	
Principal balance	\$ 364,965	

Shattuck Hospital Authority:

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2011:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
USDA mortgage	\$ 1,137,519	\$ -	\$ (38,894)	\$ 1,098,625	\$ 40,784
USDA construction loan	277,986	3,503,600	(174,323)	3,607,263	108,227
Capital lease obligations	426,920	-	(209,998)	216,922	216,922
Total long-term debt	\$ 1,842,425	\$ 3,503,600	\$ (423,215)	\$ 4,922,810	\$ 365,933

USDA Mortgage and Construction Loan

Shattuck Hospital Authority entered into a mortgage obligation with the U.S. Department of Agriculture (USDA) which is secured by a first mortgage on the Hospital's property and a pledge of the Hospital's gross revenues; principal and interest of \$7,674 payable monthly through June 2030; interest at 4.75%.

Shattuck Hospital Authority entered into three construction loan obligations with the USDA which are secured by a pledge of the Hospital's gross revenues; principal and interest of \$20,879 collectively payable monthly through July 2050; interest at 4.0%. The Hospital began construction during 2010. The project's approved loan amount is approximately \$5,000,000 with \$3,885,400 funded as of December 31, 2011.

The debt service requirements, based on the loan terms and the amount funded as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 342,636	\$ 149,011	\$ 193,625
2013	342,636	155,400	187,236
2014	342,636	162,066	180,570
2015	342,636	169,018	173,618
2016	342,636	176,271	166,365
2017-2021	1,713,180	1,001,607	711,573
2022-2026	1,713,180	1,236,198	476,982
2027-2031	1,494,456	1,296,767	197,689
2032-2033	370,853	359,550	11,303
	\$ 7,004,849	\$ 4,705,888	\$ 2,298,961

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Capital Lease Obligations

Shattuck Hospital Authority:

The Hospital is obligated under various leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011, totaled \$916,522, net of accumulated depreciation of \$831,225. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates ranging from 6.69% to 9.47% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,		\$	223,792
2011		\$	223,792
Total minimum lease payments			223,792
Less amount representing interest			6,870
Present value of future minimum lease payments		\$	216,922

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The Town has pledged one cent (or 33.3%) of future sales tax revenues and net water, sewer and sanitation revenues to repay the \$500,000 of the OWRB 1999 Small Community Clean Water SRF Promissory Note and the \$1,485,000 of the OWRB 2012 Drinking Water SRF Promissory Note. Proceeds from the notes provided financing for construction improvements to capital assets. The notes are payable from pledged sales tax revenues and net water, sewer and sanitation revenues of the SMA and are payable through 2020 and 2042, respectively. The city retired the OWRB 1999 note on February 24, 2012. The total principal and interest payable for the remainder of the life of the 2012 note is \$2,238,653. Pledged sales taxes and net water and sewer revenues received in the current year were \$362,333. Debt service payments of \$277,569 for the current fiscal year were 76.6% of pledged sales tax and net utility revenues.

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012 is \$14,486.

Litigation:

The Town and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. 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.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

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Shattuck Hospital Authority:

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performances of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Federal and State Award Programs:

The Town of Shattuck participates in various federal or state grant/loan programs from year to year. In 2012, the Town's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements.

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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 206,273	\$ 232,471	\$ 44,289	\$ (188,182)
Resources (Inflows):				
Taxes	526,000	526,000	370,980	(155,020)
Intergovernmental	90,000	90,000	63,747	(26,253)
Charges for services	19,600	19,600	55,921	36,321
Fines and Forfeitures	5,360	5,360	4,862	(498)
Licenses and Permits	3,000	3,000	2,395	(605)
Investment Income	100	1,200	178	(1,022)
Miscellaneous	145,600	145,600	216,276	70,676
Other Financing Sources - Transfers In	179,070	179,070	54,150	(124,920)
Total Resources	968,730	969,830	768,509	(201,321)
Amounts available for appropriation	1,175,003	1,202,301	812,798	(389,503)
Charges to Appropriations (Outflows):				
Managerial	126,500	136,500	125,915	10,585
City Attorney	11,000	21,000	7,050	13,950
City Clerk	61,500	61,500	49,943	11,557
General Government	86,000	96,000	90,305	5,695
Police	155,000	155,000	126,325	28,675
Animal Control	500	2,500	1,192	1,308
Fire	107,200	107,200	86,573	20,627
Streets	17,840	17,840	2,074	15,766
Community Development	22,000	22,000	18,972	3,028
Parks	233,111	195,011	177,589	17,422
Library	82,500	82,500	61,179	21,321
Cemetery	100	6,200	5,945	255
Other Financing Uses - Transfers Out	179,070	179,070	-	179,070
Total Charges to Appropriations	1,082,321	1,082,321	753,062	329,259
Ending Budgetary Fund Balance	\$ 92,682	\$ 119,980	\$ 59,736	\$ (60,244)

See accompanying notes to budgetary comparison schedules.

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As of and for the Year Ended June 30, 2012**

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012, (Cont.)

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 548,436	\$ 548,436	\$ 556,725	\$ 8,289
Resources (Inflows):				
Taxes	142,500	142,500	187,569	45,069
Intergovernmental	-	-	12,607	12,607
Miscellaneous	-	-	-	-
Total Resources	142,500	142,500	200,176	57,676
Amounts available for appropriation	690,936	690,936	756,901	65,965
Charges to Appropriations (Outflows):				
Streets	300,000	187,000	100,887	86,113
Total Charges to Appropriations	300,000	187,000	100,887	86,113
Ending Budgetary Fund Balance	\$ 390,936	\$ 503,936	\$ 656,014	\$ 152,078

See accompanying notes to budgetary comparison schedules.

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Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers and supplemental appropriations require Town Council approval.
3. The actual amounts on the budgetary comparison schedules differ from the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance due to a difference in the presentation of the general fund. In the governmental fund statements, the general fund includes the Fire Truck Fund and the Cemetery Care Fund. These funds did not meet the definition of special revenue funds as defined in GASB 54. The detail of the differences is as follows:

Resources - Budgetary Comparison Schedule	\$ 768,509
Fire Truck Fund revenue	15,941
General Fund Sales Tax Transfer	220,669
Revenue - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 1,005,119</u>
Charges to appropriations - Budgetary Comparison Schedule	\$ 753,062
Fire Truck Fund expenditures	7,386
General Fund Sales Tax Transfer	220,669
Cemetery Reserve Balance Transfer	15,650
Expenditures - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 996,767</u>

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SUPPLEMENTARY INFORMATION

**TOWN OF SHATTUCK, OKLAHOMA
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As of and for the Year Ended June 30, 2012**

Combining Balance Sheet – General Fund Accounts

	<u>General Fund</u>	<u>Fire Truck Account</u>	<u>Cemetery Reserve Account</u>	<u>Total General Fund</u>
ASSETS				
Cash and investments	\$ 59,736	\$ 68,691	\$ -	\$ 128,427
Due from other funds	-	-	-	-
 Total Assets	<u>59,736</u>	<u>68,691</u>	<u>-</u>	<u>128,427</u>
LIABILITIES AND FUND BALANCES				
Due to other funds	-	-	-	-
 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Fire Truck	-	68,691	-	68,691
Cemetery	50	-	-	50
Assigned to:				
Cemetery	10,480	-	-	10,480
Balance future year's budget	49,206	-	-	49,206
Total Fund Balances	<u>59,736</u>	<u>68,691</u>	<u>-</u>	<u>128,427</u>
 Total Liabilities and Fund Balances	<u>\$ 59,736</u>	<u>\$ 68,691</u>	<u>\$ -</u>	<u>\$ 128,427</u>

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Combining Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts
(Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Fire Truck Account</u>	<u>Cemetery Reserve Account</u>	<u>Total General Fund</u>
Revenues:				
Taxes	\$ 591,649	\$ -	\$ -	\$ 591,649
Intergovernmental	63,747	4,413	-	68,160
Charges for services	55,921	-	-	55,921
Fines and forfeitures	4,862	-	-	4,862
Licenses and permits	2,395	-	-	2,395
Investment income	178	-	-	178
Miscellaneous	216,276	11,528	-	227,804
Total Revenues	<u>935,028</u>	<u>15,941</u>	<u>-</u>	<u>950,969</u>
Expenditures:				
Current:				
General Government:				
Managerial	125,915	-	-	125,915
City Attorney	7,050	-	-	7,050
City Clerk	49,943	-	-	49,943
General Government	90,305	-	-	90,305
Public Safety:				
Police	126,325	-	-	126,325
Animal Control	1,192	-	-	1,192
Fire	86,573	7,386	-	93,959
Highways and streets:				
Streets	2,074	-	-	2,074
Culture and Recreation:				
Community Development	18,972	-	-	18,972
Parks	152,174	-	-	152,174
Library	61,179	-	-	61,179
Cemetery	5,945	-	-	5,945
Capital Outlay	25,415	-	-	25,415
Total Expenditures	<u>753,062</u>	<u>7,386</u>	<u>-</u>	<u>760,448</u>
Excess (deficiency) of revenues over expenditures	181,966	8,555	-	190,521
Other Financing Sources (Uses):				
Transfers in	54,150	-	-	54,150
Transfers out	(220,669)	-	(15,650)	(236,319)
Total Other Financing Sources (Uses)	<u>(166,519)</u>	<u>-</u>	<u>(15,650)</u>	<u>(182,169)</u>
Net change in fund balances	15,447	8,555	(15,650)	8,352
Fund balances, beginning	44,289	60,136	15,650	120,075
Fund balances, ending	<u>\$ 59,736</u>	<u>\$ 68,691</u>	<u>\$ -</u>	<u>\$ 128,427</u>

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Combining Balance Sheet – Non-Major Governmental Funds – June 30, 2012

	Special Revenue Funds		
	Cemetery Care Fund	Library Fund	Total
ASSETS			
Cash and investments	\$ 19,991	\$ 8,698	\$ 28,689
Total Assets	19,991	8,698	28,689
LIABILITIES AND FUND BALANCES			
Due to other funds	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Restricted for:			
Cemetery	19,991	-	19,991
Library	-	8,698	8,698
Total Fund Balances	19,991	8,698	28,689
Total Liabilities and Fund Balances	\$ 19,991	\$ 8,698	\$ 28,689

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Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		
	<u>Cemetery Care Fund</u>	<u>Library Fund</u>	<u>Total</u>
Revenues:			
Intergovernmental	\$ -	\$ 11,450	\$ 11,450
Charges for services	225	775	1,000
Investment income	154	-	154
Miscellaneous	-	2,404	2,404
Total Revenues	<u>379</u>	<u>14,629</u>	<u>15,008</u>
Expenditures:			
Current:			
Cemetery	25	-	25
Library	-	11,450	11,450
Total Expenditures	<u>25</u>	<u>11,450</u>	<u>11,475</u>
Excess (deficiency) of revenues over expenditures	354	3,179	3,533
Other Financing Sources (Uses):			
Transfers in	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	354	3,179	3,533
Fund balances, beginning	19,637	5,519	25,156
Fund balances, ending	<u>\$ 19,991</u>	<u>\$ 8,698</u>	<u>\$ 28,689</u>

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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended
June 30, 2012**

Federal/State Grantor/Pass through agency Grantor/Program Title	Grant #	Award Amount	Expenditures
FEDERAL AWARDS:			
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass through the Oklahoma Department of Commerce: Community Development Block Grant	CFDA #14.228 14826 CDBG- CIP 11	\$ 18,167	\$ -
TOTAL FEDERAL AWARDS		\$ 18,167	\$ -
STATE AWARDS:			
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>			
Library State Aid	N/A	\$ 11,450	\$ 11,450
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>			
Rural Fire Operational Grant	N/A	4,413	4,413
<u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GOVERNMENTS:</u>			
REAP Grant	N/A	30,628	30,628
TOTAL STATE AWARDS		\$ 46,491	\$ 46,491

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Schedule of Debt Service Coverage Requirement – Year Ended June 30, 2012

	OWRB NOTE
GROSS REVENUE AVAILABLE:	
Charges for services (water, sewer, sanitation systems)	\$559,772
Investment income	766
Pledged sales tax	220,669
Total Gross Revenue Available	781,207
OPERATING EXPENDITURES:	
Water	202,598
Sewer	50,987
Sanitation	165,289
Total Operating Expenditures	418,874
Net Revenue Available for Debt Service	\$362,333
Maximum Annual Debt Service on all Long-Term Debt Payable From Revenues of the System	\$74,622
Computed Coverage	486%
Coverage Requirement	125%

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INTERNAL CONTROL AND COMPLIANCE

**TOWN OF SHATTUCK, OKLAHOMA
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Norman, OK 73026-9761

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Email: bdfcpa@gmail.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

The Board of Trustees
The Town of Shattuck, Oklahoma

We have audited the financial statements – modified cash basis, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Shattuck, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Town of Shattuck, and have issued our report thereon, dated June 18, 2013. Other auditors audited the financial statements of the Shattuck Hospital Authority, the town's discretely presented component unit, as described in our report on the town's financial statements. 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.

Internal Control Over Financial Reporting

Management of the Town of Shattuck is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the internal control over financial reporting of the Town of Shattuck as a basis for designing our auditing procedures 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 Shattuck's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Shattuck's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we

consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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. We consider the following deficiency in the Town's internal control to be a significant deficiency:

2012-1 The town does not have procedures in place to review general ledger accounts for posting errors and reasonable balances. We recommend that procedures be established requiring review of general ledger accounts at least monthly for posting errors and reasonable balances.

Response We will establish procedures to make sure that all general ledger accounts are reviewed monthly for posting errors and reasonable balances.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Town of Shattuck are free of 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*.

The Town of Shattuck's response to the findings identified in our audit is described above. We did not audit the Town of Shattuck's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

 , C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
June 18, 2013