

AUDIT REPORT
OF
TOWN OF STERLING, OKLAHOMA

AS OF
JUNE 30, 2014

BY
JOHNSON, BADERTSCHER & MOORE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF STERLING, OKLAHOMA

TABLE OF CONTENTS

JUNE 30, 2014

Independent Auditor's Report	Report 1
Other Information - Management Discussion and Analysis	
Basic Financial Statements	
Statement of Net Position	Statement 1
Statement of Activities	Statement 2
Balance Sheet - Governmental Funds	Statement 3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	Statement 4
Statement of Net Position - Proprietary Fund	Statement 5
Statement of Revenues over Expenditures and Changes in Net Position - Proprietary Fund	Statement 6
Statement of Cash Flows - Proprietary Fund	Statement 7
Notes to the Basic Financial Statements	
Schedule of Financial Assistance	Schedule 1
Required Supplementary Information - Budget Comparison Schedule	Schedule 2
Report on Internal Control Over Financial Reporting and on Financial Statements Performed in Accordance with government Auditing Standards	Report 2

JOHNSON, BADERTSCHER & MOORE, P .C.

Certified Public Accountants

P.O. BOX 1405

CHICKASHA, OK 73023-1405

JIMMIE P. JOHNSON, C.P.A.
TAMMIE S. MOORE, C.P.A.

505 CHICKASHA AVE.
Phone (405) 224-0212
Fax (405) 222-4139

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Sterling, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Town of Sterling, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the Town of Sterling, State of Oklahoma, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Town of Sterling, State of Oklahoma's basic financial statements. The introductory section and statistical section (Management Discussion and Analysis) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the Town of Sterling, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Sterling, Oklahoma's internal control over financial reporting and compliance.


JOHNSON, BADERTSCHER & MOORE, P.C.
Certified Public Accountants

Chickasha, Oklahoma
November 10, 2014

TOWN OF STERLING, OKLAHOMA
Management Discussion and Analysis

Our discussion and analysis of the Town of Sterling's financial performance provided an overview of the Town's financial activities for the year ended June 30, 2014.

Using the Audited Financial Statements

The financial statements consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. For governmental activities, the fund financial 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 operation in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting on the Town as a Whole

The Statement of Net Position and the Statement of Activities report information about the town as a whole and about its activities in a way that helps answer the question, did the Town's financial condition improve or deteriorate during the period in question. These statements include all assets and liabilities of the Town and are prepared using the accrual basis of accounting. Revenues and expenses are recorded when earned and incurred not when received. The government wide statements are broken up into two categories: governmental activities and business activities. Governmental activities include police, fire, streets and garbage services. Business activities are primarily water and sewer services.

Fund Financial Statements

The fund financial statements consist of the individual funds that are maintained by the Town. The general fund accounts for most Town services including fire, town and street maintenance and garbage. The street and alley fund accounts for street maintenance. The general fund and special revenue funds are classified as governmental funds. The Sterling PWA accounts for the sale of water and sewer services. The Sterling PWA is classified as an enterprise fund. What is not presented with the fund financial statements is any long-term debt associated with the governmental funds nor are the fixed assets associated with the governmental funds presented in the fund financial statements.

Presented at the bottom of the government wide financial statements is a reconciliation of the government wide financial statements net position to the fund financial statements net assets and changes in fund net assets.

TOWN OF STERLING, OKLAHOMA

FINANCIAL DATA

Selected financial data from the Town's government wide financial statements as follows:

	<u>2014</u>	<u>2013</u>
Total non capital assets	\$ 508,755	\$ 512,547
Total capital assets	\$ 979,900	\$ 975,746
Total current liabilities	\$ 45,622	\$ 44,441
Total noncurrent liabilities	-0-	-0-
Net assets unrestricted	\$ 438,500	\$ 444,181
Investment in capital assets net of related debt	\$ 979,900	\$ 975,746
Revenues		
Charges for services	\$ 44,097	\$ 48,804
Grants and contributions	\$ 4,474	\$ 69,095
Water and sewer	\$ 248,894	\$ 266,933
Sales taxes	\$ 79,479	\$ 89,927
Other taxes	\$ 36,327	\$ 30,926
Interest and other	\$ 2,736	\$ 1,853
Total revenues	\$ 416,007	\$ 507,538
Expenses		
General government	\$ 52,181	\$ 52,995
Street maintenance	\$ 15,153	\$ 15,631
Fire department	\$ 29,417	\$ 35,454
Police department	\$ 33,865	\$ 34,934
Water and sewer	\$ 286,210	\$ 258,338
Total expenses	\$ 416,826	\$ 397,352
Change in net position	(\$ 819)	\$ 110,186
Ending net position	\$1,443,033	\$1,443,852

Analysis of Financial Position and Results of Operations

The overall financial condition of the Town of Sterling is good. The governmental funds continue to maintain a high rate of liquidity with cash representing 31% of total assets. The business type funds have unrestricted cash representing 15% of total assets. An inventory of fixed assets has been compiled and will continue to be maintained in the future. Overall, the Town had a net loss of (\$819). Total unrestricted cash increased by \$12,633.

For the year ending June 30, 2014, there were no significant changes to the approved budget. There were purchases of \$55,250 in fixed assets.

(Unaudited)

TOWN OF STERLING, OKLAHOMA

Statement of Net Position

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$170,449	\$144,456	\$ 314,905
Restricted cash	-0-	24,633	24,633
Receivables	14,629	20,588	35,217
Investments	15,000	119,000	134,000
Capital assets (net of depreciation)	<u>343,332</u>	<u>636,568</u>	<u>979,900</u>
Total assets	<u>\$543,410</u>	<u>\$945,245</u>	<u>\$1,488,655</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
	-0-	-0-	-0-
<u>LIABILITIES</u>			
Accounts payable	\$ 5,177	\$ 9,904	\$ 15,081
Compensated absences	2,286	3,622	5,908
Customer deposits	<u>-0-</u>	<u>24,633</u>	<u>24,633</u>
Total liabilities	<u>7,463</u>	<u>38,159</u>	<u>45,622</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-0-	-0-	-0-
<u>NET POSITION</u>			
Net investment in capital assets	343,332	636,568	979,900
Restricted for customer deposits	-0-	24,633	24,633
Unrestricted	<u>192,615</u>	<u>245,885</u>	<u>438,500</u>
Total net position	<u>\$535,947</u>	<u>\$907,086</u>	<u>\$1,443,033</u>

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

TOWN OF STERLING, OKLAHOMA

Statement of Activities

For the Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business-type Activities	
Functions/Programs						
Primary government						
Governmental activities:						
General government	\$ 52,181	\$ 18,228		(\$ 33,953)		(\$ 33,953)
Street maintenance	15,153			(15,153)		(15,153)
Fire department	29,417		\$ 4,474	(24,943)		(24,943)
Police department	<u>33,865</u>	<u>25,869</u>		<u>(7,996)</u>		<u>(7,996)</u>
Total governmental activities	130,616	44,097	4,474	(82,045)		(82,045)
Business-type activities:						
Water and sewer	<u>286,210</u>	<u>248,894</u>			(\$ 37,316)	(37,316)
Total business-type activities	<u>286,210</u>	<u>248,894</u>			(\$ 37,316)	
Total primary government	<u>\$416,826</u>	<u>\$292,991</u>	<u>\$ 4,474</u>	<u>(82,045)</u>	<u>(\$ 37,316)</u>	<u>(119,361)</u>
General Revenues						
Taxes:						
Sales taxes				79,479		79,479
Other taxes				36,327		36,327
Interest income				204	632	836
Other				<u>1,900</u>		<u>1,900</u>
Total general revenues				<u>117,910</u>	<u>632</u>	<u>118,542</u>
Change in net position				35,865	(36,684)	(819)
Net position - beginning				<u>500,082</u>	<u>943,770</u>	<u>1,443,852</u>
Net position - ending				<u>\$535,947</u>	<u>\$907,086</u>	<u>\$1,443,033</u>

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

TOWN OF STERLING, OKLAHOMA

Balance Sheet
Governmental Funds-----
June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$150,922	\$19,527	\$170,449
Accounts receivable	14,629		14,629
Investments	<u>15,000</u>		<u>15,000</u>
Total assets	<u>\$180,551</u>	<u>\$19,527</u>	<u>\$200,078</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 5,177		\$ 5,177
Compensated absences	<u>2,286</u>		<u>2,286</u>
Total liabilities	<u>7,463</u>	<u>-0-</u>	<u>7,463</u>
Fund balances	<u>173,088</u>	<u>19,527</u>	<u>192,615</u>
Total liabilities and fund balances	<u>\$180,551</u>	<u>\$19,527</u>	<u>\$200,078</u>

Reconciliation of total Governmental Fund Balance
to Net Assets of Governmental Activities June 30, 2014

Total Government Fund Balances \$192,615

Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the funds. 343,332

Net position of Governmental Activities \$535,947

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

TOWN OF STERLING, OKLAHOMA
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Revenues			
Taxes	\$107,346	\$ 8,294	\$115,640
Charges for services	18,228		18,228
Interest	27,973		27,973
Intergovernmental	<u>4,474</u>		<u>4,474</u>
Total revenues	<u>158,021</u>	<u>8,294</u>	<u>166,315</u>
Expenditures			
Current operations:			
General government	46,318		46,318
Street Maintenance	12,862	2,291	15,153
Fire department	29,417		29,417
Police department	<u>78,993</u>		<u>78,993</u>
Total expenditures	<u>167,590</u>	<u>2,291</u>	<u>169,881</u>
Excess revenues and other resources			
Over (under) expenditures and uses	(9,569)	6,003	(3,566)
Fund balances at beginning of year	<u>182,657</u>	<u>13,524</u>	<u>196,181</u>
Fund balances at end of year	<u>\$173,088</u>	<u>\$19,527</u>	<u>\$192,615</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds (\$ 3,566)

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is
allocated over their estimated useful lives as depreciation expense.

Depreciation expense	(15,819)
Capital outlays expended	<u>55,250</u>

Change in net position of governmental activities \$ 35,865

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

TOWN OF STERLING, OKLAHOMA

Statement of Net Position
Proprietary Fund-----
June 30, 2014ASSETS

Current assets	
Cash - unrestricted	\$144,456
Cash - restricted	24,633
Accounts receivable	20,588
Investments	<u>119,000</u>
Total current assets	308,677
Noncurrent assets	
Net capital assets	<u>636,568</u>
Total Assets	<u>\$945,245</u>

LIABILITIES AND NET POSITION

Current liabilities	
Accounts payable	\$ 9,904
Compensated absences	3,622
Trust liability	<u>24,633</u>
Total current liabilities	38,159
Noncurrent liabilities	<u>-0-</u>
Total Liabilities	<u>38,159</u>

NET ASSETS

Invested in capital assets, net of related debt	636,568
Restricted for meter deposits	24,633
Unrestricted	<u>245,885</u>
Total Net Position	<u>907,086</u>
Total Liabilities and Net Position	<u>\$945,245</u>

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

TOWN OF STERLING, OKLAHOMA
Statement of Revenue Over Expenditures
and Changes in Net Position
Proprietary Fund Type

For the Year Ended June 30, 2014

Operating Revenues:	
Water and sewer	<u>\$248,894</u>
Operating Expenses:	
Personal services	94,874
Maintenance and operations	156,059
Depreciation	<u>35,277</u>
Total operating expenses	<u>286,210</u>
Operating income (loss)	(37,316)
Non operating revenues:	
Interest	<u>632</u>
Change in net position	(36,684)
Net position beginning of year	<u>943,770</u>
Net position, end of year	<u>\$907,086</u>

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

TOWN OF STERLING, OKLAHOMA

Statement of Cash Flows
Proprietary Fund-----
For the Fiscal Year Ended June 30, 2014

<u>Cash flows from operating activities</u>	
Cash received from customers	\$247,861
Cash paid to employees	(94,183)
Cash paid to suppliers	(156,201)
Net cash from operating activities	(2,523)
<u>Cash flows from non-capital financing activities</u>	
Change in restricted cash	708
Net cash from non-capital financing activities	708
<u>Cash flows from capital and related financing activities</u>	
Grants received	-0-
Acquisition of capital assets	-0-
Net cash from capital and related financing activities	-0-
<u>Cash flows from investing activities</u>	
Interest income	632
Change in investments	-0-
Net cash from investing activities	632
Net change in cash	(1,183)
Cash beginning of year	170,272
Cash end of year	<u>\$169,089</u>
<u>Reconciliation of operating income to net cash from operating activities</u>	
Operating profit (loss)	(\$ 36,684)
Depreciation	35,277
Change in accounts receivable	(1,033)
Change in accounts payable	(774)
Change in compensated absences	691
Net cash from operating activities	<u>(\$ 2,523)</u>

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

Town of Sterling, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Sterling, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2014, the Town had only one component unit, the Sterling Public Works Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

If applying the susceptible to accrual concept under the accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations for the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on the decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable, then Government Accounting Standards Board pronouncements are used.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2014.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 2483, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through November 10, 2014, which is the date the report was issued.

Note 2 - Deposits with Financial Institutions

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

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

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

Note 3 - Capital Asset Activity

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Governmental</u>				
Fire department	\$ 361,019	\$ 55,250		\$ 416,269
Police department	33,372			33,372
General government	<u>304,877</u>			<u>304,877</u>
Total governmental	699,268	55,250		754,518
Less: accumulated depr.	(395,367)	(15,819)		(411,186)
Net governmental	<u>303,901</u>	<u>39,431</u>		<u>343,332</u>
Proprietary	1,481,401			1,481,401
Less: accumulated depr.	(809,556)	(35,277)		(844,833)
Net proprietary	<u>671,845</u>	(35,277)		<u>636,568</u>
Total government-wide	<u>\$ 975,746</u>	<u>\$ 4,154</u>		<u>\$ 979,900</u>

Capital assets are depreciated over their estimated useful lives.

Current depreciation expense:

Governmental	\$15,819
Proprietary	<u>35,277</u>
Total	<u>\$51,096</u>

Note 4 - Investments

Investments in the Public Works Authority and Government Activities consist of:

Certificates of Deposit	<u>\$134,000</u>
-------------------------	------------------

All CD's are considered current and interest is at the current market rate.

Note 5 - Supplementary Information

Minor Funds combining statements are required to be presented as "Supplementary Information" with the total of such funds presented in the body of the financial statements. However, the Town of Sterling has only one Proprietary Fund and two Governmental Funds. All three of the funds are presented separately in the body of the financial statements. Therefore, no "Supplementary Information" related to Major and Minor Funds is required.

Note 6

FASB ASC 820, Fair Value Measurements, provides a framework for measuring fair value that requires an entity to determine the fair value based on exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- ◆ Level 1 Asset and Liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- ◆ Level 2 Asset and Liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data by substantially the full term of the assets or liabilities.
- ◆ Level 3 asset and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level or any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value at June 30, 2014.

The fair value of certificates are valued at face value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Town believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Town's investments at fair value as of June 30, 2014:

INVESTMENTS AT FAIR VALUE AS OF JUNE 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bank Certificates	-0-	\$134,000	-0-	\$134,000

Note 7 - Fund Balances and Net Assets

Fund Statements

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54 in the current fiscal year, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable - includes amounts that cannot be spent because they are either (a) not in 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 (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws 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.
- d. Assigned - includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by town council action or management decision when the town 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.

Note 8 - Pension Plan

The Town does not participate in the Oklahoma Municipal Employee Retirement Plan or any other pension plan.

TOWN OF STERLING, OKLAHOMA

Schedule of Financial Assistance

For the Fiscal Year Ended June 30, 2014

<u>Grantor</u>	<u>Grant #</u>	<u>Total Grant Amount</u>	<u>Current Revenue Received</u>	<u>Current Expenditures</u>	<u>Current Funds Unexpended</u>
Agriculture Dept.	N/A	\$4,474	\$4,474	\$4,474	-0-

TOWN OF STERLING, OKLAHOMA
Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2014

General Fund

<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Sales tax	\$ 77,006	\$ 79,654	\$ 2,648
Fines	28,643	25,869	(2,774)
Franchises	14,170	17,461	3,291
Other tax	9,989	10,543	554
Miscellaneous, permits, royalty	11,720	13,775	2,055
Interest	215	204	(11)
Other	<u>1,311</u>	<u>10,847</u>	<u>9,536</u>
Total Revenues	<u>143,054</u>	<u>158,353</u>	<u>15,299</u>
<u>Expenditures</u>			
Personal services	90,000	59,437	30,563
Maintenance and operations	90,000	53,145	36,855
Capital outlay	<u>138,454</u>	<u>55,250</u>	<u>83,204</u>
Total Expenditures	<u>318,454</u>	<u>167,832</u>	<u>150,622</u>
Excess of revenues over expenditures	<u>(\$175,400)</u>	<u>(\$ 9,479)</u>	<u>\$165,921</u>

(Unaudited)

JOHNSON, BADERTSCHER & MOORE, P .C.

Certified Public Accountants

P.O. BOX 1405
CHICKASHA, OK 73023-1405

JIMMIE P. JOHNSON, C.P.A.
TAMMIE S. MOORE, C.P.A.

505 CHICKASHA AVE.
Phone (405) 224-0212
Fax (405) 222-4139

Report 2

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 Town Council
Town of Sterling, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of Sterling, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Sterling, Oklahoma's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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


JOHNSON, BADERTSCHER & MOORE, P.C.
Certified Public Accountants

Chickasha, Oklahoma
November 10, 2014