

**THE CITY OF WALTERS,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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**CITY OF WALTERS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Walters, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the government activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Walters, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial, 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 1.B; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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

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 Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves 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 principles 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, and

cash flows, where applicable, thereof for the year then ended in accordance with the basis of accounting described in Note 1.C.

Basis of Accounting

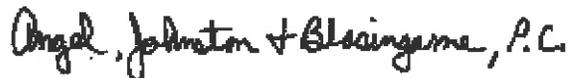
We draw your attention to Note 1.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with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

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Walters, Oklahoma basic financial statements. The Management's Discussion and Analysis, and the Other Information as listed in the table of contents, which are the responsibility of management, are presented for the 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, we do not express an opinion or provide other assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Chickasha, Oklahoma
December 9, 2013

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

The management of the City of Walters is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$4,416, and the assets of the City exceed its liabilities at June 30, 2013, by \$1,237,104 (net position). Of this amount, \$76,990 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2013, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$1,180,583.
- At the end of fiscal year 2013, unassigned fund balance on a modified cash basis for the General Fund was \$8,329 or 1% of General Fund revenues.
- The City has altered its modified cash basis of accounting to remove the modifications previously made related to capital asset and long-term debt activity. This new modified cash basis of accounting more closely aligns with the way the City prepares its annual budgets, and is a basis recommended by the Government Finance Officers Association (GFOA) for governments that are not required to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP). For comparative purposes, all amounts in this MD&A that are reported for FY 2012's financial activity have been restated for the new modified cash basis presentation so that significant variances between the years presented can be elaborated upon.

ABOUT THE CITY

The City of Walters is an incorporated municipality with a population of approximately 2,551 located in Cotton County in southwestern Oklahoma. The City is a Council/Manager form of government and operates under home-rule charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body; four elected by ward and one elected at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a non-attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Public Works Authority and Industrial Authority, certain utility services including electric, water, wastewater, and sanitation, along with industrial development.

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The City's Financial Reporting Entity

This annual report includes all activities for which the City of Walters City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

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

- **The City of Walters** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City
- **The Walters Public Works Authority (WPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, electric and sanitation services of the City, with the City Council members serving as the trustees
- **The Walters Industrial Development Authority (WIDA)** - public trust created pursuant to 60 O.S. § 176 that promotes, develops and secures industrial development within the City, with the City Council members serving as the trustees

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trusts within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

Basis of Accounting and Presentation

The statement 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:

- cash-based interfund receivables/payables
- assets that normally convert to cash or cash equivalents (certificates of deposit, marketable investments, and receivables resulting from cash)
- liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned

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.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Walters (the “City”), the Walters Public Works Authority (the “Public Works Authority”), and the Walters Industrial Development Authority (the “Industrial Development Authority”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the modified cash basis of accounting. They present governmental and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City’s sales tax base, the condition of the City’s roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting described above and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City’s basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City’s electric, water, sewer, sanitation utilities and industrial development activities are reported as business-type activities.

Reporting the City’s Most Significant Funds - Fund Financial Statements

Fund Financial Statements

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

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

Proprietary funds - The City operates two proprietary funds, the Walters Public Works Authority (major fund), and the Walters Industrial Development Authority (non-major fund). When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The City's proprietary funds are the Walters Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities, and the Walters Industrial Authority, which accounts for industrial development activity.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 25-38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund, combining and individual fund financial statements and schedules, a federal and state award schedule, and a debt service coverage requirement schedule.

THE CITY AS A WHOLE

For the year ended June 30, 2013, net position on a modified cash basis for the governmental and business-type activities increased \$4,416.

Following is a summary of net position reported on a modified cash basis for the City of Walters.

CITY OF WALTERS, OKLAHOMA
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The City of Walters' Net Position (Modified Cash Basis)
June 30, 2013

TABLE 1
NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2013	Restated 2012		2013	Restated 2012		2013	Restated 2012	
	Current assets	\$ 1,181	\$ 178	562%	\$ 180	\$ 156	15%	\$ 1,361	\$ 335
Total assets	1,181	178	562%	180	156	15%	1,361	335	307%
Current liabilities	1	1	0%	123	101	-21%	124	102	-21%
Total liabilities	1	1	0%	123	101	-21%	124	102	-21%
Net position									
Restricted	1,145	1,146	0%	15	19	-21%	1,160	1,165	0%
Unrestricted	36	(968)	-104%	41	36	16%	77	(933)	-108%
Total net position	\$ 1,181	\$ 178	564%	\$ 56	\$ 55	2%	\$ 1,237	\$ 233	432%

The largest portion of the City's net position reflects a \$1,000,000 restricted non-expendable endowment.

The City of Walters' Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2013

TABLE 2
CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2013	Restated 2012		2013	Restated 2012		2013	Restated 2012	
	Revenues								
Charges for service	\$ 135	\$ 146	-8%	\$ 3,286	\$ 3,341	-2%	\$ 3,421	\$ 3,487	-2%
Operating grants and contributions	45	34	32%	80	110	-27%	125	144	-13%
Capital grants and contributions	47	137	-66%	123	-	100%	170	137	24%
Taxes	551	520	6%	-	-	-	551	520	6%
Intergovernmental revenue	48	47	2%	-	-	-	48	47	2%
Investment income	5	9	-44%	63	61	3%	68	70	-3%
Miscellaneous	50	50	0%	43	85	-49%	93	135	-31%
Total revenues	881	943	-7%	3,595	3,597	0%	4,476	4,540	-1%
Expenses									
General government	114	89	-28%	-	-	-	114	89	-28%
Public safety	579	470	-23%	-	-	-	579	470	-23%
Streets	470	405	-16%	-	-	-	470	405	-16%
Culture, parks and recreation	316	437	28%	-	-	-	316	437	28%
Cemetery	88	74	-19%	-	-	-	88	74	-19%
Airport	4	69	94%	-	-	-	4	69	94%
Principal on long-term debt	20	18	-11%	-	-	-	20	18	-11%
Interest on long-term debt	2	2	0%	-	-	-	2	2	0%
Electric	-	-	-	1,860	1,948	5%	1,860	1,948	5%
Water	-	-	-	577	522	-11%	577	522	-11%
Wastewater	-	-	-	125	212	41%	125	212	41%
Sanitation	-	-	-	317	298	-6%	317	298	-6%
Total expenses	1,593	1,564	2%	2,879	2,980	3%	4,472	4,544	2%
Excess (deficiency) before transfers	(712)	(621)	-15%	716	617	16%	4	(4)	200%
Transfers	715	623	15%	(715)	(623)	-15%	-	-	-
Change in net position	3	(4)	-50%	1	(6)	117%	4	(4)	200%
Beginning net position, restated	1,178	1,176	0%	55	61	-10%	1,233	1,237	0%
Ending net position	\$ 1,181	\$ 1,178	0%	\$ 56	\$ 55	2%	\$ 1,237	\$ 1,233	0%

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Governmental Activities

The decrease in governmental activities capital grants and contributions of was due primarily to a \$43,329 airport grant and a \$23,702 REAP grant being received by the City in the prior year. The decrease in airport expenses in the current year is directly related to the grant revenue decrease in the current year.

Business-type Activities

The increase in business-type activities capital grants and contributions is due to a \$78,155 CDBG grant and a \$45,000 REAP grant being received in the current year. The decrease in sewer expenses was primarily due to the City purchasing materials to replenish inventory and renting equipment in the prior year.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	Restated			Restated		
	2013	2012		2013	2012	
General government	\$ 114	\$ 89	-28%	\$ (109)	\$ (84)	-30%
Public safety	579	470	-23%	(528)	(455)	-16%
Streets	470	405	-16%	(447)	(383)	-17%
Culture, parks and recreation	316	437	28%	(204)	(250)	18%
Cemetery	88	74	-19%	(51)	(30)	-70%
Airport	4	69	94%	(4)	(26)	85%
Principal on long-term debt	20	18	-11%	(20)	(18)	-11%
Interest on long-term debt	2	2	0%	(2)	(2)	0%
Total	<u>\$ 1,593</u>	<u>\$ 1,564</u>	-2%	<u>\$(1,365)</u>	<u>\$(1,248)</u>	-9%

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	Restated			Restated		
	2013	2012		2013	2012	
Electric	\$ 1,860	\$ 1,948	5%	\$ 305	\$ 224	36%
Water	577	522	-11%	126	135	-7%
Wastewater	125	212	41%	138	54	156%
Sanitation	317	298	-6%	41	58	-29%
Total	<u>\$ 2,879</u>	<u>\$ 2,980</u>	3%	<u>\$ 610</u>	<u>\$ 471</u>	30%

**CITY OF WALTERS, OKLAHOMA
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2013 fiscal year, the governmental funds reported a combined fund balance of \$1,180,583. For the year ended June 30, 2013, the General Fund's total fund balance decreased by \$674. The proprietary funds reported a combined net position balance of \$56,521. The WPWA's total net position decreased by \$99.

Budgetary Highlights

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues under final estimates by \$241,204 or a 12.7% negative variance. General Fund actual expenditures were under final appropriations by \$242,209 or a 12.8% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The City approved the purchase of a 2011 John Deere track loader and the related lease purchase with Welch State Bank for \$30,500 subsequent to June 2013.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and 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 Clerk's office at P.O. Box 485, Walters, Oklahoma 73572 or telephone at 580-875-3337.

**CITY OF WALTERS, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 54,737	\$ 19,300	\$ 74,037
Restricted cash and cash equivalents	-	65,709	65,709
Investments	126,500	24,591	151,091
Restricted investments	1,000,000	70,000	1,070,000
Total Assets	<u>1,181,237</u>	<u>179,600</u>	<u>1,360,837</u>
LIABILITIES			
Due to other governments	654	2,490	3,144
Due to depositors	-	120,589	120,589
Total liabilities	<u>654</u>	<u>123,079</u>	<u>123,733</u>
NET POSITION			
Restricted for:			
Nonexpendable endowment	1,000,000	-	1,000,000
Cemetery	141,147	-	141,147
Debt service	3,847	15,120	18,967
Unrestricted	35,589	41,401	76,990
Total net position	<u>\$ 1,180,583</u>	<u>\$ 56,521</u>	<u>\$ 1,237,104</u>

See accompanying notes to these financial statements.

CITY OF WALTERS, OKLAHOMA
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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes In Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 114,207	\$ 2,507	\$ 2,124	\$ -	\$ (109,576)	\$ -	\$ (109,576)
Public Safety	578,936	15,675	4,484	30,700	(528,077)	-	(528,077)
Highways and streets	469,637	-	22,721	-	(446,916)	-	(446,916)
Culture and Recreation	315,914	86,818	8,621	16,298	(204,177)	-	(204,177)
Cemetery	88,085	29,902	7,057	-	(51,126)	-	(51,126)
Airport	3,732	-	-	-	(3,732)	-	(3,732)
Principal on Long-term debt	20,164	-	-	-	(20,164)	-	(20,164)
Interest on Long-term debt	1,634	-	-	-	(1,634)	-	(1,634)
Total governmental activities	1,592,309	134,902	45,007	46,998	(1,365,402)	-	(1,365,402)
Business-type activities:							
Electric	1,859,911	2,164,835	-	-	-	304,924	304,924
Water	577,172	500,602	80,000	123,155	-	126,585	126,585
Wastewater	124,792	262,475	-	-	-	137,683	137,683
Sanitation	317,179	358,007	-	-	-	40,828	40,828
Total business-type activities	2,879,054	3,285,919	80,000	123,155	-	610,020	610,020
Total primary government	4,471,363	3,420,821	125,007	170,153	(1,365,402)	610,020	(755,382)
General revenues:							
Taxes:							
Sales and use taxes							
					\$ 532,597	\$ -	\$ 532,597
Franchise taxes and public service taxes							
					17,900	-	17,900
Intergovernmental revenue not restricted to specific programs							
					47,856	-	47,856
Unrestricted investment earnings							
					5,381	63,073	68,454
Miscellaneous							
					49,719	43,272	92,991
Transfers							
					714,648	(714,648)	-
Total general revenues and transfers							
					1,368,101	(608,303)	759,798
Change in net position							
					2,699	1,717	4,416
Net position - beginning, restated							
					1,177,884	54,804	1,232,688
Net position - ending							
					\$ 1,180,583	\$ 56,521	\$ 1,237,104

See accompanying notes to these financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Cemetery Permanent Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 12,719	\$ 25,590	\$ 12,481	\$ 3,947	\$ 54,737
Investments	-	-	126,500	-	126,500
Restricted investments	-	1,000,000	-	-	1,000,000
Due from other funds	-	-	2,166	-	2,166
Total assets	<u>12,719</u>	<u>1,025,590</u>	<u>141,147</u>	<u>3,947</u>	<u>1,183,403</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	2,166	-	-	-	2,166
Due to other governments	654	-	-	-	654
Total liabilities	<u>2,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,820</u>
Fund balances:					
Nonspendable:					
Nonexpendable permanent endowment	-	1,000,000	-	-	1,000,000
Restricted:					
Cemetery	-	-	141,147	-	141,147
Debt service	-	-	-	3,847	3,847
Assigned	1,570	-	-	100	1,670
Unassigned	8,329	25,590	-	-	33,919
Total fund balances	<u>9,899</u>	<u>1,025,590</u>	<u>141,147</u>	<u>3,947</u>	<u>1,180,583</u>
Total liabilities and fund balances	<u>\$ 12,719</u>	<u>\$ 1,025,590</u>	<u>\$ 141,147</u>	<u>\$ 3,947</u>	<u>\$ 1,183,403</u>

See accompanying notes to these financial statements.

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

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Cemetery Permanent Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 550,497	\$ -	\$ -	\$ -	\$ 550,497
Intergovernmental	103,924	-	-	-	103,924
Charges for services	120,454	-	3,859	-	124,313
Fines and forfeitures	8,710	-	-	-	8,710
Licenses and permits	2,104	-	-	-	2,104
Investment income	814	4,534	24	9	5,381
Miscellaneous	58,731	-	-	-	58,731
Total revenues	<u>845,234</u>	<u>4,534</u>	<u>3,883</u>	<u>9</u>	<u>853,660</u>
EXPENDITURES					
General government	78,069	-	-	-	78,069
Public Safety	519,648	-	-	-	519,648
Highway and streets	379,498	-	-	-	379,498
Culture and recreation	245,455	-	-	-	245,455
Cemetery	66,938	-	-	-	66,938
Airport	3,732	-	-	-	3,732
Capital Outlay	277,171	-	-	-	277,171
Debt Service:					
Principal	4,879	-	-	15,285	20,164
Interest and other charges	457	-	-	1,177	1,634
Total Expenditures	<u>1,575,847</u>	<u>-</u>	<u>-</u>	<u>16,462</u>	<u>1,592,309</u>
Excess (deficiency) of revenues over expenditures	<u>(730,613)</u>	<u>4,534</u>	<u>3,883</u>	<u>(16,453)</u>	<u>(738,649)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	26,700	-	-	-	26,700
Transfers in	898,861	-	-	15,409	912,270
Transfers out	(193,622)	-	(4,000)	-	(197,622)
Total other financing sources and uses	<u>729,939</u>	<u>-</u>	<u>(4,000)</u>	<u>15,409</u>	<u>741,348</u>
Net change in fund balances	(674)	4,534	(117)	(1,044)	2,699
Fund balances - beginning	10,573	1,021,056	141,264	4,991	1,177,884
Fund balances - ending	<u>\$ 9,899</u>	<u>\$ 1,025,590</u>	<u>\$ 141,147</u>	<u>\$ 3,947</u>	<u>\$ 1,180,583</u>

See accompanying notes to these 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, 2013

	<u>Major Enterprise Fund</u>	<u>Non-major Enterprise Fund</u>	<u>Total Enterprise Funds</u>
	<u>Walters Public Works Authority</u>	<u>Walters Industrial Development Authority</u>	
ASSETS			
Cash and cash equivalents	\$ 7,231	\$ 12,069	\$ 19,300
Investments	17,000	7,591	24,591
Restricted:			
Restricted cash and cash equivalents	65,709	-	65,709
Restricted investments	70,000	-	70,000
Total assets	<u>159,940</u>	<u>19,660</u>	<u>179,600</u>
LIABILITIES			
Due to other governments	2,490	-	2,490
Deposits subject to refund	120,589	-	120,589
Total liabilities	<u>123,079</u>	<u>-</u>	<u>123,079</u>
NET POSITION			
Restricted for debt service	15,120	-	15,120
Unrestricted	21,741	19,660	41,401
Total net position	<u>\$ 36,861</u>	<u>\$ 19,660</u>	<u>\$ 56,521</u>

See accompanying notes to these financial statements.

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

	<u>Major Enterprise Fund</u>	<u>Non-major Enterprise Fund Walters</u>	<u>Total Enterprise Funds</u>
	<u>Walters Public Works Authority</u>	<u>Industrial Development Authority</u>	
OPERATING REVENUES			
Electric	\$ 2,164,835	\$ -	\$ 2,164,835
Water	500,602	-	500,602
Sewer	262,475	-	262,475
Sanitation	358,007	-	358,007
Miscellaneous	19,829	-	19,829
Total operating revenues	<u>3,305,748</u>	<u>-</u>	<u>3,305,748</u>
OPERATING EXPENSES			
Electric	1,549,103	-	1,549,103
Water	346,579	-	346,579
Sewer	35,747	-	35,747
Sanitation	211,250	-	211,250
General government	449,026	-	449,026
Total operating expenses	<u>2,591,705</u>	<u>-</u>	<u>2,591,705</u>
Operating income	<u>714,043</u>	<u>-</u>	<u>714,043</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	63,007	66	63,073
Loan proceeds	80,000	-	80,000
Grant revenue	123,155	-	123,155
Miscellaneous revenue	21,693	1,750	23,443
Debt Service:			
Principal	(232,703)	-	(232,703)
Interest and other charges	(54,646)	-	(54,646)
Total non-operating revenue	<u>506</u>	<u>1,816</u>	<u>2,322</u>
Income before transfers	714,549	1,816	716,365
Transfers in	193,622	-	193,622
Transfers out	<u>(908,270)</u>	<u>-</u>	<u>(908,270)</u>
Change in net position	(99)	1,816	1,717
Total net position - beginning, restated	36,960	17,844	54,804
Total net position - ending	<u>\$ 36,861</u>	<u>\$ 19,660</u>	<u>\$ 56,521</u>

See accompanying notes to these financial statements.

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

	Major Enterprise Fund	Non-major Enterprise Fund	
	Walters Public Works Authority	Walters Industrial Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,305,748	\$ -	\$ 3,305,748
Payments to suppliers	(1,969,060)	-	(1,969,060)
Payments to employees	(622,645)	-	(622,645)
Interfund receipts/payments	512	-	512
Receipts of customer meter deposits	42,455	-	42,455
Refunds of customer meter deposits	(21,283)	-	(21,283)
Other receipts	144,848	1,750	146,598
Net cash provided by operating activities	880,575	1,750	882,325
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	193,622	-	193,622
Transfers to other funds	(908,270)	-	(908,270)
Net cash provided by (used in) noncapital financing activities	(714,648)	-	(714,648)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from debt	80,000	-	80,000
Principal paid on debt	(232,703)	-	(232,703)
Interest and fiscal agent fees paid on debt	(54,646)	-	(54,646)
Net cash provided by (used in) capital and related financing activities	(207,349)	-	(207,349)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	-	(49)	(49)
Interest and dividends	63,007	66	63,073
Net cash provided by investing activities	63,007	17	63,024
Net Increase in cash and cash equivalents	21,585	1,767	23,352
Balances - beginning of year	51,355	10,302	61,657
Balances - end of year	\$ 72,940	\$ 12,069	\$ 85,009
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	7,231	12,069	19,300
Restricted cash and cash equivalents	65,709	-	65,709
Total cash and cash equivalents, end of year	72,940	12,069	85,009
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 714,043	\$ -	\$ 714,043
Adjustments to reconcile operating income to net cash provided by operating activities:			
Miscellaneous revenue	144,848	1,750	146,598
Change in assets and liabilities:			
Due to other governments	512	-	512
Deposits subject to refund	21,172	-	21,172
Net cash provided by operating activities	\$ 880,575	\$ 1,750	\$ 882,325

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Walters) and two component units.

- **The City of Walters**– that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities
- **The City of Walters Public Works Authority** – that operates the electric, water, wastewater and sanitation services of the City
- **The City of Walters Industrial Development Authority** – that promotes, develops and secures industrial development within the City

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and, through its public trusts, certain utility services including electric, water, wastewater, and sanitation, and industrial development activities.

Both component units (Authorities) have the City Council as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

In determining the financial reporting entity, the City fully complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 61, "The Financial Reporting Entity: Omnibus" that requires all component units of which the City is financially accountable be included in the financial report.

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement 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:

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

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

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

- General government: License and permits, mowing fees, operating grants and contributions
- Public safety: Fine revenue, impound fees, fire runs and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Culture and recreation: Golf course and swimming pool rentals and fees

Governmental Funds:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Graham Trust Fund – a permanent fund that accounts for an irrevocable certificate of deposit donated to the City for use of interest earnings as deemed by the City Council
- Cemetery Permanent Fund – a capital project fund that accounts for 12.5 percent of cemetery revenues restricted by State law for cemetery capital improvements

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

- Capital Outlay Fund – a debt service fund that accounts for \$1 meter charge assessed for fire truck capital lease obligation

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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.

Proprietary Funds:

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

Major Fund:

- Walters Public Works Authority (WPWA) – accounts for the operation of the electric, water, wastewater, and sanitation activities

Non-Major Fund:

- Walters Industrial Development Authority (WIDA) – accounts for industrial development activities

The proprietary funds are reported on a modified cash basis, as defined above.

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.

C. Cash, Cash Equivalents, and Investments

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

D. Assets Other Than Cash

Assets other than cash are reported at the amount of cash and cash equivalents associated with the transaction or event that resulted in their acquisition.

E. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 7.

F. Fund Balances and Net Position

Fund Balances:

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 – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included 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 that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position:

Net Position is displayed in two components:

- b. *Restricted* - 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.”

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

G. Internal and Interfund Balances and Transfers

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

H. New Accounting Pronouncements

The City implemented the following accounting standards during the fiscal year ended June 30, 2013:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity: Omnibus – This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – A few sentences were removed from "Section B – Proprietary Funds" note disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The only change required from the early implementation of this statement are changing the words "Net Assets" in the City's financial report to "Net Position".

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities – This had no impact on the City's financial report.

2. Deposits and Investments

For the year ended June 30, 2013, the City recognized \$68,454 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

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

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Type	Maturities	Credit Rating	Carrying Value
Deposits:			
Petty cash			\$ 1,709
Demand deposits			124,296
Time deposits			1,221,091
Money market mutual funds:			
Cavanal Hill U.S. Treasury - Admin fund	N/A	AAAm	13,741
			<u>\$ 1,360,837</u>
Total deposits and investments			<u><u>\$ 1,360,837</u></u>
 Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 74,037
Restricted cash and cash equivalents			65,709
Investments			151,091
Restricted investments			1,070,000
			<u>\$ 1,360,837</u>

Custody 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 either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2013, the City was not exposed to custodial credit risk as defined above.

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 investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2013, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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Concentration of Investment Credit Risk - the City places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for utility deposits, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2013 are as follows:

<u>Type of Restricted Asset</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Utility Deposits	\$ 50,589	\$ 70,000
OWRB Debt Service	13,741	-
UDAG Savings	1,379	-
Graham Trust	-	1,000,000
Total	<u>\$ 65,709</u>	<u>\$ 1,070,000</u>

3. Sales Tax Revenue

Sales tax revenue represents a 3 cent tax on each dollar of taxable sales of which 1 cent is pledged and transferred to the Walters Public Works Authority and used to secure debt payments.

4. Internal Balances and Transfers Between Legal Entities

Internal balances between fund and legal entities are comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	Cemetery Permanent Fund	\$ 2,166	Reimburse cemetery revenue still owed
Total		<u>\$ 2,166</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 2,166	\$ (2,166)	\$ -
Proprietary Funds	-	(2,490)	(2,490)
Total	<u>\$ 2,166</u>	<u>\$ (4,656)</u>	<u>\$ (2,490)</u>

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Transfers between funds and legal entities are comprised of the following:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	WPWA	\$ 193,622	Sales tax transfer
WPWA	Cemetery Fund	1,575	Transfer revenues
WPWA	Cemetery Fund	29,000	Operational subsidy
WPWA	General Fund	193,622	Sales tax transfer
WPWA	General Fund	12,075	Transfer revenues
WPWA	General Fund	655,000	Operational subsidy
WPWA	General Fund	1,589	Debt payments
WPWA	Capital Outlay Fund	15,409	Operational subsidy
Cemetery Permanent	Cemetery Fund	4,000	Reimbursement of expenses
Total		<u>\$ 1,105,892</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 912,270	\$ (197,622)	\$ 714,648
Proprietary Funds	-	193,622	193,622
	<u>\$ 912,270</u>	<u>\$ (4,000)</u>	<u>\$ 908,270</u>

5. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Building and Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.
- Workers' Compensation – Workers' compensation is covered through Oklahoma Municipal Assurance Group.
- Employee's Group Health and Life – Health covered through participation in Blue Cross/Blue Shield and life is with Mutual of Omaha.

The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claims reserves and other purposes for the benefit of the city. Management believes such insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City, and such claims have not exceeded the coverage over the past three fiscal years.

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6. Retirement Plan Participation

The City participates in two employee retirement plans:

Oklahoma State Firefighters Pension System

Pursuant to the requirements of Title 11, section 22-102, the City of Walters participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by state law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions.

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2011	\$ 14,632	\$ 14,632
2012	15,556	15,556
2013	16,088	16,088

A copy of the Firefighters Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 Lincoln Blvd. Suite 263, Oklahoma City, OK, 73105-3707.

Principal Mutual Life Defined Contribution Plan

The City provides a pension benefit for all of its full-time employees with the exception of the fire department, through a defined contribution plan. The plan is administered by the City and plan assets are supervised by Principal Mutual Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate six months from the date of employment. Employee contributions were equal to an amount not less than 4% and not to exceed 10% of total earnings with employer contributions equal to 7.7% of the employee's total salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after six years continuous service. The authority to establish and amend the provisions of the Plan rests with the City Council.

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
2011	\$ 36,014	\$ 55,926
2012	39,256	58,627
2013	45,443	64,378

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7. Commitments and Contingencies

For the year ended June 30, 2013, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease payable	\$ 40,093	\$ -	\$ 18,770	\$ 21,323	19,644
Notes payable		26,700	1,394	25,306	8,567
Total Governmental Activities	<u>\$ 40,093</u>	<u>\$ 26,700</u>	<u>\$ 20,164</u>	<u>\$ 46,629</u>	<u>\$ 28,211</u>
Business-Type Activities:					
Notes payable	\$ 1,008,206	\$ 80,000	\$ 181,725	\$ 906,481	147,136
Capital lease payable	32,403	-	26,230	6,173	6,173
Contracts payable	717,248	-	24,748	692,500	25,369
Total Business-Type Activities	<u>1,757,857</u>	<u>80,000</u>	<u>232,703</u>	<u>1,605,154</u>	<u>178,678</u>
Total Long-Term Debt	<u>\$ 1,797,950</u>	<u>\$ 106,700</u>	<u>\$ 252,867</u>	<u>\$ 1,651,783</u>	<u>\$ 206,889</u>

Governmental Activities:

At June 30, 2013, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable

Lease obligation for purchase of fire truck, payable in 120 monthly installments of \$1,684, interest of 4.56%.

Total Capital Leases Payable \$ 21,323

Long-Term Note Commitments

Note Payable to Walters Bank & Trust, dated April 15, 2013, original amount \$26,700 with annual interest rate of 4.5%, due in monthly installments of \$9,531 beginning May 15, 2013, final installment due April 15, 2016, secured with a property mortgage and payable from WPWA resources

Total Notes Payable \$ 25,306

Business-Type Activities:

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to City's business-type activities at June 30, 2013, includes the following:

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Long-Term Note Commitments

OWRB Promissory Note dated December 23, 2009, original amount \$1,326,407, due in semi-annual principal installments of \$53,533 each March 15 and September 15, final installment due September 2030, interest rate of 2.21%. The note is secured by a pledge of net utility revenues, certain sales tax revenues, and a mortgage on the facilities.	\$ 739,655
Note payable to Welch State Bank, original amount of \$112,369, payable in monthly installments of \$2,483 with a 2.9% interest rate, final payment due April 2016.	80,932
Note payable to Walters Bank and Trust, original amount of \$41,420, payable in monthly installments of \$1,248 with a 5.5% interest rate, final payment due September 2013.	3,708
Note payable to Walters Bank and Trust, original amount of \$110,020, payable in monthly installments of \$10,186 with a 5.5% interest rate, final payment due June 2013.	82,186
Total Notes Payable	\$ 906,481

Capital Lease Obligations Payable

Lease obligation for purchase of dumpsters, original amount of \$54,055, payable in monthly installments of \$1,019 with a 4.96% interest rate, final payment due September 2013.	\$ 2,990
Lease obligation for purchase of polycarts, original amount of \$66,248, payable in monthly installments of \$1,249 with a 4.96% interest rate, final payment due September 2013.	3,183
Total Capital Leases Payable	\$ 6,173

Contracts Payable

Contract payable to the Waurika Project Master Conservancy District, original amount of \$110,423, for use of water facility, payable in 50 annual installments of \$5,155, final maturity in November 2026. Contract is secured by water revenues of the WPWA.	\$ 53,085
Contract payable to the Waurika Project Master Conservancy District, original amount of \$401,713, for use of water facility, payable in 25 annual installments of \$26,622, final maturity in October 2035. Contract is secured by water revenues of the WPWA.	369,405
Contract payable to the Waurika Project Master Conservancy District, original amount of \$498,919 for use of water conveyance facility, Payable in 50 annual installments of \$20,422, final maturity in March 2031. Contract is secured by water revenues of the WPWA.	270,010
Total Contracts Payable	\$ 692,500

Long-term debt service requirements to maturity are as follows:

Year Ended June 30,	Governmental			
	Capital Lease		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$19,644	\$565	\$8,567	\$964
2015	1,679	6	8,961	570
2016	-	-	7,778	162
Total	\$21,323	\$571	\$25,306	\$1,696

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Year Ended June 30,	Business-Type					
	Notes Payable		Capital Lease		Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$147,136	\$30,465	\$6,173	\$246	\$25,369	\$26,645
2015	62,987	22,116	-	-	26,132	25,805
2016	59,761	20,338	-	-	26,911	25,057
2017	36,286	18,598	-	-	27,636	24,286
201	37,291	17,247	-	-	28,450	23,493
2019-2023	202,469	70,649	-	-	158,353	100,886
2024-2028	232,070	41,835	-	-	184,004	69,376
2029-2033	128,481	9,908	-	-	167,123	34,508
2034-2035	-	-	-	-	48,522	3,769
Total	\$906,481	\$231,156	\$6,173	\$246	\$692,500	\$333,825

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged one cent (or 33.3%) of future sales tax revenue and utility revenues to repay the \$1,326,407 Series 2009 OWRB Promissory Notes. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and net utility revenues and are payable through 2030. The total principal and interest payable for the remainder of the life of the notes is \$936,836. Pledged sales taxes (one cent) received in the current year were \$193,622 and net utility revenues (not including investment income) were \$714,043. Debt service payments of \$53,177 for the current fiscal year were 5.9% of both pledged sales taxes and net utility revenues of \$907,665.

Utility Net Revenues Pledge - The City has pledged future net water utility revenues to repay the \$1,011,055 Waurika Project Master Conservancy District contracts payable. Proceeds from the contracts provided financing for capital assets. The contracts are payable from net water revenues and are payable through 2035. The total principal and interest payable for the remainder of the life of these contracts is \$1,026,325. Net water utility revenues were \$154,023. Debt service payments of \$53,782 for the current fiscal year were 34.9% of net water utility revenues.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2013, is summarized as follows:

- City – Accrued compensated absences \$141,292
- WPWA – Accrued compensated absences \$193,155

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Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Walters participates in various federal or state grant/loan programs from year to year. In 2013, the City's involvement in federal and state award programs was not material. 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.

8. Prior Period Adjustments

The following adjustments were made to beginning net position:

	<u>Governmental Activities</u>	<u>Walters Public Works Authority</u>	<u>Walters Industrial Development Authority</u>	<u>Business-Type Activities</u>
Beginning net position as previously reported	\$ 4,682,201	\$ 4,128,011	\$ 124,898	\$ 4,252,909
Restatements due to new GFOA reporting model basis of accounting:				
Removal of capital assets	(3,544,410)	(5,804,206)	(107,054)	(5,911,260)
Removal of note issue costs	-	(44,702)	-	(44,702)
Removal of long-term debt	40,093	1,757,857	-	1,757,857
Beginning net position as restated	<u>\$ 1,177,884</u>	<u>\$ 36,960</u>	<u>\$ 17,844</u>	<u>\$ 54,804</u>

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SUPPLEMENTAL AND OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2013

City of Walters
Budget and Actual (with Variances)
General Fund

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ (324)	\$ -	\$ 10,790	\$ 10,790
Resources (Inflows)				
Taxes	532,325	532,325	550,497	18,172
Intergovernmental	78,355	82,555	103,924	21,369
Charges for services	84,624	87,184	94,411	7,227
Fines and forfeitures	8,165	8,165	8,710	545
Licenses and permits	3,132	3,132	2,104	(1,028)
Investment income	10	10	6	(4)
Miscellaneous	20,037	47,977	33,751	(14,226)
Transfers in	1,053,989	1,135,545	862,286	(273,259)
Total Resources	<u>1,780,637</u>	<u>1,896,893</u>	<u>1,655,689</u>	<u>(241,204)</u>
Amounts Available for Appropriation	<u>1,780,313</u>	<u>1,896,893</u>	<u>1,666,479</u>	<u>(230,414)</u>
Charges to Appropriations (Outflows)				
Police	264,314	319,315	311,360	7,955
Fire	240,565	273,664	246,212	27,452
Streets	449,210	481,966	469,637	12,329
Parks	47,571	115,894	104,226	11,668
General government	381,673	291,658	114,207	177,451
Library	50,602	52,017	52,038	(21)
Airport	4,123	4,123	3,732	391
Golf course	148,633	164,634	159,650	4,984
Transfers out	193,622	193,622	193,622	-
Total Charges to Appropriations	<u>1,780,313</u>	<u>1,896,893</u>	<u>1,654,684</u>	<u>242,209</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,795</u>	<u>\$ 11,795</u>

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year-end, therefore encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

3. The actual amounts on the budgetary comparison schedules differ from the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance due to a difference in the presentation of the General Fund. In the governmental fund statements, the General Fund includes the

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Cemetery General Account. This account did not meet the definition of special revenue funds as defined in GASB 54. The detail of the differences is as follows:

Resources - Budgetary Comparison Schedule	\$ 1,655,689
Cemetery General Account revenue	51,831
Deduct transfers in	<u>(862,286)</u>
Revenue - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 845,234</u>
Charges to appropriations - Budgetary Comparison Schedule	\$ 1,654,684
Cemetery General Account expenditures	88,085
Deduct transfers out	<u>(193,622)</u>
Add capital outlay from capital lease purchase	26,700
Expenditures - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 1,575,847</u>

4. The following department had excess expenditures over available appropriations:

General Fund:		
Library	\$21	

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Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – June 30, 2013

	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
	<u>CDBG Fund</u>	<u>Capital Outlay Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 100	\$ 3,847	\$ 3,947
Total assets	<u>100</u>	<u>3,847</u>	<u>3,947</u>
LIABILITIES AND FUND BALANCES			
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted for:			
Debt service	-	3,847	3,847
Assigned	100	-	100
Total fund balances	<u>100</u>	<u>3,847</u>	<u>3,947</u>
Total liabilities and fund balances	<u>\$ 100</u>	<u>\$ 3,847</u>	<u>\$ 3,947</u>

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

	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	
	<u>CDBG Fund</u>	<u>Capital Outlay Fund</u>	<u>Total-Other Governmental Funds</u>
REVENUES			
Investment income	\$ -	\$ 9	\$ 9
Total revenues	<u>-</u>	<u>9</u>	<u>9</u>
EXPENDITURES			
Debt Service:			
Principal	-	15,285	15,285
Interest and other charges	-	1,177	1,177
Total Expenditures	<u>-</u>	<u>16,462</u>	<u>16,462</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(16,453)</u>	<u>(16,453)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	15,409	15,409
Total other financing sources and uses	<u>-</u>	<u>15,409</u>	<u>15,409</u>
Net change in fund balances	-	(1,044)	(1,044)
Fund balances - beginning	100	4,891	4,991
Fund balances - ending	<u>\$ 100</u>	<u>\$ 3,847</u>	<u>\$ 3,947</u>

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Combining Schedule of Balance Sheet Accounts – General Fund Accounts (Modified Cash Basis) – June 30, 2013

	<u>General Fund</u>	<u>Cemetery General Account</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 12,449	\$ 270	\$ 12,719
Total assets	<u>12,449</u>	<u>270</u>	<u>12,719</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	-	2,166	2,166
Due to other governments	654	-	654
Total liabilities	<u>654</u>	<u>2,166</u>	<u>2,820</u>
Fund balances:			
Assigned	1,570	-	1,570
Unassigned (deficit)	10,225	(1,896)	8,329
Total fund balances	<u>11,795</u>	<u>(1,896)</u>	<u>9,899</u>
Total liabilities and fund balances	<u>\$ 12,449</u>	<u>\$ 270</u>	<u>\$ 12,719</u>

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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2013

	<u>General Fund</u>	<u>Cemetery General</u>	<u>Total</u>
REVENUES			
Taxes	\$ 550,497	\$ -	\$ 550,497
Intergovernmental	103,924	-	103,924
Charges for services	94,411	26,043	120,454
Fines and forfeitures	8,710	-	8,710
Licenses and permits	2,104	-	2,104
Investment income	6	808	814
Miscellaneous	33,751	24,980	58,731
Total revenues	<u>793,403</u>	<u>51,831</u>	<u>845,234</u>
EXPENDITURES			
General government	78,069	-	78,069
Public Safety	519,648	-	519,648
Highway and streets	379,498	-	379,498
Culture and recreation	245,455	-	245,455
Cemetery	-	66,938	66,938
Airport	3,732	-	3,732
Capital Outlay	256,024	21,147	277,171
Debt Service:			
Principal	4,879	-	4,879
Interest and other charges	457	-	457
Total Expenditures	<u>1,487,762</u>	<u>88,085</u>	<u>1,575,847</u>
Excess (deficiency) of revenues over expenditures	<u>(694,359)</u>	<u>(36,254)</u>	<u>(730,613)</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds	26,700	-	26,700
Transfers in	862,286	34,575	896,861
Transfers out	(193,622)	-	(193,622)
Total other financing sources and uses	<u>695,364</u>	<u>34,575</u>	<u>729,939</u>
Net change in fund balances	1,005	(1,679)	(674)
Fund balances (deficit) - beginning	10,790	(217)	10,573
Fund balances (deficit) - ending	<u>\$ 11,795</u>	<u>\$ (1,896)</u>	<u>\$ 9,899</u>

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Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – For the Year Ended June 30, 2013

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Awards Expended
FEDERAL AWARDS:				
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION:</u>				
Passed through the Oklahoma Highway Safety Office-Incentive Grant	20.600	PT-12-03-99-00	4,000	4,000
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through the Oklahoma Department of Commerce:				
CDBG grant - ADA Pool Bathhouse	14.228	14173 CDBG 93	142,997	799
Total Federal Awards			<u>\$ 146,997</u>	<u>\$ 4,799</u>
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant			\$ 4,484	\$ 4,484
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
FY 2013 State Aid			7,446	7,446
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
Winter Storm		1883-DR-OK 2010 (PW 731)	1,119	1,119
<u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GOVERNMENTS:</u>				
REAP Grant - Pool Bathhouse		2010 REAP - 102282	40,000	4,134
REAP Grant - Water Plant		2011 REAP - 112274	45,000	5,561
REAP Grant - Water Treatment Plant Lagoons		2012 REAP	45,000	4,252
			<u>130,000</u>	<u>13,947</u>
Total State Awards			<u>\$ 143,049</u>	<u>\$ 26,996</u>

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Schedule of Debt Service Coverage Requirement – Year Ended June 30, 2013

DEBT SERVICE COVERAGE:	OWRB Series 2009 Promissory Note
GROSS REVENUE AVAILABLE:	
Charges for services (all utility services)	3,305,748
Investment income	63,007
Sales tax appropriated and transferred from the City General Fund	<u>193,622</u>
Total Gross Revenue Available	<u>3,562,377</u>
OPERATING EXPENSES:	
Total Operating Expenses	<u>2,591,705</u>
Net Revenue Available for Debt Service	<u>\$970,672</u>
Maximum Annual Debt Service on all Obligations Payable From Revenues of the System	<u>\$53,533</u>
Computed Coverage	<u>1813%</u>
Coverage Requirement	<u>125%</u>

The 2009 OWRB Promissory Notes have a coverage requirement of 125%. Therefore at June 30, 2013, the City met the coverage requirement.

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INTERNAL CONTROL AND COMPLIANCE

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

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

Members of the City Council
City of Walters, Oklahoma

We have audited 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, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 2013. The report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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 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 significant deficiencies or material weaknesses and therefore, significant deficiencies, or material weaknesses may exist and be identified. 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. We did identified certain deficiencies described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. 13- 1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 13- 1

City of Walters's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Angel, Johnston & Blessingame, P.C.

Chickasha, Oklahoma
December 9, 2013

**CITY OF WALTERS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013**

Deficiencies of Internal Control, Compliance and Other Matters

13-1. Criteria – A monthly utility billing and collection reconciliation is performed to identify possible issues with the processes.

Condition – For the month of June, 2013 the accounts receivable carry forward balance began to be off approximately \$15,000. However, this difference was not identified in the client's reconciliation procedure.

Cause – The utility computer system has an internally generated reconciliation report. However, the City has its own reconciliation procedure that ties out billings and collections. In June the balances on the manual reconciliation no longer agreed to the computer system and were not resolved.

Effect – Errors could occur and not be identified.

Recommendation – Review reconciliation procedures and be sure all aspects of the reconciliation are tied down.

Management response – Management agrees.

**CITY OF WALTERS, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2013**

Deficiencies of Internal Control, Compliance and Other Matters

12-1. Criteria – All federal and state programs are reported on a separate schedule. If the federal expenditures exceed \$500,000 in a fiscal year then they are required to comply with Circular A-133.

Condition – During the process of the audit we located additional state program expenditures that had not previously been identified.

Disposition – This was not noted in the 2012-13 year.

