



**THE CITY OF SHIDLER,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

**CITY OF SHIDLER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

City Council

Jace Gullic	Mayor
Todd E. Roe	Member
Bill Coats	Member
Pat Patton	Member
Britton Wehunt	Member
Shawn Wehunt	Member
Cody Golay	Member

City Clerk

Ginger Gray

City Treasurer

Judy Johnson

**Shidler City Hall
PO Box 335
Shidler, Oklahoma 74652-0335
(918) 793-7171**

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ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

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CITY OF SHIDLER, OKLAHOMA
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Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, GFOA

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Tulsa, Oklahoma 74137

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council

City of Shidler, State Oklahoma

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, and each fund of the City of Shidler, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

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Basis of Accounting

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

Disclaimer of Opinion on Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shidler, Oklahoma's basic financial statements. The budgetary comparison information on page 30, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 29, 2014, on my consideration of the City of Shidler, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Shidler, Oklahoma's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
August 29, 2014

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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

CITY OF SHIDLER, OKLAHOMA
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Statement of Net Position (Modified Cash Basis) – June 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 290,850	\$ 23,886	\$ 314,736
Investments	67,254	-	67,254
Total current assets	358,104	23,886	381,990
Noncurrent assets:			
Restricted cash and cash equivalents	-	9,972	9,972
Investments	-	140,781	140,781
Capital assets, net of depreciation	437,184	261,911	699,094
Total noncurrent assets	437,184	412,664	849,847
Total assets	795,288	436,550	1,231,838
Liabilities:			
Noncurrent liabilities:			
Meter deposit liability	-	9,972	9,972
Total noncurrent liabilities	-	9,972	9,972
Total liabilities	-	9,972	9,972
Net Position:			
Net investment in capital assets	437,184	261,911	699,095
Unrestricted	358,104	164,667	522,771
Total net position	\$ 795,288	\$ 426,578	\$ 1,221,866

See accompanying footnotes to the basic financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 86,715	\$ 782	\$ 37,800	\$ -	\$ (48,133)	\$ -	\$ (48,133)
Fire and ambulance	43,279	17,858	-	4,484	(20,937)	-	(20,937)
Streets and alleys	2,604	-	-	-	(2,604)	-	(2,604)
	41,580						
Sanitation		72,924	276,200	-	307,544	-	307,544
Contract grant services	11,775	-	11,775	-	-	-	-
Total governmental activities	185,953	91,564	325,775	4,484	235,870	-	235,870
Business-type activities							
Water	122,444	99,454	-	-	-	(22,990)	(22,990)
Total business-type activities	122,444	99,454	-	-	-	(22,990)	(22,990)
Total primary government	\$308,397	\$ 191,018	\$ 325,775	\$ 4,484	235,870	(22,990)	212,880
General revenues:							
Taxes:							
Sales tax					97,070	-	97,070
Franchise and public service taxes					8,280	-	8,280
Intergovernmental revenue					13,479	-	13,479
Investment income					1,382	1,407	2,789
Donations					28,725	-	28,725
Miscellaneous					957	-	957
Transfers - water project funded by grant					(37,800)	37,800	-
Total general revenues					112,093	39,207	151,300
Change in net position					347,963	16,217	364,180
Net position – beginning					447,325	410,361	857,686
Net position - ending					\$ 795,288	\$ 426,578	\$ 1,221,866

See accompanying footnotes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF SHIDLER, OKLAHOMA
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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

	General Fund	Grant Fund	Street & Alleys Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 267,498	\$ 10,600	\$ 12,752	\$ 290,850
Investments	67,254	-	-	67,254
Total Assets	<u>\$ 334,752</u>	<u>\$ 10,600</u>	<u>\$ 12,752</u>	<u>\$ 358,104</u>
Fund balances:				
Unrestricted:				
Assigned:				
Fire	121,394	-	-	121,394
Streets and alleys	-	-	12,752	12,752
Unassigned	213,358	10,600	-	223,958
Total Fund Balances	<u>\$ 334,752</u>	<u>\$ 10,600</u>	<u>\$ 12,752</u>	<u>\$ 358,104</u>

See accompanying footnotes to the basic financial statements.

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

	General Fund	Grant Fund	Street & Alleys Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 105,350	\$ -	\$ -	\$ 105,350
Intergovernmental	10,293	-	3,186	13,479
Fire and ambulance	17,858	-	-	17,858
Licenses and permits	782	-	-	782
Sewer services	29,169	-	-	29,169
Trash services	43,755	-	-	43,755
Grant revenue	252,459	77,800	-	330,259
Donations	28,725	-	-	28,725
Investment income	1,313	-	69	1,382
Miscellaneous	957	-	-	957
Total Revenues	490,661	77,800	3,255	571,716
Expenditures:				
General government	84,267	-	-	84,267
Fire and ambulance	25,669	-	-	25,669
Streets and alleys	-	-	2,604	2,604
Sanitation	37,985	-	-	37,985
Contract grant services	11,775	-	-	11,775
Capital outlay:				
General government	28,324	-	-	28,324
Sewer	237,090	29,900	-	266,990
Water	-	37,800	-	37,800
Total expenditures	425,110	67,700	2,604	495,414
Net change in fund balance	65,551	10,100	651	76,302
Fund balances - beginning	269,201	500	12,101	281,802
Fund balances - ending	\$ 334,752	\$ 10,600	\$ 12,752	\$ 358,104

See accompanying footnotes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Fund balances of governmental funds	\$ 358,104
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of \$631,744, net of accumulated depreciation of \$194,560 are not financial resources and, therefore, are not reported in the funds.	437,184
Net position of governmental activities	\$ 795,288

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	\$ 76,302
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Cash purchases of capital assets	295,314
Depreciation expense	(23,653)
	271,661
Change in net position of governmental activities	\$ 347,963

See accompanying footnotes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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

	Shidler Oklahoma Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 23,886
Noncurrent assets:	
Investments	140,781
Restricted cash and investments	9,972
Capital assets, net of accumulated depreciation	261,911
Total noncurrent assets	412,664
Total assets	436,550
LIABILITIES	
Noncurrent Liabilities:	
Meter deposit liability payable from restricted assets	9,972
Total Noncurrent Liabilities	9,972
Total liabilities	9,972
NET POSITION	
Net investment in capital assets	261,911
Unrestricted	164,667
Total net position	\$ 426,578

See accompanying footnotes to the basic financial statements.

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

	Shidler Oklahoma Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 92,011
Late fees	4,893
Other	2,550
Total operating revenues	99,454
Operating expenses:	
Costs of sales and services:	
Salaries and benefits	32,397
Operations and maintenance	38,502
Chemicals	28,526
Supplies	6,589
Depreciation	16,429
Total operating expenses	122,444
Operating income	(22,990)
Nonoperating revenue (expense):	
Transfer from City of Shidler (non cash)	37,800
Investment income	1,407
Total nonoperating expense	39,207
Change in net position	16,217
Net position – beginning	410,361
Net position – ending	\$ 426,578

See accompanying footnotes to the basic financial statements.

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

	Shidler Oklahoma Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 99,454
Payments to suppliers	(73,617)
Payments to employees (including benefits)	(32,397)
Receipt of customers utility deposits	4,450
Refunds of customers utility deposits	(2,361)
Net cash provided by (used in) operating activities	(4,471)
Cash flows from investing activities	
Purchase of investments	(1,296)
Investment income	1,407
Net cash provided by (used in) investing activities	111
Net increase (decrease) in cash and cash equivalents	(4,360)
Cash and equivalents - beginning of year	38,218
Cash and equivalents - end of year	\$ 33,858
Reconciliation to the Statement of Net Position:	
Cash and cash equivalents	\$ 23,886
Restricted cash and cash equivalents	9,972
Total cash and cash equivalents	\$ 33,858
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income	\$ (22,990)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in meter deposits	2,090
Depreciation expense	16,429
Net cash provided by (used in) operating activities	\$ (4,471)

See accompanying footnotes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. City's Financial Reporting Entity

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

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

- **The City of Shidler** – operates the public safety, streets, sewer, trash collection, and administrative activities of the City. The City is an incorporated municipality with a population of approximately 441 located in north central Oklahoma. The City is an Aldermanic form of government with an eight-member governing body elected by the citizens at large.
- **The Shidler Oklahoma Public Works Authority (SPWA)** – a trust created pursuant to 60 O.S. Section 176 to operate the water, and sanitation services of the City. The City of Shidler is the beneficiary of the SPWA which is reported as a blended component unit of the City. The eight council members of the City of Shidler also serve as trustees for the SPWA.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, as amended by Statement No. 61, *The financial Reporting Entity*, and includes all component units for which the City is financially accountable.

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based inter-fund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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

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

- General government: Licenses and permits, sewer services, trash services, and operating grants
- Fire and ambulance: Fire revenue, fire runs, ambulance runs, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

Governmental Funds:

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

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Grant Fund - (Capital Projects Fund): Accounts for capital grant receipts and expenditures
- Street and Alleys Fund - (Special Revenue Fund) Accounts for commercial vehicle tax and gasoline tax legally restricted for street and alley repairs and maintenance.

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 sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. These fund financial statement use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund financial statement to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

The City accounts for all proprietary activities through the Shidler Oklahoma Public Works Authority fund. For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

The general fund is legally required to adopt an annual budget or appropriations. The public trust (SPWA) is not required to adopt legal annual appropriations. While the trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all demand and savings accounts, certificates of deposit, and any short-term investments with an original maturity of six months or less. Investments consist of long-term certificates of deposits and are reported at cost plus accreted interest.

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D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives by type of asset are as follows:

- | | |
|--------------------------------------|------------|
| • Buildings | 40 years |
| • Machinery, furniture and equipment | 5-10 years |
| • Utility property and improvements | 40 years |
| • Infrastructure | 40 years |

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund type or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements. As of June 30, 2013 the City and the SPWA did not have any long term debt outstanding.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

G. Fund Balances and Net Position

Fund Statements:

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

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

b. Restricted – amounts constrained for a specific purpose by creditors, grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation

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c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.

d. Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by City Board of Trustees action or management decision when the City’s Board has delegated the authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.

e. Unassigned – in the general fund, residual amounts not classified in another classification; for all other funds, only residual deficit amounts

It is the City’s policy to use restricted assets first when they are available for expenditure. When restricted assets are not available, unrestricted assets are used in the following order: committed, assigned, and then unassigned amounts.

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

Net position:

Net position is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* - All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

H. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate inter-fund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements.

Internal transfers for the year ended June 30, 2013 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Nature of Transfer</u>
Governmental Activities	Business-type Activities	\$ 37,800	Water project construction in progress

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

2. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City complied with budgetary requirements in the year ended June 30, 2013.

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3. Deposits and Investments

For the year ended June 30, 2013, the City recognized \$2,789 of investment income. The City's funds are deposited with various local and regional banks in demand accounts bearing annual interest at 0.0% to 0.545%. Time deposits bear interest at the annual rate of 0.295% to 0.85%.

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

<u>Type</u>	<u>Carrying Value</u>
Demand deposits	\$ 315,708
Time deposits	217,035
Total	\$ 532,743
 Reconciliation to the statement of net position:	
Cash and cash equivalents	\$ 314,736
Restricted cash and investments	9,972
Investments	208,035
Total	\$ 532,743

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2013 all deposits were either covered by FDIC insurance or pledged collateral and the City was not exposed to custodial credit risk as defined above.

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 City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (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

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this consideration. The City has no investment policy regarding concentration of credit risk. At June 30, 2013, the City had no investment interest rate risk, investment credit risk, or concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for utility deposits of the Shidler Oklahoma Public Works Authority.

4. Sales Tax Revenue

Sales tax revenue represents a 2.0 cent local tax on each dollar of sales within the City which is to be used for general operations of the City.

5. Property Tax Levy

The City 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 City.

6. Capital Assets and Depreciation

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

	<u>Balance at</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>June 30, 2013</u>
Governmental:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 29,900	\$ -	\$ 29,900
Capital assets being depreciated:				
Building	85,083	1,800	-	86,883
Sewer system	62,743	237,090	-	299,833
Equipment	148,462	26,524	-	174,986
Total capital assets being depreciated	296,288	265,414	-	561,702
Less accumulated depreciation:				
Building	46,842	2,153	-	48,995
Sewer system	2,747	3,595	-	6,342
Equipment	81,176	17,905	-	99,081
Total accumulated depreciation	130,765	23,653	-	154,418
Governmental capital assets, net	\$ 165,523	\$ 271,661	\$ -	\$ 437,184
Business-type				
Capital assets not being depreciated:				
Construction in progress	\$ 5,000	\$ 37,800	\$ -	\$ 42,800
Capital assets being depreciated:				
Water system	586,526	-	-	586,526
Equipment	56,093	-	-	56,093
Total capital assets being depreciated	642,619	-	-	642,619
Less accumulated depreciation				
Water system and equipment	373,399	13,891	-	387,290
Equipment	33,679	2,538	-	36,217
Total accumulated depreciation	407,078	16,429	-	423,507
Business-type capital assets, net	\$ 240,541	\$ 21,371	\$ -	\$ 261,912

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Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental activities:		Business-type activities:	
General government	\$ 2,448	Water	\$ 16,429
Fire and ambulance	17,610		
Sanitation	3,595		
Total depreciation	\$ 23,653	Total depreciation	\$ 16,429

7. Risk Management

The City and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The City participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

The OMAG Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. A plan year normally begins at 12:01 am on July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The City has entered into an agreement with the Plan to participate in the coverage and services that the Plan offers. The City has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the City is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The City has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

8. Employee Retirement Plan Participation

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

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

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

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

The OFPRS contributions are as follows:

<u>Fiscal year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2013	\$840	\$1,624
2012	\$784	\$0

9. Commitments, Contingencies, and Subsequent Events

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are not reflected in the basic financial statements. It is the practice of the current City's management to require that leave is taken in the same fiscal year in which it is earned. Consequently, there were no unused leave balances as of June 30, 2013.

Litigation:

From time to time, the City and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however the City's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) The City also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:

The City of Shidler participates in various federal or state grant/loan programs from year to year. 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 City has not been notified of any noncompliance with federal or state award requirements.

Oklahoma Department of Environmental Quality

The City has entered into a Consent Order with the Oklahoma Department of Environmental Quality (ODEQ) regarding required improvements to the City of Shidler Wastewater Treatment System. The plan to address the ODEQ's concerns involves two phases. Phase one includes the purchase of land to add two lagoon cells and construction of the first cell with influent flow measurement at an estimated cost of \$551,901. Phase two involves the construction of the second cell including diversion structures and piping at an estimated cost of \$363,424. The City plans to fund these improvements from grant funds and available reserves.

Subsequent Events

These financial statements considered subsequent events through August 29, 2014, the date the financial statements were available to be issued.

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OTHER INFORMATION

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

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
Beginning budgetary fund balance	\$ 269,000	\$ 269,000	\$ 269,201	\$ 201
Resources (inflows)				
Taxes	77,000	77,000	105,350	28,350
Intergovernmental	10,000	10,000	10,293	293
Licenses and permits	1,200	1,200	782	(418)
Fire and ambulance	20,000	20,000	17,858	(2,142)
Grant revenue	250,000	250,000	252,459	2,459
Donations and fundraiser	10,000	10,000	28,725	18,725
Sanitation	73,000	73,000	72,924	(76)
Investment income	1,200	1,200	1,313	113
Miscellaneous	358	358	957	599
Total resources (inflows)	<u>442,758</u>	<u>442,758</u>	<u>490,661</u>	<u>47,903</u>
Amounts available for appropriation	<u>711,758</u>	<u>711,758</u>	<u>759,862</u>	<u>48,104</u>
Charges to appropriations (outflows):				
General government	107,500	107,500	84,267	23,233
Fire and ambulance	26,000	26,000	25,669	331
Sanitation	300,000	300,000	37,985	262,015
Contract grant services	-	-	11,775	(11,775)
Capital outlay	-	-	265,414	(265,414)
Total charges to appropriations	<u>433,500</u>	<u>433,500</u>	<u>425,110</u>	<u>8,390</u>
Ending budgetary fund balance	<u><u>\$ 278,258</u></u>	<u><u>\$ 278,258</u></u>	<u><u>\$ 334,752</u></u>	<u><u>\$ 56,494</u></u>

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The City appropriates funds under the Estimate of Needs statutes which require the City to submit financials for the prior year and needs estimate by August 27 of the budget year and published in a local newspaper.
2. The legal level of appropriation control is the fund level. Supplemental appropriations require the City Council's approval.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCP, and GFOA

3119 E 87th Street
Tulsa, Oklahoma 74137

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the Board of Trustees
City of Shidler, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements-modified cash basis of the governmental activities, the business-type activities, and each fund of the City of Shidler, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Shidler, Oklahoma's basic financial statements-modified cash basis and have issued my report thereon dated August 29, 2014. As described in Note 1B, the City of Shidler, Oklahoma has elected to report on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. [2013-01]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shidler, Oklahoma's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my

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tests disclosed no instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

City of Shidler, Oklahoma's Response to Findings

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

Purpose of this Report

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
August 29, 2014

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SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the *“Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”*. Consideration of items listed should be made in conjunction with that report.

2012-01 – Segregation of Duties

CONDITION: The City uses one position to perform certain duties that are incompatible with effective internal control. One employee writes checks, is an authorized signer on the checks, records the checks in the accounting system, reconciles the bank account, and maintains the payroll records. Only one signature is required on checks.

CRITERIA: The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the City’s assets and ensure accurate financial reporting.

CAUSE OF CONDITION: The City’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The City’s management should investigate opportunities to better segregate duties as well as consider implementing additional Council oversight and/or control of daily functions. For instance, the City could require two signatures on each check with one of the signatures that of a Council member. In addition, an individual should not be both payee and sole signer on a check. The City should consider either requiring the Treasurer or contract with a local bookkeeper to perform all bank reconciliations monthly and prepare monthly reporting to the Council. Consideration should also be given to contracting for payroll services with an outside service with Council approval required for pay changes as well as review of timesheets.

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