



CITY OF SKIATOOK, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR
ENDED JUNE 30, 2014

**THE CITY OF SKIATOOK,
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

TABLE OF CONTENTS

	Page
Independent Auditor’s Report on Financial Statements	5-6
Other Information - Management’s Discussion and Analysis	7-13
The Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position (Modified Cash Basis).....	15
Statement of Activities (Modified Cash Basis).....	16
Governmental Funds Financial Statements:	
Balance Sheet (Modified Cash Basis).....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances (Modified Cash Basis).....	19
Proprietary Funds Financial Statements:	
Statement of Net Position (Modified Cash Basis).....	21
Statement of Revenues, Expenditures, and Changes in Net Position (Modified Cash Basis).....	22
Statement of Cash Flows (Modified Cash Basis).....	23
Footnotes to the Basic Financial Statements	24-37
Supplementary and Other Information:	
Budgetary Comparison Information	
Budgetary Comparison Schedule (Modified Cash Basis) – General Fund.....	39
Footnotes to Budgetary Comparison Schedules.....	39
Combining General Fund Accounts	
Combining Balance Sheet (Modified Cash Basis).....	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	41
Combining Non-major Governmental Fund Statements	
Combining Balance Sheet (Modified Cash Basis).....	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	42

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

TABLE OF CONTENTS

Combining Schedule of Accounts – SPWA

Combining Balance Sheet (Modified Cash Basis).....	43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis).....	43

Federal and State Awards Information

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis)	44
--	----

Debt Service Coverage Information

Schedule of Debt Service Coverage Requirement.....	45
--	----

Internal Control and Compliance Information:

Independent Auditor’s Report on Internal Control and Compliance Over Financial Reporting in Accordance with Government Auditing Standards.....	47-48
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Skiatook, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Skiatook, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Basis of Accounting

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

Other Matters – Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplemental combining fund schedules – modified cash basis, federal and state awards information, and debt service coverage information, and the other information including management's discussion and analysis and budgetary comparison information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements – modified cash basis, federal and state awards information, and debt service coverage information, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, federal and state awards information, and debt service coverage information are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1.

Management's discussion and analysis and budgetary comparison information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014, 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* and should be considered in assessing the results of our audit.


November 11, 2014

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

The management of the City of Skiatook 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, 2014. 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 decreased by \$109,635, and the assets of the City exceed its liabilities at June 30, 2014, by \$1,150,832 (net position). Of this amount, \$335,177 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2014, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$927,814.
- For the fiscal year ended June 30, 2014, unassigned fund balance on a modified cash basis for the General Fund was \$406,326 or 8.6% of General Fund revenues.

ABOUT THE CITY

The City of Skiatook is a Statutory Council-Manager form of City government with a population of 7,397 located in Osage County in Northeastern Oklahoma. The City is governed by a seven-member City Council and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Council is a seven-member governing body elected by the citizens, consisting of one council member from each of the six wards and one council member at large. The mayor is one of the seven council members and is appointed by the City Council.
- Executive – the City manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is appointed by the City Council

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, community development, airport, cemetery and certain utility services including electric, water, wastewater, and sanitation.

This annual report includes all activities for which the City of Skiatook governing body is fiscally responsible. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a discretely-presented component unit.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

The City's Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Skiatook), a blended component unit, and a discretely presented component unit as follows:

- **The City of Skiatook** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, airport, cemetery and administrative activities
- **The Skiatook Public Works Authority** – that operates the electric, water, wastewater, and sanitation and activities of the City (blended)
- **The Skiatook Economic Development Authority** – that promotes economic development for the City (discretely presented)

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the City of Skiatook (the "City"), the Skiatook Public Works Authority (the "Authority") and the Skiatook Economic Development Authority (SEDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to separate presentation for the discretely presented component unit.

The government-wide financial statements present the complete financial picture of the City as applicable to the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt), resulting from modified cash basis transactions. 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 the 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 and include only those City assets and liabilities resulting from cash transactions with selected modifications.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

In the Statement of Net Position and the Statement of Activities, we divide the City's primary government 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 typically 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, wastewater, and sanitation utilities 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 uses two kinds of funds – *governmental and proprietary*.

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. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - 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 reported on the modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenses and not as changes to asset and debt balances. The City's proprietary fund is the Skiatook Public Works Authority that accounts for the operation of the electric, water, wastewater and sanitation activities.

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 24-37 of this report.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Other Information

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

THE CITY AS A WHOLE

Net Position

For the year ended June 30, 2014, net position on a modified cash basis for the governmental and business-type activities decreased \$109,635.

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

Net Position (Modified Cash Basis)
June 30, 2014
(In Thousands)

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Assets	\$ 983	\$ 918	7%	\$ 1,623	\$ 957	70%	\$ 2,606	\$ 1,875	39%
Total assets	<u>983</u>	<u>918</u>	7%	<u>1,623</u>	<u>957</u>	70%	<u>2,606</u>	<u>1,875</u>	39%
Liabilities	55	68	-19%	1,400	547	156%	1,455	615	137%
Total liabilities	<u>55</u>	<u>68</u>	-19%	<u>1,400</u>	<u>547</u>	156%	<u>1,455</u>	<u>615</u>	137%
Net position									
Restricted	245	274	-11%	571	327	75%	816	601	36%
Unrestricted	683	576	19%	(348)	83	-519%	335	659	-49%
Total net position	<u>\$ 928</u>	<u>\$ 850</u>	9%	<u>\$ 223</u>	<u>\$ 410</u>	-46%	<u>\$ 1,151</u>	<u>\$ 1,260</u>	-9%

Current liabilities of the governmental activities decreased in the current year due to the decrease in unearned revenue of approximately \$11,000. In 2013, the City received a payment for a five-year lease up-front. The decrease in the current year is amount of the lease revenue earned during the year. Business-type activities report an increase in current assets of approximately \$666,000 or 70% due to an increase the balance in trustee statements of approximately \$244,000 and a reclassification of the one-cent capital projects cash. In the prior year, this cash was netted against the cash overdraft. In the current year, this cash was kept separate. Business-type activities report an increase in liabilities due to an increase in the bank overdraft of \$834,752. These changes also created the increase in restricted net position.

A portion of the City's net position, \$815,655, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$335,177, may be used to meet the government's ongoing needs.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Changes in Net Position

For the year ended June 30, 2014, net position of the primary government changed as follows:

**Changes in Net Position (Modified Cash Basis)
June 30, 2014
(In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2014	2013		2014	2013		2014	2013	
Revenues:									
Program revenues:									
Charges for Services	\$ 1,436	\$ 1,263	14%	\$ 8,485	\$ 8,408	1%	\$ 9,921	\$ 9,671	3%
Grants & Contributions	101	125	-19%	-	-	0%	101	125	-19%
Capital Grants & Contributions	31	313	-90%	4,677	165	2740%	4,708	477	886%
General Revenues:									
Sales Tax	2,928	2,754	6%	-	-	0%	2,928	2,754	6%
Other Taxes	39	42	-7%	-	-	0%	39	42	-7%
Other General Revenues	264	214	23%	236	138	70%	500	352	42%
Total Revenues	4,799	4,711	2%	13,397	8,711	54%	18,196	13,421	36%
Program Expenses:									
Town clerk	\$ 3	\$ 3	0%	-	-	-	3	3	0%
Judge	19	19	-2%	-	-	-	19	19	-2%
Police	1,597	1,709	-7%	-	-	-	1,597	1,709	-7%
Fire	1,576	1,621	-3%	-	-	-	1,576	1,621	-3%
Community development	107	101	6%	-	-	-	107	101	6%
Streets	580	494	17%	-	-	-	580	494	17%
Parks	421	286	47%	-	-	-	421	286	47%
General government	1,053	992	6%	-	-	-	1,053	992	6%
Senior Citizens	85	110	-23%	-	-	-	85	110	-23%
Economic development	36	43	-15%	-	-	-	36	43	-15%
Vehicle maintenance	137	142	-3%	-	-	-	137	142	-3%
Cemetery	74	76	-3%	-	-	-	74	76	-3%
Airport	54	315	-83%	-	-	-	54	315	-83%
Electric	-	-	-	5,241	5,059	4%	5,241	5,059	4%
Water	-	-	-	5,891	1,792	229%	5,891	1,792	229%
Wastewater	-	-	-	714	695	3%	714	695	3%
Sanitation	-	-	-	715	708	1%	715	708	1%
Health Clinic	-	-	-	2	-	100%	2	-	100%
Total Expenses	5,742	5,911	-3%	12,563	8,254	52%	18,304	14,164	29%
Excess (Deficiency)	(943)	(1,200)	-21%	834	457	82%	(109)	(743)	-85%
Net Transfers	1,021	1,081	-6%	(1,021)	(1,081)	6%	-	-	-
Change in Net Position	\$ 78	\$ (119)	-165%	\$ (187)	\$ (624)	70%	\$ (109)	\$ (743)	-85%
Beginning Net Position	850	969	-12%	410	1,034	-60%	1,260	2,003	-37%
Ending Net Position	\$ 928	\$ 850	9%	\$ 223	\$ 410	-46%	\$ 1,151	\$ 1,260	-9%

Governmental activities capital grants and contributions decreased approximately \$308,000 or 99% due to an airport runway grant received in the prior year.

Governmental activities street expenses increased approximately \$86,000 or 17% due to an increase in street projects expenses in the current year. Parks expenses increased approximately \$135,000 or 47% due to the sports park complex construction and repairs in the current year. The work performed in the prior year was not as extensive. Senior Citizens expenses decreased approximately \$25,000 or 23% due

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

to a decrease in the construction work performed on the senior citizens' center. Airport expenses decreased approximately \$261,000 or 83% due to repairs made to the airport runway in the prior year. The City received a grant in the prior year to fund these expenses.

Business-type activities capital grants and contributions increased approximately \$4,503,000 or 2,735% due to loan proceeds received to refinance loans with OWRB.

Business-type activities water expenses increased approximately \$4,099,000 or 229% due to loans refinanced in the current year.

Governmental Activities

The City's governmental activities had an increase in net position of \$77,609. This is a 9% increase from beginning net position and was attributable in large part due to a 2% increase in governmental revenues and a 3% decrease in expenses.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
General government	\$ 1,053	\$ 992	6%	\$ (916)	\$ (882)	-4%
Town clerk	3	3	-	(3)	(3)	-
Judge	19	19	-2%	(19)	(19)	2%
Police	1,597	1,709	-7%	(1,336)	(1,480)	10%
Fire	1,576	1,621	-3%	(803)	(888)	10%
Community development	107	101	6%	(71)	(52)	-36%
Streets	580	494	17%	(498)	(408)	-22%
Parks	421	286	47%	(395)	(254)	55%
Senior citizens	85	110	-23%	(84)	(85)	1%
Economic development	36	43	-15%	58	26	125%
Vehicle maintenance	137	142	-3%	(137)	(142)	3%
Cemetery	74	76	-3%	58	(4)	1551%
Airport	54	315	-83%	(29)	(20)	47%
Total	<u>\$ 5,742</u>	<u>\$ 5,911</u>	-3%	<u>\$ (4,175)</u>	<u>\$ (4,211)</u>	1%

Business-type Activities

The business-type activities had a decrease in net position of \$187,244. This is a 45% decrease from beginning net position. This decrease is consistent with the decrease in net position in the prior year, and due in a large part to increased capital expenses in the wastewater department.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Net Revenue (Expense) of Business-Type Activities

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Water	\$ 5,891	\$ 1,792	229%	\$ 353	\$ (10)	3531%
Wastewater	714	695	3%	(186)	(262)	29%
Sanitation	715	708	1%	(123)	(262)	53%
Electric	5,241	5,059	4%	557	853	-35%
Health clinic	<u>2</u>	<u>-</u>	100%	<u>(2)</u>	<u>-</u>	-100%
Total	\$ 12,563	\$ 8,254	52%	\$ 599	\$ 319	88%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2014 fiscal year, the governmental funds reported a combined fund balance of \$927,814. For the year ended June 30, 2014, the General Fund's total fund balance increased by \$86,416 to \$652,133 or 1.8% of annual revenues. The General Fund's total fund balance decreased by \$101,009 in the prior year.

Budgetary Highlights

For the year ended June 30, 2014, the General Fund reported actual budgetary basis revenues under final estimates by \$101,143 or a 1.6% negative variance. General Fund actual expenditures were under final appropriations by \$357,714 or a 5.7% positive variance.

Economic Factors and Next Year's Budget and Rates

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

- For the upcoming fiscal year ending June 30, 2015, the City's adopted budget is fairly consistent with the prior year.
- The City is beginning a large sewer plant project and anticipates an increase in loan revenue and sewer construction expense in the upcoming fiscal year.

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 110 N. Broadway, Skiatook, Oklahoma 74070 or telephone at 918-396-2797.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Statement of Net Position (Modified Cash Basis) – June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Skiatook Economic</u> <u>Development</u> <u>Authority</u>
ASSETS				
Cash and equivalents	\$ 453,985	\$ 943,293	\$ 1,397,278	\$ 4,150
Investments	529,230	679,531	1,208,761	-
Total Assets	<u>983,215</u>	<u>1,622,824</u>	<u>2,606,039</u>	<u>4,150</u>
LIABILITIES				
Cash overdraft	-	872,131	872,131	-
Payroll withholding liabilities	5,009	-	5,009	-
Due to other governments	670	-	670	-
Due to bond holders	7,777	-	7,777	-
Unearned revenue	41,945	-	41,945	-
Due to depositors	-	527,675	527,675	-
Total liabilities	<u>55,401</u>	<u>1,399,806</u>	<u>1,455,207</u>	<u>-</u>
NET POSITION				
Restricted for:				
E-911	36,609	-	36,609	-
Cemetery	26,254	-	26,254	-
Police	3,999	-	3,999	-
Capital projects	20,000	-	20,000	-
Airport	158,053	-	158,053	-
Debt Service	-	570,740	570,740	-
Unrestricted (deficit)	682,899	(347,722)	335,177	4,150
Total net position	<u>\$ 927,814</u>	<u>\$ 223,018</u>	<u>\$ 1,150,832</u>	<u>\$ 4,150</u>

See accompanying notes to the basic financial statements.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Statement of Activities (Modified Cash Basis)–Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Skiatook Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental Activities:								
General government	\$ 1,053,305	\$ 111,135	\$ -	\$ 25,875	\$ (916,295)	\$ -	\$ (916,295)	\$ -
Town clerk	3,470	-	-	-	(3,470)	-	(3,470)	-
Judge	18,698	-	-	-	(18,698)	-	(18,698)	-
Police	1,597,390	243,019	18,107	-	(1,336,264)	-	(1,336,264)	-
Fire	1,575,642	768,010	4,474	-	(803,158)	-	(803,158)	-
Community development	107,281	36,644	-	-	(70,637)	-	(70,637)	-
Streets	579,560	-	78,084	3,691	(497,785)	-	(497,785)	-
Parks	421,364	26,483	-	-	(394,881)	-	(394,881)	-
Senior citizens	85,059	-	-	1,000	(84,059)	-	(84,059)	-
Economic development	36,211	94,666	-	-	58,455	-	58,455	-
Vehicle maintenance	137,032	-	-	-	(137,032)	-	(137,032)	-
Cemetery	73,768	131,825	-	-	58,057	-	58,057	-
Airport	53,638	24,175	-	-	(29,463)	-	(29,463)	-
Total governmental activities	<u>5,742,418</u>	<u>1,435,957</u>	<u>100,665</u>	<u>30,566</u>	<u>(4,175,230)</u>	<u>-</u>	<u>(4,175,230)</u>	<u>-</u>
Business-type activities								
Water	5,891,138	1,599,471	-	4,645,050	-	353,383	353,383	-
Wastewater	713,637	495,062	-	32,183	-	(186,392)	(186,392)	-
Sanitation	715,668	592,529	-	-	-	(123,139)	(123,139)	-
Electric	5,240,805	5,797,990	-	-	-	557,185	557,185	-
Health Clinic	1,802	-	-	-	-	(1,802)	(1,802)	-
Total business-type activities	<u>12,563,050</u>	<u>8,485,052</u>	<u>-</u>	<u>4,677,233</u>	<u>-</u>	<u>599,235</u>	<u>599,235</u>	<u>-</u>
Total primary government	<u>18,305,468</u>	<u>9,921,009</u>	<u>100,665</u>	<u>4,707,799</u>	<u>(4,175,230)</u>	<u>599,235</u>	<u>(3,575,995)</u>	<u>-</u>
General revenues:								
Taxes:								
Sales tax and use tax					2,927,917	-	2,927,917	-
Franchise and public service taxes					39,756	-	39,756	-
Intergovernmental revenue not restricted to specific programs					71,815	-	71,815	-
Investment income					1,243	3,423	4,666	-
Miscellaneous					191,081	231,125	422,206	-
Transfers - internal activity					1,021,027	(1,021,027)	-	-
Total general revenues and transfers					<u>4,252,839</u>	<u>(786,479)</u>	<u>3,466,360</u>	<u>-</u>
Change in net position					77,609	(187,244)	(109,635)	-
Net position - beginning					850,205	410,262	1,260,467	4,150
Net position - ending					<u>\$ 927,814</u>	<u>\$ 223,018</u>	<u>\$ 1,150,832</u>	<u>\$ 4,150</u>

See accompanying notes to the basic financial statements.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Governmental Funds Balance Sheet (Modified Cash Basis) - June 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 335,475	\$ 118,510	\$ 453,985
Investments	372,059	157,171	529,230
Total assets	<u>707,534</u>	<u>275,681</u>	<u>983,215</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll withholdings liabilities	5,009	-	5,009
Due to bondholders	670	-	670
Due to other governments	7,777	-	7,777
Unearned revenue	41,945	-	41,945
Total liabilities	<u>55,401</u>	<u>-</u>	<u>55,401</u>
Fund balances:			
Restricted:			
For E-911	36,609	-	36,609
For capital outlay	20,000	-	20,000
For police	3,999	-	3,999
For airport	-	158,053	158,053
For cemetery care	-	26,254	26,254
Committed to cemetery care	-	91,374	91,374
Assigned to economic development	138,432	-	138,432
Assigned to cemetery	46,767	-	46,767
Unassigned	406,326	-	406,326
Total fund balances	<u>652,133</u>	<u>275,681</u>	<u>927,814</u>
Total liabilities and fund balances	<u>\$ 707,534</u>	<u>\$ 275,681</u>	<u>\$ 983,215</u>

See accompanying notes to the basic financial statements.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,967,673	\$ -	\$ 2,967,673
Intergovernmental	198,595	-	198,595
Licenses and permits	34,434	-	34,434
Charges for services	1,216,937	57,079	1,274,016
Fines and forfeitures	130,015	-	130,015
Investment income	869	4,825	5,694
Miscellaneous	188,069	504	188,573
Total Revenues	<u>4,736,592</u>	<u>62,408</u>	<u>4,799,000</u>
EXPENDITURES			
Current:			
Town clerk	3,470	-	3,470
General government	965,150	-	965,150
Judge	18,698	-	18,698
Police	1,511,504	-	1,511,504
Fire	1,459,452	-	1,459,452
Community development	107,281	-	107,281
Senior citizens	85,059	-	85,059
Swimming pool/park	143,588	-	143,588
Street	450,958	-	450,958
Vehicle maintenance	131,888	-	131,888
Economic development	36,211	-	36,211
Airport	-	11,311	11,311
Cemetery	56,191	-	56,191
Capital Outlay	562,237	59,904	622,141
Total Expenditures	<u>5,531,687</u>	<u>71,215</u>	<u>5,602,902</u>
Excess (deficiency) of revenues over expenditures	<u>(795,095)</u>	<u>(8,807)</u>	<u>(803,902)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,850,924	-	1,850,924
Transfers out	(969,413)	-	(969,413)
Total other financing sources and uses	<u>881,511</u>	<u>-</u>	<u>881,511</u>
Net change in fund balances	86,416	(8,807)	77,609
Fund balances - beginning	565,717	284,488	850,205
Fund balances - ending	<u>\$ 652,133</u>	<u>\$ 275,681</u>	<u>\$ 927,814</u>

See accompanying notes to the basic financial statements.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUND

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Proprietary Fund Statement of Net Position (Modified Cash Basis) - June 30, 2014

	SPWA ENTERPRISE FUND
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 297,918
Investments	226,491
Restricted:	
Cash and cash equivalents	645,375
Investments	453,040
Total assets	1,622,824
 LIABILITIES	
Cash overdraft	872,131
Due to depositors	527,675
Total liabilities	1,399,806
 NET POSITION	
Restricted for debt service	570,740
Unrestricted (deficit)	(347,722)
Total net position	\$ 223,018

See accompanying notes to the basic financial statements.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) - Year Ended June 30, 2014

	SPWA ENTERPRISE FUND
REVENUES	
Charges for Services:	
Electric	\$ 5,553,725
Water	1,578,670
Sewer	489,512
Sanitation	592,529
Sales tax on utility sales	244,265
Water taps	20,801
Sewer taps	5,550
Other	229,284
Total operating revenues	8,714,336
OPERATING EXPENSES	
Electric	5,197,612
Water	1,063,680
Wastewater	382,407
Sanitation	542,430
Other	73,696
Total Operating Expenses	7,259,825
Operating income	1,454,511
NON-OPERATING REVENUES (EXPENSES)	
Interest income	3,423
Loan proceeds	4,645,050
Debt service:	
Principal retirement	(5,034,304)
Interest expense and fiscal agent fees	(406,635)
Other	32,222
Total non-operating revenue (expenses)	(760,244)
Income before transfers	694,267
Transfers in	969,413
Transfers out	(1,850,924)
Change in net position	(187,244)
Total net position - beginning	410,262
Total net position - ending	\$ 223,018

See accompanying notes to the basic financial statements.

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2014

	SPWA ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 8,723,126
Payments to suppliers and employees	(5,813,720)
Payments to employees	(1,791,285)
Receipts of customer utility deposits	111,575
Refunds of customer utility deposits	(92,795)
Other income	32,222
Net cash provided by operating activities	1,169,123
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	969,413
Transfers to other funds	(1,850,924)
Net cash provided by (used in) noncapital financing activities	(881,511)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(4,694,632)
Interest and fiscal agent fees paid on debt	(401,126)
Proceeds from loan	4,636,260
Net cash provided by (used in) capital and related financing activities	(459,498)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	3,423
Purchase of investments	(105,418)
Net cash provided by (used in) investing activities	(101,995)
Net increase (decrease) in cash and cash equivalents	(273,881)
Balances - beginning of year	345,043
Balances - end of year	\$ 71,162
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 943,293
Cash overdraft	(872,131)
Total cash and cash equivalents, end of year	71,162
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,454,511
Adjustments to reconcile operating income to net cash provided by operating activities:	
Other income	32,222
Change in assets and liabilities:	
Customer deposits	18,780
Net cash provided by operating activities	\$ 1,505,513

See accompanying notes to the basic financial statements.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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, a blended component unit, and a discretely-presented component unit as follows.

- **The City of Skiatook** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, airport, cemetery and administrative activities
- **The Skiatook Public Works Authority (SPWA)** – that operates the electric, water, wastewater and sanitation services and activities of the City (blended)
- **The Skiatook Economic Development Authority** – that promotes economic development for the City (discretely presented)

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus*" that requires the primary government and all component units for which the primary government 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 Authority. 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. The City Council either serves as the governing body of the trust or appoints 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 include the trusts within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and statement of activities display information about the reporting of the government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net position and statement of activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and 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
- 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.

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 - penalties on utilities
- Police - traffic fines and fees, 911 fees, and operating grants
- Fire - ambulance fees, fire run fees, operating grants and capital grants
- Cemetery - cemetery openings and closings and other charges for services
- Economic development - refuse economic development charges
- Community development - licenses and permits
- Street - Commercial vehicle and gas excise tax and capital grants
- Airport - User fees, capital grants and contributions
- Senior citizens - capital grants and contributions
- Park - pool receipts and capital grants and contributions

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

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. The Cemetery Maintenance account is combined with the general fund for reporting purposes.

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

- Cemetery Care – accounts for 25% of all cemetery revenue of which 12.5% is legally restricted by State law for cemetery capital improvements
- Airport Fund – accounts for hanger rent and grant revenues and expenditures of the municipal airport in a separate fund required by State law

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities resulting from cash transactions are 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 fund is comprised of the following:

Enterprise Fund:

- Skiatook Public Works Authority – accounts for the operation of the electric, water, wastewater and sanitation services of the City

The proprietary fund is 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. 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 10.

E. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance can be 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 – include 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. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – include 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:

- a. *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.
- b. *Unrestricted net position* - All other net position that do not meet the definition of “restricted.”

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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.

Deficit Prohibition:

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City complied with this provision.

F. 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.

2. Deposits and Investments

For the year ended June 30, 2014, the City recognized \$4,666 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, 2014, the primary government held the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:		
Petty cash		\$ 2,400
Demand deposits		(47,993)
Time deposits		<u>1,208,761</u>
		<u>1,163,168</u>
Investments:		
Invesco Treasury - Cash Mngmt and Premier Funds	AAAm	<u>570,740</u>
		<u>570,740</u>
Total deposits and investments		<u>\$ 1,733,908</u>
Reconciliation to Statement of Net Position:		
Cash and cash equivalents		\$ 1,397,278
Investments		1,208,761
Cash overdraft		<u>(872,131)</u>
		<u>\$ 1,733,908</u>
Component Unit:		
Cash and cash equivalents		<u>\$ 4,150</u>

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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, 2014, the City had \$1,392,039 of bank deposits that were adequately secured and not exposed to credit risk. The Economic Development Authority had bank deposits of \$4,150 that were adequately secured and not exposed to custodial risk.

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. The City's only investments with maturity dates are non-negotiable certificates of deposit with maturities no later than June 2015.

Investment Credit Risk

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

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2014, the City had no 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 debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2014 are as follows:

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

	Current Cash and cash equivalents	Investments
Utility deposits	\$ 74,635	\$ 453,040
Trustee accounts:		
Debt service:		
2012 series	105,462	-
2010 series	93,811	-
2003 series	121,112	-
2013 series	250,355	-
 Total	<u>\$ 645,375</u>	<u>\$ 453,040</u>

3. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the City in accordance with City Code Section 7 as amended by Ordinance 98-12. The sales tax received is recorded as sales tax revenue within the General Fund. The City is required to transfer one cent of its three cents sales tax to the SPWA for debt retirement as required by the sales tax agreement in the bond indenture and Ordinance 98-12. Any remaining sales tax monies left after debt payments are made are required to be transferred back to the General Fund for operations.

4. Amount Due From Third Party

The discretely presented component unit, the Skiatook Economic Development Authority, loaned \$300,000 to a developer in prior years. The loan has a 1% interest rate and is related to the HOME Grant from the Oklahoma Housing Financing Agency. No payment toward this receivable has been made. When payments are received, the Skiatook Economic Development Authority will remit the payments to the City so that they may in turn remit such payments to Oklahoma Housing Financing Agency in accordance with the grant.

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.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

6. Internal and Interfund Transfers

Internal transfers between funds and activities for the year ended June 30, 2014, were as follows:

Transfers:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	SPWA	\$ 585,413	Required sales tax transfer
SPWA	General Fund	1,380,917	Transfer for operations
General Fund	SPWA	384,000	To fund purchase of capital assets
SPWA	Governmental activities	470,007	One-sided transfer of governmental assets
Business-type activities	Governmental activities	139,516	Transfer of governmental activity expenses
Total		<u>\$ 2,959,853</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 1,850,924	\$ (969,413)	\$ 881,511
Proprietary Funds	969,413	(1,850,924)	(881,511)
Fund Totals	<u>\$ 2,820,337</u>	<u>\$ (2,820,337)</u>	\$ -
Transfer of governmental activity expenses	139,516	(139,516)	-
Government-wide Totals	<u>\$ 2,959,853</u>	<u>\$ (2,959,853)</u>	<u>\$ -</u>

Reconciliation to Statement of Activities:

Net Transfers	\$ (881,511)
Transfer of expenses to governmental activity	(139,516)
Transfers - internal activity	<u>\$ (1,021,027)</u>

7. 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 by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

8. Employee Retirement Plan Participation

The City of Skiatook participates in three pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement System (OMRF-DCP) – an agent multiple-employer defined contribution plan

OFPRS:

Plan Summary Information. The City of Skiatook, as the 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.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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.

Funding Policy. 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 OFPRS plan members are required to contribute 8% to the plan. The City is required by state law to contribute 13% per year of covered payroll per paid 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>
2012	\$103,546	\$103,546
2013	\$103,261	\$103,261
2014	\$108,662	\$108,662

OPPRS:

Plan Summary Information. The City of Skiatook, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS 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 a certain number of fulltime police officers.

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

OPPRS
1001 N.W. 63rd St., Suite 305
Oklahoma City, OK 73116-7335

Funding Policy. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2012	\$74,884	\$74,884
2013	\$82,588	\$82,588
2014	\$77,745	\$77,745

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

OMRF Defined Contribution Plan:

Plan Summary Information. The City has provided a defined contribution plan and trust known as the City of Skiatook Plan and Trust (the “Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by Bank One of Oklahoma City. The defined contribution plan is available to all full-time employees except those participating in the state fire or police programs. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completion of three months of service to the City.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Oklahoma City, Oklahoma, 73105.

Funding Policy. Employees participating in the Plan are required to contribute at least 4%, and may make contributions to the plan up to 25% at their option. By City ordinance, the City, as employer, is required to make contributions to the plan, based upon employee contributions under the pick-up option, at a current rate of 8% of covered payroll. The City has also elected the money purchase pension option. The City’s contributions for each employee (and interest allocated to the employee’s account) are vested at 50% after 3 years of service, 75% after 5 years of service, and 100% after seven years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the City Council.

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2012	\$159,033	\$159,033
2013	\$146,458	\$146,458
2014	\$158,189	\$158,189

9. 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, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Notes payable	\$ 8,910,450	\$ 4,645,050	\$ 4,904,304	8,651,195	606,250
Revenue bonds payable	710,000	-	130,000	580,000	135,000
Total Business-Type Activities	\$ 9,620,450	\$ 4,645,050	\$ 5,034,304	\$ 9,231,195	\$ 741,250

Governmental activities had no long-term debt payable from taxes and other general revenues at June 30, 2014.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Business-type activities long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

Notes Payable:

2014 OWRB CWSRF Promissory Note dated February 12, 2014, original amount \$520,000, due in semi-annual principal installments each March 15 and September 15, beginning September 2015, final installment due March 15, 2035 with an administration fee of 0.5% and interest a 2.13% payable semi-annually based on principal outstanding.	\$ 135,050
2013 Sales Tax Revenue Note dated December 13, 2013, original amount \$4,510,000, due in semi-annual principal installments each March 1 and September 1, beginning March 1, 2014, final installment due September 1, 2023 with interest at 2.62% payable semi-annually based on principal outstanding. The Note is secured by pledged sales tax.	4,335,000
Promissory Note dated January 1, 2001, original amount \$125,000, due in monthly installments of \$521 beginning February 1, 2001, final installment due January 1, 2021.	41,145
2010 Sales Tax Revenue Note dated March 31, 2010, original amount \$4,000,000, due in semi-annual principal installments each April 1 and October 1, beginning October 1, 2010, final installment due April 1, 2025 with interest at 4.85% payable semi-annually based on principal outstanding. The Note is secured by pledged sales tax.	3,200,000
2012 OWRB Promissory Note dated March 28, 2012, original amount \$975,000, due in semi-annual principal installments each September 15 and March 15, beginning September 2012, final installment due September 15, 2032 with interest at 3.44% payable semi-annually based on principal outstanding.	940,000
Total Notes Payable	\$ 8,651,195
Current portion	606,250
Noncurrent portion	8,044,945
Total Notes Payable	\$ 8,651,195

Revenue Bonds:

2003 Utility Refunding Revenue Bonds, original issue amount of \$1,730,000 dated May 13, 2003, issued by the Skiatook Public Works Authority secured by utility revenue and pledged sales tax, interest rates of 4.45%, final maturity September 1, 2017.	580,000
Total Revenue Bonds Payable	\$ 580,000
Current portion	135,000
Noncurrent portion	445,000
Total Revenue Bonds Payable	\$ 580,000

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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

<u>Year Ending June 30,</u>	SPWA			
	Notes Payable		Revenue Bonds Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	606,250	170,283	135,000	25,810
2016	636,306	151,809	140,000	19,803
2017	651,837	141,915	150,000	13,573
2018	742,382	131,741	155,000	6,898
2019	857,942	118,133	-	-
2020-2024	4,342,280	354,925	-	-
2025-2029	763,765	111,753	-	-
2030-2034	402,434	34,189	-	-
2035	32,949	651	-	-
Totals	<u>\$ 9,036,145</u>	<u>\$ 1,215,399</u>	<u>\$ 580,000</u>	<u>\$ 66,084</u>
Less: Unfunded Portion	(384,950)			
Outstanding balance	<u>\$ 8,651,195</u>			

Pledge of Future Revenues

Sales Tax Revenues Pledge

The City has pledged one cent (or 33.3%) of future sales tax revenues to repay the 2003 Utility System Refunding Revenue Bonds of \$1,730,000, the 2010 Sales Tax Revenue Note of \$4,000,000, the 2012 OWRB Promissory Note of \$975,000, the 2013 Sales Tax Revenue Note of \$4,510,000, and the 2014 OWRB Promissory Note of \$520,000. Proceeds from the bonds and note were used for capital assets. The bond and notes are payable from pledged sales tax revenues of the SPWA and are payable through 2017, 2025, 2032, 2023 and 2035 respectively. The total principal and interest payable for the remainder of the life of these bonds is \$10,856,483. Pledged sales taxes received in the current year were \$969,413. Debt service payments of \$803,848 for the current fiscal year were 83% of pledged sales taxes.

Utility Net Revenues Pledge

The City has pledged future water and sewer net utility revenues to repay the 2003 Utility System Refunding Revenue Bonds of \$1,730,000, the Series 2012 OWRB Promissory Note of \$975,000, the 2013 Sales Tax Revenue Note of \$4,510,000, and the 2014 OWRB Promissory Note of \$520,000. The bonds and notes are payable from pledged water and sewer utility revenues of the SPWA and are payable through 2017, 2032, 2023 and 2035, respectively. The total principal and interest payable for the remainder of the life of these bonds is \$7,578,883. Pledged water and sewer utility revenues for the current year were \$473,446. Debt service payments of \$425,767 for the current fiscal year were 90% of pledged water and sewer utility revenues.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

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:

- General Fund – accrued compensated absences \$275,692
- SPWA – accrued compensated absences \$140,548

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings 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 Skiatook participates in various federal or state grant/loan programs from year to year. In 2014, the City's involvement in federal and state award programs was not significant. 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.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

SUPPLEMENTARY AND OTHER INFORMATION

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Budgetary Comparison Schedule (Budgetary Basis) – Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$564,188	\$564,188	\$564,188	-
Resources (Inflows):				
Taxes	2,860,000	2,860,000	2,967,673	107,673
Licenses and permits	49,000	49,000	34,434	(14,566)
Intergovernmental	409,200	423,848	172,720	(251,128)
Charges for services	788,000	815,000	1,115,508	300,508
Fines and forfeitures	115,000	115,000	130,015	15,015
Miscellaneous	264,500	227,500	188,069	(39,431)
Interest	4,000	4,000	869	(3,131)
Total Revenue	<u>4,489,700</u>	<u>4,494,348</u>	<u>4,609,288</u>	<u>114,940</u>
Other Financing Sources:				
Transfers from other funds	1,597,000	1,597,000	1,380,917	(216,083)
Total Other Financing Sources	<u>1,597,000</u>	<u>1,597,000</u>	<u>1,380,917</u>	<u>(216,083)</u>
Total Resources	<u>6,086,700</u>	<u>6,091,348</u>	<u>5,990,205</u>	<u>(101,143)</u>
Amounts available for appropriation	<u>6,650,888</u>	<u>6,655,536</u>	<u>6,554,393</u>	<u>(101,143)</u>
Charges to Appropriations (Outflows):				
Town Clerk	3,470	3,470	3,470	-
Judge	20,900	20,900	18,698	2,202
Police	1,639,000	1,652,360	1,534,822	117,538
Fire	1,441,360	1,484,198	1,484,198	-
Community development	130,660	131,050	107,281	23,769
Street	462,030	479,216	450,958	28,258
Vehicle maintenance	131,725	137,032	137,032	-
Park	157,205	158,281	143,588	14,693
General government	1,954,480	1,972,781	1,935,588	37,193
Senior citizen's	208,605	208,605	85,059	123,546
Economic development	31,700	44,200	36,211	7,989
Emergency management	-	14,648	12,122	2,526
Total Charges to Appropriations	<u>6,181,135</u>	<u>6,306,741</u>	<u>5,949,027</u>	<u>357,714</u>
Ending Budgetary Fund Balance	<u>\$469,753</u>	<u>\$348,795</u>	<u>\$605,366</u>	<u>\$ 256,571</u>
Reconciliation to Statement of Changes in Revenues, Expenditures and Changes in Fund Balance:				
Cemetery Maintenance Fund			46,767	
			<u>\$652,133</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.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a department require the City Manager's approval without further City Council approval, while supplemental appropriations require City Council approval.

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Combining Balance Sheet – General Fund Accounts – June 30, 2014

	General Fund	Cemetery Maintenance Account	Total General Fund
ASSETS			
Cash and cash equivalents	\$ 288,708	\$ 46,767	\$ 335,475
Investments	372,059	-	372,059
Total assets	660,767	46,767	707,534
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll withholding liabilities	5,009	-	5,009
Payable to other governments	670	-	670
Due to bondholders	7,777	-	7,777
Unearned revenue	41,945	-	41,945
Total liabilities	55,401	-	55,401
 Fund balances:			
Restricted	60,608	-	60,608
Assigned to economic development	138,432	-	138,432
Assigned to cemetery	-	46,767	46,767
Unassigned	406,326	-	406,326
Total fund balances	605,366	46,767	652,133
Total liabilities and fund balances	\$ 660,767	\$ 46,767	\$ 707,534

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund Accounts – For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Cemetery Maintenance Account</u>	<u>Total</u>
REVENUES			
Taxes	\$ 2,967,673	\$ -	\$ 2,967,673
Licenses and permits	34,434	-	34,434
Intergovernmental	198,595	-	198,595
Charges for services	1,115,508	101,429	1,216,937
Fines and forfeitures	130,015	-	130,015
Investment income	869	-	869
Miscellaneous	188,069	-	188,069
Total Revenues	<u>4,635,163</u>	<u>101,429</u>	<u>4,736,592</u>
EXPENDITURES			
Current:			
Town clerk	3,470	-	3,470
General government	965,150	-	965,150
Judge	18,698	-	18,698
Police	1,511,504	-	1,511,504
Fire	1,459,452	-	1,459,452
Community development	107,281	-	107,281
Senior citizens	85,059	-	85,059
Swimming pool/park	143,588	-	143,588
Street	450,958	-	450,958
Vehicle Maintenance	131,888	-	131,888
Economic development	36,211	-	36,211
Cemetery	-	56,191	56,191
Capital Outlay	<u>562,237</u>	<u>-</u>	<u>562,237</u>
Total Expenditures	<u>5,475,496</u>	<u>56,191</u>	<u>5,531,687</u>
Excess (deficiency) of revenues over expenditures	<u>(840,333)</u>	<u>45,238</u>	<u>(795,095)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,850,924	-	1,850,924
Transfers out	<u>(969,413)</u>	<u>-</u>	<u>(969,413)</u>
Total other financing sources and uses	<u>881,511</u>	<u>-</u>	<u>881,511</u>
Net change in fund balances	41,178	45,238	86,416
Fund balances - beginning	564,188	1,529	565,717
Fund balances - ending	<u>\$ 605,366</u>	<u>\$ 46,767</u>	<u>\$ 652,133</u>

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Combining Balance Sheet – Nonmajor Governmental Funds – June 30, 2014

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total Other</u>
	<u>Airport Fund</u>	<u>Cemetery Care</u>	<u>Governmental</u>
			<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 50,882	\$ 67,628	\$ 118,510
Investments	107,171	50,000	157,171
Total assets	<u>158,053</u>	<u>117,628</u>	<u>275,681</u>
 FUND BALANCES			
Fund balances:			
Restricted:			
For airport	158,053	-	158,053
For cemetery care	-	26,254	26,254
Committed to cemetery care	-	91,374	91,374
Total fund balances	<u>158,053</u>	<u>117,628</u>	<u>275,681</u>
Total fund balances	<u>\$ 158,053</u>	<u>\$ 117,628</u>	<u>\$ 275,681</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds – For the Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Total Other</u>
	<u>Airport Fund</u>	<u>Cemetery Care</u>	<u>Governmental</u>
			<u>Funds</u>
REVENUES			
Charges for services	\$ 24,175	\$ 32,904	\$ 57,079
Investment income	4,451	374	4,825
Miscellaneous	504	-	504
Total Revenues	<u>29,130</u>	<u>33,278</u>	<u>62,408</u>
 EXPENDITURES			
Current:			
Airport	11,311	-	11,311
Capital Outlay	42,327	17,577	59,904
Total Expenditures	<u>53,638</u>	<u>17,577</u>	<u>71,215</u>
Excess (deficiency) of revenues over expenditures	<u>(24,508)</u>	<u>15,701</u>	<u>(8,807)</u>
Net change in fund balances	(24,508)	15,701	(8,807)
Fund balances - beginning	182,561	101,927	284,488
Fund balances - ending	<u>\$ 158,053</u>	<u>\$ 117,628</u>	<u>\$ 275,681</u>

CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014

Combining Schedule of Balance Sheet Accounts– SPWA Enterprise Fund Accounts – June 30, 2014

	Enterprise Fund Accounts			Total
	SPWA	One Cent Capital Project	Meter Deposit	
ASSETS				
Cash and cash equivalents	\$ 2,400	\$ 294,505	\$ 1,013	\$ 297,918
Investments	226,491	-	-	226,491
Restricted:				
Cash and cash equivalents	570,740	-	74,635	645,375
Investments	-	-	453,040	453,040
Total assets	<u>799,631</u>	<u>294,505</u>	<u>528,688</u>	<u>1,622,824</u>
LIABILITIES				
Current Liabilities:				
Cash overdraft	872,131	-	-	872,131
Due to depositors	-	-	527,675	527,675
Total liabilities	<u>872,131</u>	<u>-</u>	<u>527,675</u>	<u>1,399,806</u>
NET POSITION				
Restricted for debt service	570,740	-	-	570,740
Unrestricted	(643,240)	294,505	1,013	(347,722)
Total net position	<u>\$ (72,500)</u>	<u>\$ 294,505</u>	<u>\$ 1,013</u>	<u>\$ 223,018</u>

Combining Schedule of Revenues, Expenses, and Changes in Net Position – SPWA Enterprise Fund Accounts – For the Year Ended June 30, 2014

	One Cent			Total
	SPWA	Capital Project	Meter Deposit	
REVENUES				
Charges for services:				
Electric	\$ 5,553,725	\$ -	\$ -	\$ 5,553,725
Water	1,578,670	-	-	1,578,670
Sewer	489,512	-	-	489,512
Sanitation	592,529	-	-	592,529
Sales tax on utility sales	244,265	-	-	244,265
Water taps	20,801	-	-	20,801
Sewer taps	5,550	-	-	5,550
Other	215,484	13,800	-	229,284
Total operating revenues	<u>8,700,536</u>	<u>13,800</u>	<u>-</u>	<u>8,714,336</u>
OPERATING EXPENSES				
Electric	5,181,253	16,359	-	5,197,612
Water	1,063,680	-	-	1,063,680
Wastewater	382,407	-	-	382,407
Sanitation	542,430	-	-	542,430
Other	-	73,696	-	73,696
Total Operating Expenses	<u>7,169,770</u>	<u>90,055</u>	<u>-</u>	<u>7,259,825</u>
Operating income (loss)	<u>1,530,766</u>	<u>(76,255)</u>	<u>-</u>	<u>1,454,511</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	3,921	-	(498)	3,423
Loan proceeds	4,645,050	-	-	4,645,050
Debt service:				
Principal retirement	(5,034,304)	-	-	(5,034,304)
Interest expense and fiscal agent fees	(406,635)	-	-	(406,635)
Other	32,222	-	-	32,222
Total non-operating revenue (expenses)	<u>(759,746)</u>	<u>-</u>	<u>(498)</u>	<u>(760,244)</u>
Income (loss) before contributions and transfers	<u>771,020</u>	<u>(76,255)</u>	<u>(498)</u>	<u>694,267</u>
Transfers in	384,000	585,413	-	969,413
Transfers out	(1,380,917)	(470,007)	-	(1,850,924)
Interaccount transfers in	-	-	-	-
Interaccount transfers out	-	-	-	-
Change in net position	(225,897)	39,151	(498)	(187,244)
Total net position - beginning	153,397	255,354	1,511	410,262
Total net position - ending	<u>\$ (72,500)</u>	<u>\$ 294,505</u>	<u>\$ 1,013</u>	<u>\$ 223,018</u>

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Schedule of Expenditures of Federal Awards – Year Ended June 30, 2014

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Project or Award Number	Award Amount	Federal Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Tulsa County				
Community Development Block Grant	14.218	B-12-UC-40-0001	\$ 35,758	\$ 35,758
Community Development Block Grant	14.218	B-13-UC-40-0001	12,150	12,150
Total U.S. Department of Housing and Urban Development			<u>47,908</u>	<u>47,908</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Passed through OK Department of Emergency Management				
Hazard Mitigation Grant	97.039	FEMA-1917-DR-OK	8,077	8,077
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Passed through the Oklahoma Highway Safety Patrol				
State and Community Highway Safety	20.600	CE-13-03-30-04	10,638	10,638
State and Community Highway Safety	20.600	PT-13-03-20-04	2,641	2,641
Total U.S. Department of Transportation			<u>13,279</u>	<u>13,279</u>
TOTAL FEDERAL AWARDS			<u>\$ 69,264</u>	<u>\$ 69,264</u>

Schedule of Expenditures of State Awards – Year Ended June 30, 2014

State Grantor/Pass through agency Grantor/Program Title	Project or Award Number	Award Amount	State Expenditures
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE</u>			
Fire Grant	N/A	\$ 4,474	\$ 4,474
<u>INCOG:</u>			
Congestion Mitigation Air Quality	N/A	25,875	25,875
<u>OKLAHOMA DEPARTMENT OF COMMERCE:</u>			
Pass through INCOG Area Agency on Aging	N/A	1,000	1,000
TOTAL STATE AWARDS		<u>\$ 31,349</u>	<u>\$ 31,349</u>

**CITY OF SKIATOOK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2014**

Schedule of Debt Service Coverage Requirements and Reserve Requirements Compliance – Year Ended June 30, 2014

	<u>2003 Utility Rfd. Bond, 2013 Revenue Note, 2014 OWRB Note, 2010 Revenue Note, 2012 OWRB Note</u>
GROSS REVENUE AVAILABLE:	
Operating revenues of leased systems (1)	\$ 2,094,533
Sales tax appropriated and transferred from the City General Fund	<u>969,413</u>
Total Gross Revenue Available	<u><u>3,063,946</u></u>
 OPERATING EXPENSES:	
Operating expenses (1)	<u>1,621,087</u>
Net Revenue Available for Debt Service	<u><u>1,442,859</u></u>
 Debt Service Requirements:	
Maximum annual debt service - 2014 OWRB Promissory Note	33,601
Maximum annual debt service - 2013 Sales Tax Revenue Note	290,000
Maximum annual debt service - 2003 Utility Rfd. Bond	163,573
Maximum annual debt service - 2010 Sales Tax Revenue Note	373,851
Maximum annual debt service - 2012 OWRB Promissory Note	<u>70,078</u>
 Annual Debt Service on all Obligations Payable From Revenues of the System	 <u><u>\$ 931,103</u></u>
 Coverage	 <u><u>155%</u></u>
 Coverage Requirement	 <u><u>125%</u></u>

(1) Leased systems of the bonds and notes consists of water and sewer revenues and expenses.

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INTERNAL CONTROL AND COMPLIANCE



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

To the Honorable Mayor and City Council
City of Skiatook, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Skiatook, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 11, 2014. Our report included an emphasis-of-a-matter paragraph related to 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Arlidge & Associates, P.C.

November 11, 2014