

CITY OF THE VILLAGE
ANNUAL FINANCIAL REPORT

JUNE 30, 2014



THE CITY OF THE VILLAGE, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2014

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CPAs &
Advisors

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of the Village, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and aggregate remaining fund information of City of the Village, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, 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 1a; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of the Village, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1a.

Basis of Accounting

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

Other Matters

Responsibility for Other Information Accompanying the Basic Financial Statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of The Village, Oklahoma's basic financial statements. The management's discussion and analysis (pages 3-10), 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, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of The Village, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis (pages 30-32) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements—modified cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015, on our consideration of the City of the Village, 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 City of the Village, Oklahoma's internal control over financial reporting and compliance.



February 23, 2015
Yukon, Oklahoma

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of The Village's annual financial report, management provides narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2014. The City's financial performance is discussed and analyzed within the context of the accompanying modified cash financial statements and disclosures following this section.

Financial Highlights

The City's assets exceeded its liabilities by \$8,419,906 (Total Net Position) at the close of the fiscal year.

Total net assets are comprised of the following:

- 1) Net investment in capital assets, of \$5,278,537 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- 2) Unrestricted net assets of \$3,141,369 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds reported a total ending fund balance of \$4,477,814 this year, while the unassigned fund balance totaled \$2,771,092.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,617,201 or 30% of total General Fund expenditures. Total liabilities of the City were \$4,876,005 at the end of the fiscal year. This includes \$392,784 in lease obligations (current and non-current), \$3,146,775 in notes payable, \$1,336,446 in accrued compensated absences (current and non-current).

Overview of the Modified cash financial statements

Management's Discussion and Analysis introduces the City's basic modified cash financial statements. The basic modified cash financial statements include: (1) government-wide modified cash financial statements, (2) fund modified cash financial statements, and (3) notes to the modified cash financial statements. The City also provides additional information to supplement the basic modified cash financial statements.

Government-wide modified cash financial statements. The City's annual report includes two government-wide modified cash financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Government-wide modified cash financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and recreation. Business-type activities include wastewater utilities and solid waste management.

Fund modified cash financial statements. A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic modified cash financial statements, fund modified cash financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has two kinds of funds:

Governmental funds are reported in the fund modified cash financial statements and encompass essentially the same functions reported as governmental activities in the government-wide modified cash financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spend-able resources during the year and balances of spend-able resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spend-able resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Fiduciary funds are reported in the fiduciary fund modified cash financial statements, but are excluded from the government-wide reporting. Fiduciary fund modified cash financial statements report resources that are not available to fund City programs. Fiduciary fund modified cash financial statements report similarly to proprietary funds.

Notes to the modified cash financial statements. The accompanying notes to the modified cash financial statements provide information essential to a full understanding of the government-wide and fund modified cash financial statements. The notes to the modified cash financial statements begin immediately following the basic modified cash financial statements.

Other information. In addition to the basic modified cash financial statements and accompanying notes, this report also presents supplementary information including detail by fund and component unit, for receivables, payables, transfers, and payments within the reporting entity.

Major funds and component units are reported in the basic modified cash financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

Financial Analysis of the City as a Whole

The City's net position at fiscal year-end is \$7,909,906. The following table provides a summary of the City's net assets:

City of The Village, Oklahoma Summary & Comparison of Net Position at June 30, 2014

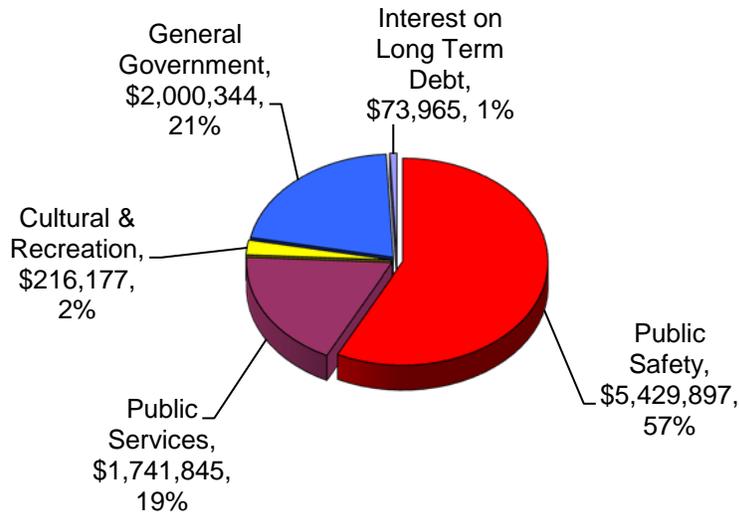
<i>Net Assets Comparison</i>	<i>Governmental Activities 30-Jun-10</i>	<i>Governmental Activities 30-Jun-11</i>	<i>Governmental Activities June 30, 2012</i>	<i>Governmental Activities June 30, 2013</i>	<i>Governmental Activities June 30, 2014</i>
Current & Other Assets	4,069,081	4,608,531	4,910,257	5,793,463	4,477,815
Capital Assets	10,713,076	10,189,643	9,547,346	9,144,544	8,808,096
Total Assets	14,782,157	14,798,174	14,457,603	14,938,007	13,285,911
Current Liabilities	184,611	161,235	190,203	3,623,908	277,867
Long Term Liabilities	5,399,965	4,997,669	5,039,970	1,212,023	4,588,138
Total Liabilities	5,584,576	5,158,904	5,230,173	4,835,931	4,866,005
Net Position:					
Net investment in capital assets	6,500,209	6,304,728	5,661,194	4,534,826	5,278,537
Unrestricted	2,697,292	3,334,524	3,566,236	5,567,250	3,141,369
Total Net Position	9,197,479	9,639,270	9,227,430	10,102,076	8,419,906

The City reported positive balances in net position for its governmental activities.

As stated earlier, one major change in the annual financial report is the addition of the "Statement of Activities." This statement shows on a modified cash basis the major activities of the government. These activities are broken down into governmental and business type activities.

Governmental activities. The graph below shows the major governmental activities and their associated program revenues. You can easily see that all governmental activities are largely financed by taxes, rather than user fees. You can see that public safety activities account for approximately \$5,429,897 of the total \$9,462,228 (57%) in governmental expenditures.

EXPENSES - GOVERNMENTAL ACTIVITIES



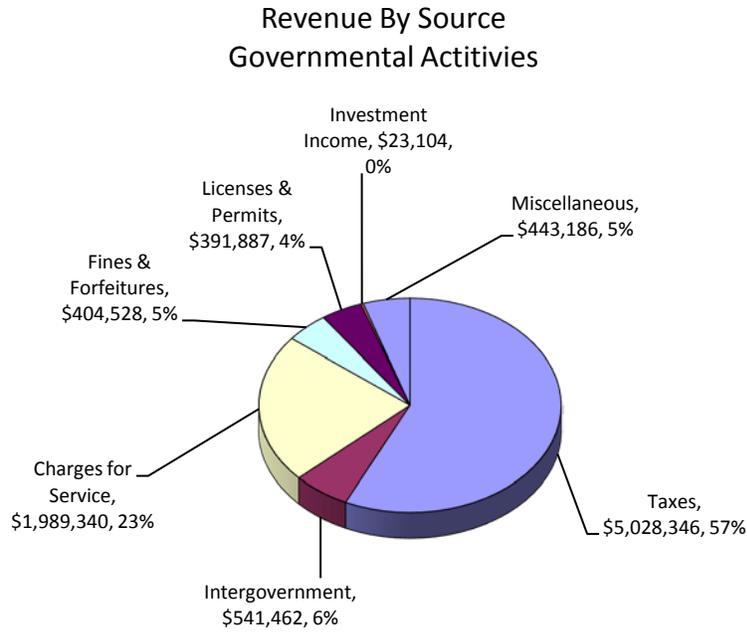
The next graph provides a detailed report on cash-basis expenditures for the General Fund in FY 2013-14. Since this is the main operating fund of the City, the table only includes activities funded through the General fund.

LINE ITEM	FY 12-13 EXPENDED	FY 13-14 EXPENDED	\$ DIFFERENCE
Salaries & Wages	\$4,009,149	\$4,099,821	\$90,672
Overtime	\$84,719	\$119,894	\$35,175
Social Security	\$166,842	\$172,306	\$5,464
Health Insurance	\$658,222	\$811,413	\$153,191
Worker's Compensation	\$170,793	\$196,426	\$25,633
Unemployment	\$7,700	\$0	-\$7,700
Retirement	\$438,689	\$458,394	\$19,705
Medicare	\$53,839	\$55,535	\$1,696
Uniform Allowance	\$22,950	\$31,875	\$8,925
Educational Allowance	\$667	\$1,868	\$1,201
Other Compensation	\$16,093	\$28,146	\$12,053
PERSONAL SERVICES SUBTL	\$5,629,663	\$5,975,678	\$346,015
Economic Development	\$117,981	\$194,590	\$76,609
Travel/Training	\$20,390	\$22,730	\$2,340
Telephone	\$24,629	\$23,797	-\$832

Unaudited

Utilities	\$60,541	\$73,791	\$13,250
Postage & Freight	\$16,602	\$19,023	\$2,421
Membership Dues	\$16,443	\$18,716	\$2,273
Publications/Books	\$1,130	\$1,603	\$473
Insurance	\$77,932	\$76,668	-\$1,264
Advertising/Printing	\$12,147	\$12,023	-\$124
Contingencies	\$24,006	\$30,405	\$6,399
Other Services & Charges	\$29,794	\$29,335	-\$459
Sanitation Lien	\$0	\$2,015	\$2,015
SERVICES & CHARGES SUBTL	\$401,595	\$504,696	\$103,101
Legal	\$248	\$0	-\$248
Computer Software	\$2,610	\$1,571	-\$1,039
Medical	\$110,828	\$101,494	-\$9,334
Auditor	\$8,700	\$9,675	\$975
Other Prof. Services	\$17,817	\$44,368	\$26,551
PROF. SERVICES SUBTL	\$140,203	\$157,108	\$16,905
Rentals & Leases	\$115,135	\$178,066	\$62,931
Maintenance Agreements	\$20,354	\$18,434	-\$1,920
Uniform & Misc. Laundry	\$8,899	\$8,343	-\$556
Vehicle/Equipment Repair	\$36,616	\$24,490	-\$12,126
Building Repair	\$19,480	\$11,025	-\$8,455
Radio Repair	\$4,489	\$2,294	-\$2,195
Animal Shelter & Disposal	\$3,238	\$2,805	-\$433
Recycling	\$221,469	\$224,387	\$2,918
Other Contractual Services	\$662,050	\$651,134	-\$10,916
CONTRACT SERVICES SUBTL	\$1,091,730	\$1,120,978	\$29,248
Office Supplies	\$14,340	\$16,144	\$1,804
Janitorial Supplies	\$9,270	\$8,658	-\$612
Medical Supplies & Oxygen	\$2,436	\$2,494	\$58
Chemicals	\$4,334	\$4,203	-\$131
Tools/Equipment	\$19,916	\$14,989	-\$4,927
Fuel/Lubricants	\$80,289	\$81,156	\$867
Vehicle/Equipment Parts	\$24,257	\$21,341	-\$2,916
Uniforms/Safety Gear	\$30,174	\$29,653	-\$521
Street Maintenance Materials	\$12,234	\$12,952	\$718
Street Signs	\$5,378	\$5,492	\$114
Traffic Supplies	\$1,503	\$1,352	-\$151
Other Supplies & Materials	\$38,920	\$28,913	-\$10,007
SUPPLIES & MAT. SUBTL	\$243,051	\$227,347	-\$15,704
INTRAFUND TRANSFERS	\$20,068	\$482,135	\$462,067
GRAND TOTAL	\$7,526,310	\$8,467,942	\$941,632

The next graph shows revenue by source. Taxes account for 57% of revenue.



Financial Analysis of the Government's Funds

The City of The Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of The Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. This information is used to assess The Village's financing needs. Unreserved fund balance is used to measure net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, total unassigned governmental fund balance is \$2,771,092.

The general fund is the chief operating fund of the City. Most governmental activities are funded through this fund. At the end of the fiscal year, unassigned fund balance was \$2,617,201.

The general fund balance decreased by \$540,467 during the year. Please note that the general fund does not receive any property tax to fund services.

General Fund Budgetary Highlights

- General fund revenues were \$739,195 more than budgeted.
- Expenditures were \$201,501 less than the budget. This is 2.3% under budget.

Capital Asset and Debt Administration

Capital Assets. The City of The Village's investment in capital assets for governmental activities as of June 30, 2014, totals \$8,808,096 (net of accumulated depreciation and the deletion of capital assets). This investment includes land, buildings, equipment, park facilities, street and drainage improvements, and sewer system improvements.

Capital asset additions during the year totaled \$704,491, which represents investments in buildings, vehicles, equipment and infrastructure. Annual depreciation on all City assets of \$571,224.

Long-term debt. At the end of the fiscal year, the City had no bonded indebtedness and there were no judgments payable.

At the end of FY 2013-14, the City had \$4,866,005 in total long-term indebtedness. This includes \$392,784 in outstanding lease obligations, \$1,336,446 in compensated absences, and \$3,136,775 in notes payable (Vintage Lakes purchase, cleanup and demolition).

Economic Factors and Next Year's Budgets and Rates

The City of The Village is located in the northern part of the Oklahoma City Metropolitan Area. The ability of our citizens to pay for municipal services is greatly dependent on the health of the economy of the overall metropolitan area. Many of our citizens work in Oklahoma City and the surrounding municipalities and do much of their shopping outside the corporate limits of the City.

The Village City Council is certainly aware that the overall economic condition of the region is important in the budgeting process. Although Oklahoma City has weathered the long national recession relatively well, the slowdown has had an adverse effect on local finances. By the end of FY 2013-14 economic conditions had improved somewhat and the fiscal year 2014-15 budget adopted by the Council represents an increase of 4.5% over the previous year. Budget increases for other departments were modest.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and prospective creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of The Village's Finance Department.

CITY OF THE VILLAGE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,615,597
Investments	2,862,218
Capital assets (net)	<u>8,808,096</u>
Total assets	<u>13,285,911</u>
LIABILITIES	
Accrued compensated absences, current	120,280
Capital lease obligation, current	132,507
Notes payable, current	25,080
Notes payable, non-current	3,111,695
Capital lease obligation, non-current	260,277
Accrued compensated absences, non-current	<u>1,216,166</u>
Total liabilities	<u>4,866,005</u>
NET POSITION	
Net investment in capital assets	5,278,537
Unrestricted	<u>3,141,369</u>
Total net position	<u>\$ 8,419,906</u>

See accompanying notes.

CITY OF THE VILLAGE, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH
YEAR ENDED JUNE 30, 2014

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Net (Expense)/ Revenue
Functions/Programs:				
Governmental activities:				
General government	\$ 1,990,344	\$ 391,887	\$ -	\$ -
Public safety				
Police	2,676,249	404,528	143,069	-
Municipal court	197,068	-	-	-
Fire	2,556,580	-	398,393	-
Public services	1,741,845	1,989,340	-	-
Cultural and recreation:	216,177	-	-	-
Interest on long term debt	73,965	-	-	-
Total Governmental activities	9,452,228	2,785,755	541,462	-
TOTAL	\$ 9,452,228	\$ 2,785,755	\$ 541,462	\$ -
				\$ (6,125,011)
				Net (expense)/revenue
				\$ (6,125,011)
				General revenues:
				Taxes:
				Sales and use taxes
				4,378,997
				Franchise and public service taxes
				649,349
				Investment income
				23,104
				Miscellaneous
				448,184
				Change in net assets
				(625,377)
				Net position, beginning, restated
				9,045,283
				Net position, ending
				\$ 8,419,906

See accompanying notes.

**CITY OF THE VILLAGE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Emergency Reserve Fund	TIF Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 955,392	\$ 68,709	\$ 437,605	\$ 153,891	\$ 1,615,597
Investments	1,661,809	1,200,409		-	2,862,218
Total assets	<u>\$ 2,617,201</u>	<u>\$ 1,269,118</u>	<u>\$ 437,605</u>	<u>\$ 153,891</u>	<u>\$ 4,477,815</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted	-	-	437,605	-	437,605
Committed	-	-	-	-	-
Assigned	-	1,269,118	-	-	1,269,118
Unassigned	2,617,201	-	-	153,891	2,771,092
Total fund balances	<u>2,617,201</u>	<u>1,269,118</u>	<u>437,605</u>	<u>153,891</u>	<u>4,477,815</u>
Total liabilities and fund balances	<u>\$ 2,617,201</u>	<u>\$ 1,269,118</u>	<u>\$ 437,605</u>	<u>\$ 153,891</u>	<u>\$ 4,477,815</u>

See accompanying notes.

**CITY OF THE VILLAGE, OKLAHOMA
RECONCILIATION OF THE BALANCE SHEET - MODIFIED CASH OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION - MODIFIED CASH
JUNE 30, 2014**

Total fund balance - total governmental funds	\$	4,477,815
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of \$15,981,923, net of accumulated depreciation of (\$7,173,827), are not financial resources and, therefore, are not reported in the funds.		8,808,096
Long-term liabilities of (\$4,866,005) are not due and payable in the current period and are not reported in the funds.		(4,866,005)
Net assets of governmental activities	<u>\$</u>	<u>8,419,906</u>

See accompanying notes.

CITY OF THE VILLAGE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Emergency Reserve Fund	TIF Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 5,028,346	\$ -	\$ -	\$ -	\$ 5,028,346
Intergovernmental	541,462	-	-	-	541,462
Charges for services	1,956,279	-	-	33,061	1,989,340
Fines and forfeitures	404,528	-	-	-	404,528
Licenses and permits	391,887	-	-	-	391,887
Investment income	11,986	10,904	136	79	23,105
Miscellaneous	119,444	-	252,316	71,426	443,186
Total revenues	<u>8,453,932</u>	<u>10,904</u>	<u>252,452</u>	<u>104,566</u>	<u>8,821,854</u>
EXPENDITURES					
Current:					
General Government	1,437,952	-	381,046	8,683	1,827,681
Public Safety					
Police	2,515,016	-	-	-	2,515,016
Municipal court	186,909	-	-	-	186,909
Fire	2,412,765	-	-	-	2,412,765
Public Services	1,638,745	-	-	-	1,638,745
Cultural and Recreation	190,575	-	-	13,914	204,489
Debt Service	145,302	-	596,697	-	741,999
Capital Outlay	-	-	-	338,561	338,561
Total Expenditures	<u>8,527,264</u>	<u>-</u>	<u>977,743</u>	<u>361,158</u>	<u>9,866,165</u>
Excess (deficiency) of revenues over expenditures	<u>(73,332)</u>	<u>10,904</u>	<u>(725,291)</u>	<u>(256,592)</u>	<u>(1,044,311)</u>
OTHER FINANCING SOURCES (USES)					
Sale of assets	-	-	575,000	-	575,000
Transfers in	15,000	-	374,045	108,090	497,135
Transfers out	(482,135)	(15,000)	-	-	(497,135)
Total other financing sources and uses	<u>(467,135)</u>	<u>(15,000)</u>	<u>949,045</u>	<u>108,090</u>	<u>575,000</u>
Net change in fund balances	<u>(540,467)</u>	<u>(4,096)</u>	<u>223,754</u>	<u>(148,502)</u>	<u>(469,311)</u>
Fund balances, July 1, 2013, restated	<u>3,157,668</u>	<u>1,273,214</u>	<u>213,851</u>	<u>302,393</u>	<u>4,947,126</u>
Fund balances, June 30, 2014	<u>\$ 2,617,201</u>	<u>\$ 1,269,118</u>	<u>\$ 437,605</u>	<u>\$ 153,891</u>	<u>\$ 4,477,815</u>

See accompanying notes.

**CITY OF THE VILLAGE, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - MODIFIED CASH OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH
YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$	(469,311)
Amounts reported for governmental activities in the statement of activities are different because:		
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 and reported as depreciation expense. This is the amount by which depreciation expense of \$470,940 was exceeded by capital outlay expenditures of \$704,491 in the current period.		(233,551)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net increase in accrued compensated absences of (\$44,840).		(44,840)
In the statement of activities, the sale of land is not recognized if there is no gain or loss on the sale.		(570,000)
Governmental funds record the payment on debt as expenditures because they consume current financial resources and record the issuance of debt as revenues. These transactions reduce or increase the outstanding debt obligations on the Statement of Net Position and have no effect on the change in net position.		692,325
Change in position of governmental activities	<u>\$</u>	<u>(625,377)</u>

See accompanying notes.

CITY OF THE VILLAGE, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH
FIDUCIARY FUNDS
JUNE 30, 2014

ASSETS

Cash and cash equivalents	\$ 41,258
Total assets	<u>\$ 41,258</u>

LIABILITIES

Escrow liability	\$ 41,258
Total liabilities	<u>\$ 41,258</u>

See accompanying notes.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1. Financial Reporting Entity

The government is a municipal corporation governed by an elected five member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially0 accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has one blended component unit, The Village Public Works Authority (TVPWA). TVPWA is a public trust created for the purpose of furnishing various forms of public and municipal services within and without the boundaries of the City. The City Council members are the trustees of the Authority. In recent years, TVPWA has been used to issue debt in connection with projects in a tax increment financing district.

1a. Basis of Accounting and Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, however, the City does not report business-type activities.

The statement of net position and statement of 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 libailities 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, notes payable and accrued compensated absences
- Cash-based interfund receivables and payables
- Other cash-based receivable and payables
- Investments

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.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1a. Basis of Accounting and Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

Major

General Fund - The General Fund is the principal fund of the City and accounts for all financial transactions not appropriately accounted for in other funds. The General Fund also accounts for activities related to sanitation services provided by the City. Fees are charged users of these services in order to recover the costs of providing the services, however, the activities are not financed with debt, and laws or regulations do not require that the City recover the costs of the services through user charges, therefore, they are not reported in enterprise funds.

Special Revenue Fund – The Emergency Reserve Fund is a permanent fund that accounts for excess assets that were returned by the Oklahoma Municipal Retirement Fund after conversion of the retirement plan from a defined benefit plan to a defined contribution plan. The City has investment responsibility for these permanent fund assets.

Capital Projects Fund – The TIF fund is a fund created by the City to account for capital projects related to the Tax Increment Financing area for the City.

Non-major

Special Revenue Funds - Special Revenue Funds are used to account for revenues derived from specific taxes or other sources which are designated to finance particular functions or activities of the City.

Capital Projects Funds - Capital Projects funds account for the receipt and disbursement of resources for the purpose of building or buying major capital assets, such as schools, public buildings, or recreational facilities. Resources may be derived from a variety of sources, including bond proceeds, loans, or grants.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities arising from cash transactions are generally 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.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The accounts of the City include agency funds. Agency funds are custodial in nature (assets equal liabilities), and do not involve measurement of results of operations.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1b. Assets, Liabilities and Equity

Deposits and Investments

The City'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 from the date of acquisition.

Investments are stated at cost which approximates market unless otherwise indicated.

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are capitalized and stated at historical cost, or estimated historical cost if actual cost is unavailable, and comprehensively reported in the government-wide financial statements. Prior to July 1, 2003, infrastructure assets were not capitalized.

Donated assets are stated at fair value on the date donated. The City capitalizes assets with cost of \$500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Building improvements	40
Vehicles	5
Office equipment	7-10
Computer equipment	5
Infrastructure	25-50

Compensated Absences

City employees are granted vacation and sick leave based upon length of employment. In the event of termination, the employee is paid for accumulated vacation leave (maximum 48 days). Payment of sick leave is restricted to retiring employees who can be paid up to 90 days of accumulated benefits and are limited to maximum compensation equivalent of 33 to 68 days. Compensated absences are reported as accrued in the government-wide, proprietary, and fiduciary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

Equity

Government-Wide Statements

Equity is classified as net position and displayed in three components. 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 improvement of those assets. Restricted Net Position consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation. Unrestricted Net Position consists of all other net position that do not meet the above definitions.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1b. Assets, Liabilities and Equity (continued)

When an expense is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Fund Statements

Fund Statements

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered nonspendable (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are spendable (such as fund balance associated with cash, investments or receivables).

Amounts in the spendable fund balance category are further classified as restricted, committed, assigned or unassigned, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1c. Revenues, Expenditures and Expenses

Program revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General government – licenses and permits
Police – Fines and forfeitures
Public service – Sewer and sanitation charges

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

2. Detailed Notes – Transaction Classes/Accounts

2a. Deposits and Investments

Custodial Credit Risk

At June 30, 2014, the City held deposits of approximately \$1,600,000 at financial institutions. These institutions are required by law to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance at least equal to the amount on deposit at all times. As of June 30, 2014, the balances in cash and certificates of deposit were fully secured.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. 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.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2a. Deposits and Investments (continued)

The investments held at June 30, 2014 are as follows:

Type	Weighted Average Maturity (Years)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 162,218	\$ 162,218
Certificate of deposit	2.52	N/A	2,701,200	2,700,000
Total investments			<u>\$ 2,863,418</u>	<u>\$ 2,862,218</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 6% in Money Market funds at Morgan Stanley (\$162,218) and 94% in Certificates of deposit (\$2,701,200).

2b. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	June 30, 2013	Additions	Deletions	June 30, 2014
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,157,529	\$ -	\$ (570,000)	\$ 587,529
Other assets				
Buildings	4,125,105	72,322	-	4,197,427
Infrastructure	9,390,073	51,683	-	9,441,756
Equipment	844,663	554,871	(625)	1,398,909
Furniture and fixtures	78,699	-	(599)	78,100
Vehicles	235,589	19,855	-	255,444
Land improvements	16,998	5,760	-	22,758
	<u>15,848,656</u>	<u>704,491</u>	<u>(571,224)</u>	<u>15,981,923</u>
Less accumulated depreciation	(6,704,111)	(470,940)	1,224	(7,173,827)
Governmental activities capital assets, net	<u>\$ 9,144,545</u>	<u>\$ 233,551</u>	<u>\$ (570,000)</u>	<u>\$ 8,808,096</u>

The amount of capital assets that have been acquired under capital leases \$392,784.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2b. Capital Assets (continued)

Depreciation expense was charged as a direct expense to the following functions of the primary government as follows:

<i>Governmental activities</i>	
General government	\$ 78,324
Public safety:	
Police	147,219
Municipal court	9,276
Fire	131,312
Public service	94,137
Culture and recreation	10,672
Total depreciation expense	\$ 470,940

2c. Long-term debt

The City has entered into notes payable and capitalized leases. The lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

Capitalized leases

On July 22, 2011, the City issued a lease payable to Ford Motor Credit Company in the amount of \$45,097 for the purchase of a police vehicle. The City will pay 4 annual installments of \$11,274 that include interest of 6.6%, with the maturity date of July 22, 2014.

On September 12, 2012, the City issued a lease payable to Ford Motor Credit Company in the amount of \$80,913 for the purchase of a police vehicle. The City will pay 4 annual installments of \$22,014 that include interest of 5.95%, with the maturity date of September 12, 2015.

On February 5, 2013, the City issued a lease payable to Welch State Bank in the amount of \$47,683 for the purchase of a street department vehicle. The City will pay 3 annual installments of \$16,453.31 that include interest of 3.54%, with the maturity date of February 15, 2015.

On August 28, 2013, the City issued a lease payable to Ford Motor Credit Company in the amount of \$28,042 for the purchase of equipment for the streets department. The City will pay 3 annual installments of \$9,942 that include interest of 6.50%, with the maturity date of August 28, 2015.

On November 12, 2013, the City issued a lease payable to Empire Financial Services of Tulsa, LLC in the amount of \$64,253 for the purchase of a sewer department trailer. The City will pay 3 annual installments of \$21,418 with the maturity date of November 12, 2015.

On December 17, 2013, the City issued a lease payable to Oklahoma State Bank in the amount of \$360,916 for the purchase of a fire truck. The City will pay 6 annual installments of \$64,200.96 that include interest of 2.68%, with the maturity date of December 17, 2018.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2c. Long-term debt (continued)

Notes payable

On July 18, 2008, the City, through its component unit the Village Public Works Authority, entered into a note payable at Bancfirst in the amount of \$2,000,000 for the purchase of land. This note was refinanced June 14, 2014. The City pays interest quarterly of 4.25% on the principal outstanding. The principal on the note payable is due on June 14, 2021, although if there are any excess tax increment revenues, they should be applied to the note. The outstanding principal at June 30, 2014 was \$2,000,000.

On July 18, 2008, the City, through its component unit the Village Public Works Authority, entered into note payable at Bancfirst in the amount of \$3,358,000 to finance the preparation of land for redevelopment. This note was refinanced June 14, 2014. The City pays interest quarterly of 4.25% on the principal outstanding. The principal on the note payable is due on June 14, 2021, although if there are any excess tax increment revenues, they should be applied to the note. The outstanding principal at June 30, 2014 was \$887,695.

On September 4, 2008, the City, through its component unit the Village Public Works Authority, entered into note payable with the Oklahoma Department of Commerce in the amount of \$259,080 to finance the preparation of land for redevelopment. The City pays no interest on the principal outstanding. If the City is delinquent in payments there will be an accrual of 1% per year which is added to the principal balance. The principal on the note payable is in installments of \$5,000 starting in 2012 until August 1, 2018 when the remaining balance is due. The outstanding principal at June 30, 2014 was \$249,080.

Transactions for the year ended June 30, 2014 are as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Current Portion
<u>Governmental Type Activities</u>					
Capital lease obligations	\$ 88,007	\$ 480,962	\$ (176,185)	\$ 392,784	\$ 132,507
Compensated absences	1,291,606	161,465	(116,625)	1,336,446	120,280
Notes payable	3,656,775	-	(520,000)	3,136,775	25,080
Total	<u>\$ 5,036,388</u>	<u>\$ 642,427</u>	<u>\$ (812,810)</u>	<u>\$ 4,866,005</u>	<u>\$ 277,867</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

	Capital lease obligations			Notes payable		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 132,507	\$ 12,795	\$ 145,302	\$ 25,080	\$ 122,727	\$ 147,807
2016	77,567	8,287	85,854	5,000	122,727	127,727
2017	59,291	4,910	64,201	5,000	122,727	127,727
2018	60,893	3,308	64,201	5,000	122,727	127,727
2019	62,525	1,676	64,201	209,000	122,727	331,727
2020-2021	-	-	-	2,887,695	245,454	3,133,149
	<u>\$ 392,783</u>	<u>\$ 30,976</u>	<u>\$ 423,759</u>	<u>\$ 3,136,775</u>	<u>\$ 613,635</u>	<u>\$ 862,715</u>

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2d. Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfers from</u>	<u>Transfers to</u>				Total Transfers From
	<u>Governmental Activities</u>				
<u>Governmental Activities:</u>	General	Emergency Reserve Fund	TIF Fund	Other Gov't Funds	
General Fund	\$ -	\$ -	\$ 374,045	\$ 108,090	\$ 482,135
Emergency Reserve Fund	15,000	-	-	-	15,000
TIF Fund	-	-	-	-	-
Other Governmental funds	-	-	-	-	-
 Total Transfers To	 \$ 15,000	 \$ -	 \$ 374,045	 \$ 108,090	 \$ 497,135

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

3. Other Information

3a. Employee Retirement Plans

City employees participate in three retirement plans, which are discussed below:

Non-Police and Non-Fire employee retirement system

City employees (excluding police and fire) participate in a defined contribution retirement plan (the plan) for non-uniformed employees. The City contributes 6% and City employees contribute 4% of covered employee salaries to the plan.

The City's payroll for employees covered by the Plan for the year ended June 30, 2014, was \$1,544,540. Total contributions to the plan were \$154,454, which consisted of employer contributions of \$92,672 and employee contributions of \$61,782.

Police pension and retirement plan

The City participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). The employees are required to contribute 8% and the City is required to contribute 13% per year per paid police officer to the statewide plan by state law. The OPPRS is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The City's actual contribution to the plan was equal on the required contribution and totaled \$182,200, for the year ending June 30, 2014. The state made on-behalf contributions of \$143,069 for the year ending June 30, 2014 which is reported as intergovernmental revenue and police expense.

The OPPRS issues a public available report that includes financial statements, which can be obtained from the Oklahoma Police Pension and Retirement System, 1001 NW 63rd Street, Oklahoma City, Oklahoma 73116-7335.

Firemen's pension and retirement plan

The City's firefighters participate in the statewide Oklahoma State Firefighters 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.

The City's actual contribution to the plan was equal on the required contribution and totaled \$181,535, for the year ending June 30, 2014. The state made on-behalf contributions of \$398,393 for the year ending June 30, 2014 which is reported as intergovernmental revenue and fire expense.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information, which can be obtained from the Oklahoma Firefighter's Pension and Retirement System, 4545 N. Lincoln Blvd, Suite 265, Oklahoma City, Oklahoma 73105-3414.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

3a. Employee Retirement Plans (continued)

Other Post-Employment Benefits

Plan Description: City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2014, approximately 7 retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2014, the City contributed \$0 to the plan for retired employees. Plan members receiving benefits contributed \$59,924, or approximately 100 percent of the total premiums, through their required contribution. There are three tiers of coverage ranging from \$534 to \$658 per month for retiree-only coverage and \$1,138 to \$1,401 for retiree and spouse medical coverage, these amounts do not include dental and vision coverage that can be added for retiree-only coverage for \$28 and \$12 per month, respectively, and for retiree and spouse coverage for \$57 and \$20 per month, respectively.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City has not performed the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2014 and we were unable to determine the effect on the financial statements.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF THE VILLAGE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

3b. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has established a self-insurance fund to cover deductibles on claims related to destruction, theft or damage of assets. Losses related to other risks or those exceeding deductibles are covered by commercial insurance. Management believes that such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

3c. Commitments and Contingencies

By law, the City's exposure in these matters is limited to \$125,000 per claim for loss arising other than from property loss which is limited to \$25,000. Any obligation the City might incur as a result of this litigation would be covered by liability insurance for which the City has coverage for maximum exposure under State law and a maximum of \$1,000,000 for losses under federal laws.

The City in the past has participated in various grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency.

3d. Restatement of Government-Wide Governmental Net Position and Governmental Funds Fund balance

The City had a change in accounting policy in the fiscal year ended June 30, 2014. The financial statements are now being presented under the modified-cash basis of accounting. This change in accounting policy caused a restatement in beginning net position for the government-wide statement and beginning fund balance for the governmental funds statement to eliminate accruals that are not recognized in the modified-cash basis of accounting. The restated beginning net position for the government-wide statement was \$9,045,283. The restated beginning fund balances for governmental funds were \$4,947,126.

3e. Subsequent event

In July 2014, the City paid \$500,000 to settle a lawsuit related to the condemnation of an apartment complex located on property the City had designated as a tax increment financing district ("TIFD"). The funds were transferred directly from the trustee bank handling the disbursement of funds for the TIFD and were added to the note owed the bank in connection with the development of the TIFD.

**CITY OF THE VILLAGE, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH
 NON MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Fire Department Grant Fund	Police Department Grant Fund	Juvenile Fund	Park Beautification/ Events Fund	Asset Seizure Fund	Capital Projects Fund	Total Non major Governmental Funds
ASSETS							
Cash and cash equivalents	\$ -	\$ 5,768	\$ 8,384	\$ 123,755	\$ 15,893	\$ 91	\$ 153,891
Total assets	<u>\$ -</u>	<u>\$ 5,768</u>	<u>\$ 8,384</u>	<u>\$ 123,755</u>	<u>\$ 15,893</u>	<u>\$ 91</u>	<u>\$ 153,891</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES							
Reserved for:							
Special revenue funds	-	-	-	-	-	-	-
Unreserved, reported in:							
Special revenue funds	-	5,768	8,384	123,755	15,893	91	153,891
Capital projects fund	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>5,768</u>	<u>8,384</u>	<u>123,755</u>	<u>15,893</u>	<u>91</u>	<u>153,891</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 5,768</u>	<u>\$ 8,384</u>	<u>\$ 123,755</u>	<u>\$ 15,893</u>	<u>\$ 91</u>	<u>\$ 153,891</u>

CITY OF THE VILLAGE, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - MODIFIED CASH
NON MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Fire Department Grant Fund	Police Department Grant Fund	Juvenile Fund	Park Beautification/ Events Fund	Asset Seizure Fund	Capital Projects Fund	Total Non major Governmental Funds
REVENUES							
Charges for services	\$ -	\$ -	\$ -	\$ 7,532	\$ 25,529	\$ -	\$ 33,061
Taxes	-	-	-	-	-	-	-
Investment income	-	2	4	27	20	26	79
Sale of Assets	-	-	-	-	-	-	-
Grant Deposits	9,010	2,595	-	46,898	-	-	58,503
Miscellaneous	-	-	-	2,923	-	10,000	12,923
Total revenues	<u>9,010</u>	<u>2,597</u>	<u>4</u>	<u>57,380</u>	<u>25,549</u>	<u>10,026</u>	<u>104,566</u>
EXPENDITURES							
Current:							
General government	-	-	-	-	8,683	-	8,683
Culture and Recreation	-	-	-	13,914	-	-	13,914
Capital Outlay	9,010	-	-	-	48,005	281,546	338,561
Total Expenditures	<u>9,010</u>	<u>-</u>	<u>-</u>	<u>13,914</u>	<u>56,688</u>	<u>281,546</u>	<u>361,158</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>2,597</u>	<u>4</u>	<u>43,466</u>	<u>(31,139)</u>	<u>(271,520)</u>	<u>(256,592)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	40,000	-	68,090	108,090
Transfers out	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>68,090</u>	<u>108,090</u>
Net change in fund balances	-	2,597	4	83,466	(31,139)	(203,430)	(148,502)
Fund balances, July 1, 2013, restated	-	3,171	8,380	40,289	47,032	203,521	302,393
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ 5,768</u>	<u>\$ 8,384</u>	<u>\$ 123,755</u>	<u>\$ 15,893</u>	<u>\$ 91</u>	<u>\$ 153,891</u>

CITY OF THE VILLAGE, OKLAHOMA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH
AGENCY FUNDS
JUNE 30, 2014

	Penalty Assessment Fund	Animal Bond Fund	Municipal Court Bond Fund	Clearing Benefit Fund	Building Code Fund	Total Agency Funds
ASSETS						
Cash and cash equivalents	\$ 22,992	\$ 150	\$ 14,784	\$ 24	\$ 3,308	\$ 41,258
Total assets	<u>\$ 22,992</u>	<u>\$ 150</u>	<u>\$ 14,784</u>	<u>\$ 24</u>	<u>\$ 3,308</u>	<u>\$ 41,258</u>
LIABILITIES						
Escrow liability	\$ 22,992	\$ 150	\$ 14,784	\$ 24	\$ 3,308	\$ 41,258
Total liabilities	<u>\$ 22,992</u>	<u>\$ 150</u>	<u>\$ 14,784</u>	<u>\$ 24</u>	<u>\$ 3,308</u>	<u>\$ 41,258</u>



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 City Council
City of the Village, 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 modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of the Village, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of the Village, Oklahoma's basic modified cash basis financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of the Village, 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 City of the Village, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of the Village, 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 City of the Village, 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.

HBC CPAs & Advisors

February 23, 2015