



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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

CITY OF SHIDLER, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

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City Council

Jace Gullic	Mayor
Heath Cottle	Member
Bill Coats	Member
Pat Patton	Member
Ed Kramer	Member
Shawn Wehunt	Member
Cody Golay	Member
Jerrold Miller	Member
Suzanne Kuykendall	Member

City Clerk

Ginger Gray

City Treasurer

Julia Ross, CPA

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

**CITY OF SHIDLER, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

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**CITY OF SHIDLER, OKLAHOMA
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As of and for the Year Ended June 30, 2016**

Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, and GFOA

3119 E 87th Street
Tulsa, Oklahoma 74137

918-361-2133
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Shidler, Oklahoma

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shidler, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the modified cash basis 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 1B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements under the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

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

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

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Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Shidler, Oklahoma, as of June 30, 2016, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

Basis of Accounting

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

Other Matters

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shidler, Oklahoma's basic financial statements. The budgetary comparison information and schedule of federal and state expenditures on pages 30-31, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 6, 2016, on my consideration of the City of Shidler, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Shidler, Oklahoma's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
December 6, 2016

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF SHIDLER, OKLAHOMA
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Statement of Net Position (Modified Cash Basis) – June 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 201,755	\$ 18,478	\$ 220,233
Restricted cash and cash equivalents	-	6,642	6,642
Total current assets	<u>201,755</u>	<u>25,120</u>	<u>226,875</u>
Noncurrent assets:			
Investments	67,852	142,912	210,764
Restricted investments	-	9,000	9,000
Capital assets, net of depreciation	579,797	540,382	1,120,179
Total noncurrent assets	<u>647,649</u>	<u>692,294</u>	<u>1,339,943</u>
Total assets	<u>849,404</u>	<u>717,414</u>	<u>1,566,818</u>
Liabilities:			
Noncurrent liabilities:			
Meter deposit liability	-	13,969	13,969
Total noncurrent liabilities	<u>-</u>	<u>13,969</u>	<u>13,969</u>
Total liabilities	<u>-</u>	<u>13,969</u>	<u>13,969</u>
Net Position:			
Net investment in capital assets	579,797	540,382	1,120,179
Unrestricted	269,607	163,063	432,670
Total net position	<u>\$ 849,404</u>	<u>\$ 703,445</u>	<u>\$ 1,552,849</u>

See accompanying footnotes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 93,887	\$ 1,150	\$ -	\$ 19,970	\$ (72,767)	\$ -	\$ (72,767)
Fire and ambulance	40,847	19,860	-	4,290	(16,697)	-	(16,697)
Streets and alleys	2,657	-	-	-	(2,657)	-	(2,657)
Sanitation	103,335	77,738	-	-	(25,597)	-	(25,597)
Total governmental activities	240,726	98,748	-	24,260	(117,718)	-	(117,718)
Business-type activities							
Water	129,368	109,507	-	-	-	(19,861)	(19,861)
	129,368	109,507	-	-	-	(19,861)	(19,861)
Total primary government	\$370,094	\$ 208,255	\$ -	\$ 24,260	(117,718)	(19,861)	(137,579)
General revenues:							
Taxes:							
Sales and use tax					53,739	-	53,739
Franchise and public service taxes					10,123	-	10,123
Intergovernmental revenue					14,406	-	14,406
Investment income					1,560	739	2,299
Donations					19,786	-	19,786
Total general revenues					99,614	739	100,353
Change in net position					(18,104)	(19,122)	(37,226)
Net position - beginning					867,508	722,567	1,590,075
Net position - ending					\$ 849,404	\$ 703,445	\$ 1,552,849

See accompanying footnotes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2016

	General Fund	Grant Fund	Streets & Alleys Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 180,944	\$ 10,600	\$ 10,211	\$ 201,755
Investments	67,852	-	-	67,852
Due from other fund	-	-	6,204	6,204
Total Assets	<u>\$ 248,796</u>	<u>\$ 10,600</u>	<u>\$ 16,415</u>	<u>\$ 275,811</u>
Liabilities:				
Due to other fund	<u>\$ 6,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,204</u>
Fund balances:				
Unrestricted:				
Assigned:				
Fire	6,502	-	-	6,502
Streets and alleys	-	-	16,415	16,415
Unassigned	236,090	10,600	-	246,690
Total Fund Balances	<u>242,592</u>	<u>10,600</u>	<u>16,415</u>	<u>269,607</u>
Total liabilities and fund balances	<u>\$ 248,796</u>	<u>\$ 10,600</u>	<u>\$ 16,415</u>	<u>\$ 275,811</u>

See accompanying footnotes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2016

	General Fund	Grant Fund	Streets & Alleys Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 63,862	\$ -	\$ -	\$ 63,862
Intergovernmental	10,396	-	4,010	14,406
Fire and ambulance	19,860	-	-	19,860
Licenses and permits	1,150	-	-	1,150
Sewer services	38,998	-	-	38,998
Trash services	38,740	-	-	38,740
Grant revenue	24,260	-	-	24,260
Donations	19,786	-	-	19,786
Investment income	1,552	-	8	1,560
Total Revenues	<u>218,604</u>	<u>-</u>	<u>4,018</u>	<u>222,622</u>
Expenditures:				
General government	87,852	-	-	87,852
Fire and ambulance	23,748	-	-	23,748
Streets and alleys	-	-	2,657	2,657
Sanitation	95,902	-	-	95,902
Capital outlay:				
Fire and ambulance	173,522	-	-	173,522
Sewer	1,960	-	-	1,960
Total expenditures	<u>382,984</u>	<u>-</u>	<u>2,657</u>	<u>385,641</u>
Net change in fund balances	(164,380)	-	1,361	(163,019)
Fund balances - beginning	406,972	10,600	15,054	432,626
Fund balances - ending	<u>\$ 242,592</u>	<u>\$ 10,600</u>	<u>\$ 16,415</u>	<u>\$ 269,607</u>

See accompanying footnotes to the basic financial statements

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Fund balances of governmental funds	\$ 269,607
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of \$813,597, net of accumulated depreciation of \$233,800 are not financial resources and, therefore, are not reported in the funds.	579,797
Net position of governmental activities	<u>\$ 849,404</u>

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	\$ (163,019)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Cash purchases of capital assets	175,482
Depreciation expense	<u>(30,567)</u>
	<u>144,915</u>
Change in net position of governmental activities	<u>\$ (18,104)</u>

See accompanying footnotes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2016

	Shidler Oklahoma Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 18,478
Restricted cash and cash equivalents	<u>6,642</u>
Total current assets	<u>25,120</u>
Noncurrent assets:	
Investments	142,912
Restricted investments	9,000
Capital assets, net of accumulated depreciation	<u>540,382</u>
Total noncurrent assets	<u>692,294</u>
Total assets	<u>717,414</u>
LIABILITIES	
Noncurrent Liabilities:	
Meter deposit liability payable from restricted assets	<u>13,969</u>
Total Noncurrent Liabilities	<u>13,969</u>
Total liabilities	<u>13,969</u>
NET POSITION	
Net investment in capital assets	540,382
Unrestricted	<u>163,063</u>
Total net position	<u>\$ 703,445</u>

See accompanying footnotes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
– Year Ended June 30, 2016

	Shidler Oklahoma Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 107,941
Other	1,566
Total operating revenues	109,507
Operating expenses:	
Costs of sales and services:	
Salaries and benefits	35,161
Operations and maintenance	48,019
Chemicals	11,560
Supplies	8,630
Depreciation	25,998
Total operating expenses	129,368
Operating loss	(19,861)
Nonoperating revenue (expense):	
Investment income	739
Total nonoperating expense	739
Change in net position	(19,122)
Net position - beginning	722,567
Net position - ending	\$ 703,445

See accompanying footnotes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2016

	Shidler Oklahoma Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 109,507
Payments to suppliers	(68,209)
Payments to employees (including benefits)	(35,161)
Receipt of customers utility deposits	6,300
Refunds of customers utility deposits	(6,277)
Net cash provided by operating activities	6,160
Cash flows from investing activities	
Purchase of investments	(692)
Investment income	739
Net cash provided by investing activities	47
Net increase in cash and cash equivalents	6,207
Cash and equivalents - beginning of year	18,913
Cash and equivalents - end of year	\$ 25,120
Reconciliaiont to the Statement of Net Position:	
Cash and cash equivalents	\$ 18,478
Restricted cash and cash equivalents	6,642
Total cash and cash equivalents	\$ 25,120
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating loss	\$ (19,861)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in meter deposits	23
Depreciation expense	25,998
Net cash used by operating activities	\$ 6,160

See accompanying footnotes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. City's Financial Reporting Entity

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

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

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

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

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

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

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revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

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

Governmental Funds:

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

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

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

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

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

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

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

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

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

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund type or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements. As of June 30, 2016 the City and the SPWA did not have any long term debt outstanding.

F. Compensated Absences

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

G. Fund Balances and Net Position

Fund Statements:

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

- a. *Nonspendable* – amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact
- b. *Restricted* – amounts constrained for a specific purpose by creditors, grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation

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

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

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

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

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

Net position:

Net position is displayed in three components:

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

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are not considered material to the financial statements:

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Budgetary Noncompliance

For the year ended June 30, 2016, the City's expenditures in the general fund exceeded appropriated funds by \$25,313 due to a failure to appropriate grant funds received, deposited, and expended from the general fund.

3. Deposits and Investments

For the year ended June 30, 2016, the City recognized \$2,299 of investment income. The City's funds are deposited with various local and regional banks in demand accounts bearing annual interest at 0.0% to 0.295%. Time deposits bear interest at the annual rate of 0.295% to 0.50%.

At June 30, 2016, the primary government held the following deposits and investments:

<u>Type</u>	<u>Carrying Value</u>
Demand deposits	\$ 226,875
Time deposits	219,764
Total	\$ 446,639
 Reconciliation to the statement of net position:	
Cash and cash equivalents	\$ 220,233
Restricted cash and cash equivalents	6,642
Investments	210,764
Restricted cash and investments	9,000
Total	\$ 446,639

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

As of June 30, 2016 all deposits were either covered by FDIC insurance or pledged collateral and the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and

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government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk. At June 30, 2016, the City had no investment interest rate risk, investment credit risk, or concentration of credit risk as defined above.

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

4. Sales Tax Revenue

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

5. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

6. Capital Assets and Depreciation

For the year ended June 30, 2016, capital asset balances changed as follows:

	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
Governmental:				
Capital assets not being depreciated:				
Land	\$ 37,105	\$ -	\$ -	\$ 37,105
Construction in progress	29,900	-	-	29,900
Total capital assets not being depreciated	<u>67,005</u>	<u>-</u>	<u>-</u>	<u>67,005</u>
Capital assets being depreciated:				
Building	88,383	-	-	88,383
Sewer system	299,833	1,960	-	301,793
Equipment	182,894	173,522	-	356,416
Total capital assets being depreciated	<u>571,110</u>	<u>175,482</u>	<u>-</u>	<u>746,592</u>
Less accumulated depreciation:				
Building	53,587	2,322	-	55,909
Sewer system	21,197	7,433	-	28,630
Equipment	128,449	20,812	-	149,261
Total accumulated depreciation	<u>203,233</u>	<u>30,567</u>	<u>-</u>	<u>233,800</u>
Governmental capital assets, net	<u>\$ 434,882</u>	<u>\$ 144,915</u>	<u>\$ -</u>	<u>\$ 579,797</u>

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Business-type	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Water system	969,333	-	-	969,333
Equipment	53,593	-	-	53,593
Total capital assets being depreciated	1,022,926	-	-	1,022,926
Less accumulated depreciation				
Water system	417,754	23,460	-	441,214
Equipment	38,792	2,538	-	41,330
Total accumulated depreciation	456,546	25,998	-	482,544
Business-type capital assets, net	\$ 566,380	\$ (25,998)	\$ -	\$ 540,382

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

Governmental activities:	Business-type activities:
General government	Water
\$ 6,035	\$ 25,998
Fire and ambulance	
17,099	
Sanitation	
7,433	
Total depreciation	Total depreciation
<u>\$ 30,567</u>	<u>\$ 25,998</u>

7. Risk Management

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

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

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

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

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

8. Employee Retirement Plan Participation

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

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

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

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

The OFPRS contributions are as follows:

<u>Fiscal year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2016	\$ 960	\$ 960
2015	\$ 720	\$ 720
2014	\$ 728	\$ 728

9. Commitments, Contingencies, and Subsequent Events

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are not reflected in the basic financial statements. It is the practice of the current City's management to require that leave is taken in the same fiscal year in which it is earned. Consequently, there were no unused leave balances as of June 30, 2016.

Litigation:

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

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Federal and State Award Programs:

The City of Shidler participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

Oklahoma Department of Environmental Quality

The City has entered into a Consent Order with the Oklahoma Department of Environmental Quality (ODEQ) regarding required improvements to the City of Shidler Wastewater Treatment System. The plan to address the ODEQ's concerns involves two phases. Phase one included the purchase of land to add two lagoon cells and construction of the first cell with influent flow measurement which was significantly complete at June 30, 2016. Phase two involves the construction of the second cell including diversion structures and piping at an estimated total cost of \$363,424 and an expected completion date of April 2017. The City plans to fund the remaining improvements from grant funds and available reserves.

Subsequent Events

These financial statements considered subsequent events through December 6, 2016, the date the financial statements were available to be issued.

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OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2016 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning budgetary fund balance	\$ 337,454	\$ 337,454	\$ 406,972	\$ 69,518
Resources (inflows)				
Taxes	80,300	80,300	63,862	(16,438)
Intergovernmental	13,500	13,500	10,396	(3,104)
Licenses and permits	150	150	1,150	1,000
Fire and ambulance	28,700	28,700	19,860	(8,840)
Grant revenue	13,000	13,000	24,260	11,260
Donations and fundraiser	11,400	11,400	19,786	8,386
Sanitation	73,000	73,000	77,738	4,738
Investment income	1,100	1,100	1,552	452
Total resources (inflows)	221,150	221,150	218,604	(2,546)
Amounts available for appropriation	558,604	558,604	625,576	66,972
Charges to appropriations (outflows):				
General government	95,381	95,381	87,852	7,529
Fire and ambulance	21,182	21,182	23,748	(2,566)
Sanitation	67,586	67,586	95,902	(28,316)
Capital outlay	-	173,522	175,482	(1,960)
Total charges to appropriations	184,149	357,671	382,984	(25,313)
Ending budgetary fund balance	\$ 374,455	\$ 200,933	\$ 242,592	\$ 41,659

Footnotes to Budgetary Comparison Schedule:

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

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**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - UNAUDITED
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Passed through the Oklahoma Department of Commerce</i> Community Development Block Grant	14.228	16386	\$ 13,000	\$ 13,000
Total Federal Awards			<u>\$ 13,000</u>	<u>\$ 13,000</u>
STATE OF OKLAHOMA AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE, FOOD AND FORESTRY</u>				
Operational Grants for Rural Fire Departments			4,290	4,290
<u>OKLAHOMA DEPARTMENT OF COMMERCE</u>				
Rural Economic Action Plan		15469	129,098	6,970
Total State Awards			<u>\$ 133,388</u>	<u>\$ 11,260</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCP, and GFOA

3119 E 87th Street
Tulsa, Oklahoma 74137

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

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

Honorable Mayor and Members of the City Council
City of Shidler, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements-modified cash basis of the governmental activities, the business-type activities, and each fund of the City of Shidler, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Shidler, Oklahoma's basic financial statements-modified cash basis and have issued my report thereon dated December 6, 2016. As described in Note 1B, the City of Shidler, Oklahoma has elected to report on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 City of Shidler, Oklahoma's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions

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was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
December 6, 2016