

City of Shawnee, Oklahoma

**Report on Audit of
Financial Statements**

June 30, 2004

City of Shawnee, Oklahoma
Report on Audit of Financial Statements
June 30, 2004
Table of Contents

<u>Financial Section</u>	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Statement of Net Assets	12-13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Assets – Proprietary Funds	18-19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Fiduciary Net Assets – Fiduciary Fund	22
Notes to Financial Statements	23-43
<u>Required Supplementary Information</u>	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	44
Explanation of Differences Between Revenues, Expenditures, and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP General Fund on a GAAP Basis	45-46

City of Shawnee, Oklahoma
Report on Audit of Financial Statements
June 30, 2004
Table of Contents
(continued)

<u>Supplementary Information</u>	<u>Pages</u>
Combining Financial Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet	47-48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	49-50
Schedule of Reserve Account Balance Requirements – Shawnee Municipal Authority	51
Schedule of Debt Service Coverage – Shawnee Municipal Authority	52
Compliance and Internal Control Report	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54
<u>Single Audit</u>	
Schedule of Expenditures of Federal Awards	55
Notes to the Schedule of Expenditures of Federal Awards	56
Summary Schedule of Prior Audit Findings	57
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	58-59
Schedule of Findings and Questioned Costs	60-63
Management's Corrective Action Plan	64

Financial Section

Independent Auditor's Report

December 30, 2004

City Commission
City of Shawnee
Shawnee, Oklahoma

We have audited the accompanying 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 Shawnee, Oklahoma, as of and for the year ended June 30, 2004, which collectively comprise the City of Shawnee's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shawnee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Shawnee Industrial Development Authority, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, in so far as relates to the amounts included for the Shawnee Industrial Development Authority, is based on the report of other auditors.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequacies in the accounting records and internal control of the Shawnee Civic and Cultural Development Authority (a discretely presented component unit) we were unable to substantiate management's completeness assertion regarding revenues in the accompanying statement of activities (stated at \$ 1,094,122).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had revenues of the Shawnee Civic and Cultural Development Authority been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the City of Shawnee, Oklahoma, as of June 30, 2004, and the changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shawnee, Oklahoma, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Carlson & Cottrell, CPAs, PLC

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2004, on our consideration of the City of Shawnee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison information on pages 3 through 11 and 44 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City of Shawnee's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying combining nonmajor fund financial statements listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of OMB Circular A-133 or the basic financial statements. Such information has been subjected to the auditing procedures applied, by us and the other auditors, in the audit of the basic financial statements and, in our opinion, based on our report and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had revenues of the Shawnee Civic and Cultural Development Authority been susceptible to satisfactory audit tests, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carlson & Cottrell

City of Shawnee, Oklahoma
Management's Discussion and Analysis
June 30, 2004

The following discussion and analysis of the City of Shawnee's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 12.

Financial Highlights

- ❖ The assets of the City of Shawnee exceeded its liabilities at the close of the most recent fiscal year by \$ 54,321,897 (net assets). Of this amount, \$ 2,406,509 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$39,723,718 is invested in capital assets.
- ❖ The government's total net assets increased by \$ 27,601 for the year ended June 30, 2004. General revenues, primarily sales, franchise and other taxes, increased by \$ 590,539.
- ❖ As of the close of the current fiscal year, the City of Shawnee's governmental funds reported combined ending fund balances of \$ 8,574,998, a decrease of \$ 1,511,784 in comparison with the prior year. The focus of the governmental funds, in contract to the government-wide fund statements is to provide current information on inflows, outflows, and balances of spendable resources.
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,495,688, or 18.7% of total general fund expenditures.
- ❖ The City of Shawnee's total debt decreased by \$ 1,112,994 during the current fiscal year. The key factors in this decrease were the continued pay down of notes and revenue notes payable by the Shawnee Municipal Authority.
- ❖ The original budgeted ending fund balance was \$ 398,195 and the actual ending fund balance was \$ 606,142.

Overview of the Financial Statements

This management discussion and analysis is intended to introduce the City of Shawnee's basic financial statements. The City of Shawnee's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad view of the City of Shawnee's finances, similar to a private-sector business.

The statement of net assets presents information on all of the City of Shawnee's assets and liabilities with the difference reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Shawnee is improving or deteriorating.

See disclaimer in accompanying Independent Auditor's Report.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Shawnee that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Shawnee include general government, public safety, public works, culture and recreation, and community and economic development. The business-type activities of the City of Shawnee, which include the City's water, wastewater, and sanitation utility operations, include the Shawnee Municipal Authority and the Shawnee Airport Authority.

The government-wide financial statements include not only the City of Shawnee itself (known as the primary government), but also the legally separate authorities (Shawnee Municipal Authority, Shawnee Airport Authority, Shawnee Civic & Cultural Development Authority, and the Shawnee Industrial Development Authority) for which the City of Shawnee is financially accountable. Financial information for the Shawnee Municipal Authority and the Shawnee Airport Authority component units is blended with the primary government itself. The Shawnee Civic & Cultural Development Authority and the Shawnee Industrial Development Authority are legally separate operations, and therefore have been included as discretely presented component units.

The government-wide financial statements can be found on pages 12–14 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Shawnee, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Shawnee can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital improvement fund, and the street improvement fund, all of which are considered to be major funds. Data from the

See disclaimer in accompanying Independent Auditor's Report.

other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15–17 of this report.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer, and sanitation, along with the Shawnee Airport Authority.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its workers' compensation activities. Because this service predominantly benefits governmental rather than business-type functions, its operations have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Shawnee Municipal Authority and Shawnee Airport Authority. The presented internal service fund is in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18–21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has one fiduciary fund, the URM/DEPCA fund, which is an agency fund.

The fiduciary fund financial statements can be found on page 22 of the report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 23–43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 44–46 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental fund. Combining statements and schedules can be found on pages 47–50 of this report.

See disclaimer in accompanying Independent Auditor's Report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 54,321,897 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (73.1%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Shawnee Net Assets June 30, 2004, and 2003

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 10,475,879	\$ 12,106,470	\$ 4,252,046	\$ 6,963,742	\$ 14,727,925	\$ 19,070,212
Capital and other	23,291,814	20,667,295	48,280,239	46,371,237	71,572,053	67,038,532
Total assets	<u>33,767,693</u>	<u>32,773,765</u>	<u>52,532,285</u>	<u>53,334,979</u>	<u>86,299,978</u>	<u>86,108,744</u>
Current liabilities	1,502,319	1,954,433	2,153,861	1,595,890	3,656,180	3,550,323
Long-term liabilities	3,523,987	3,174,521	24,797,914	25,089,604	28,321,901	28,264,125
Total liabilities	<u>5,026,306</u>	<u>5,128,954</u>	<u>26,951,775</u>	<u>26,685,494</u>	<u>31,978,081</u>	<u>31,814,448</u>
Net assets:						
Invested in capital assets, net of related debt	20,779,219	18,964,092	18,944,499	21,355,844	39,723,718	40,319,936
Restricted	5,878,675	7,159,686	6,312,995	1,519,134	12,191,670	8,678,820
Unrestricted	2,083,493	1,521,033	323,016	3,774,507	2,406,509	5,295,540
Total net assets	<u>\$ 28,741,387</u>	<u>\$ 27,644,811</u>	<u>\$ 25,580,510</u>	<u>\$ 26,649,485</u>	<u>\$ 54,321,897</u>	<u>\$ 54,294,296</u>

An additional portion of the City's net assets (22.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 2,406,509) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$ 27,601 during the current fiscal year. This increase represents the overall excess of revenues over expenses, including \$ 1,331,623 of operating and capital grants.

Governmental activities. For the year ended June 30, 2004, governmental activities increased the City's net assets by \$ 1,096,576, as compared to a decrease of \$ (131,664) in the prior year. The key element of this increase is the increase in tax revenues-sales, franchise and other taxes and the decrease in the amount transferred to SCCDA.

See disclaimer in accompanying Independent Auditor's Report.

City of Shawnee
Statement of Activities
June 30, 2004, and 2003

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for services	\$ 923,431	\$ 650,239	\$ 6,836,482	\$ 6,485,672	\$ 7,759,913	\$ 7,135,911
Grants/contributions	1,308,651	1,032,700	22,972	204,000	1,331,623	1,236,700
General revenues	15,419,614	14,829,075	94,988	215,405	15,514,602	15,044,480
Total revenues	17,651,696	16,512,014	6,954,442	6,905,077	24,606,138	23,417,091
Expenses:						
General government/administration	3,309,105	1,964,047			3,309,105	1,964,047
Public safety	8,406,912	7,994,454			8,406,912	7,994,454
Public works	2,572,811	2,480,379			2,572,811	2,480,379
Culture and recreation	834,722	801,418			834,722	801,418
Utilities			6,977,554	7,469,697	6,977,554	7,469,697
Community development	1,146,625	802,714			1,146,625	802,714
Economic development	284,397	290,193			284,397	290,193
Other	349,107	2,546,622	697,304	554,090	1,046,411	3,100,712
Total expenses	16,903,679	16,879,827	7,674,858	8,023,787	24,578,537	24,903,614
Increase (decrease) in net assets before transfers	748,017	(367,813)	(720,416)	(1,118,710)	27,601	(1,486,523)
Transfers, net	348,559	236,149	(348,559)	(236,149)		
Increase (decrease) in net assets	1,096,576	(131,664)	(1,068,975)	(1,354,859)	27,601	(1,486,523)
Net assets, beginning	27,644,811	27,776,475	26,649,485	28,004,344	54,294,296	55,780,819
Net assets, ending	\$ 28,741,387	\$ 27,644,811	\$ 25,580,510	\$ 26,649,485	\$ 54,321,897	\$ 54,294,296

See disclaimer in accompanying Independent Auditor's Report.

The following table provides a comparison of the revenues and expenses relative to the major functional areas of the governmental activities.

City of Shawnee
Governmental Activities
June 30, 2004, and 2003

	Program Revenues		Cost Of Services	
	2004	2003	2004	2003
General government	\$ 500,426	\$ 290,886	\$ 2,547,323	\$ 1,611,083
Public safety	351,535	324,579	8,010,543	7,452,865
Public works		34,774	2,379,615	2,177,649
Culture and recreation	71,470		763,252	763,080
Community and economic development			621,757	583,511
Payment to component unit			349,107	2,546,622
Total governmental activities	<u>\$ 923,431</u>	<u>\$ 650,239</u>	<u>\$ 14,671,597</u>	<u>\$ 15,134,810</u>

For the most part, decreases in expenses resulted from a decrease in amounts passed to the Shawnee Civic and Cultural Development Authority in the form of capital project funds.

Business-type activities. Business-type activities decreased the City's net assets by \$ (1,068,975) net of \$ 348,559 of transfers to governmental activities. The key element of this decrease was insufficient revenues to support transfers out.

City of Shawnee
Business-type Activities
June 30, 2004, and 2003

	Program Revenues		Cost Of Services	
	2004	2003	2004	2003
Water	\$ 3,672,667	\$ 3,490,542	\$ 3,268,075	\$ 4,059,537
Wastewater	2,035,446	1,954,926	2,645,892	2,279,742
Airport and lake	69,168	64,619	697,304	554,090
Sanitation	1,059,201	975,585	1,063,587	1,130,418
Total governmental activities	<u>\$ 6,836,482</u>	<u>\$ 6,485,672</u>	<u>\$ 7,674,858</u>	<u>\$ 8,023,787</u>

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

See disclaimer in accompanying Independent Auditor's Report.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 8,574,998, a decrease of (\$ 1,511,784) in comparison with the prior year. A portion of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for capital improvements, or 2) to pay debt service.

The general fund is the chief operating fund of the City. As of the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,495,688.

The fund balance of the City's general fund decreased by \$ (68,742) during the current fiscal year. The key factor in this decrease was an increase in overall tax revenues offset by increases in general government and public safety expenditures.

The capital improvement fund has a total fund balance of \$ 2,223,477, all of which is reserved for capital improvements and capital acquisitions. The net decrease in fund balance during the current year was \$ 475,630.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Shawnee Municipal Authority as of the end of the year amounted to \$ 366,324. The total decrease in net assets was (\$ 545,447). Operating revenues increased by \$ 311,223 over the previous year due to utility rate increases and increased demand for utility services. Expenses decreased by \$ 301,022 in expenses primarily as the result of expenses not being allocated to the Shawnee Municipal Authority.

The Municipal Airport Authority had a slight increase of revenues (\$ 27,551) and an increase in expenses (\$ 77,999) for the year.

General Fund Budgetary Highlights

There were slight differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$ 11,465,075 were \$ 279,174 more than the estimated revenues in the budget of \$ 11,185,901. Actual expenditures of \$ 13,077,439 were \$ 104,617 less than the \$ 13,182,056 approved in budget appropriations. After net transfers of \$ 1,394,393, the City used \$ 217,971 from its carry forward funds to cover the overall excess of expenditures over receipts. The amount of carryover funds budget for expenditures was \$ 606,142.

See disclaimer in accompanying Independent Auditor's Report.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$ 70,113,102 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- Bell Street Streetscape
- Completion of Expo People's Building
- West MacArthur Street Project

City of Shawnee
Capital Assets
June 30, 2004, and 2003
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,259,094	\$ 2,259,095	\$ 1,481,715	\$ 1,481,715	\$ 3,740,809	\$ 3,740,810
Construction in progress	172,718	200,750	433,278	458,051	605,996	658,801
Buildings and improvements	3,844,243	4,065,347	4,074,212	4,605,444	7,918,455	8,670,791
Equipment	3,194,081	3,290,656	1,144,797	1,228,934	4,338,878	4,519,590
Infrastructure	13,227,499	10,257,267			13,227,499	10,257,267
Utility property			27,313,506	25,324,321	27,313,506	25,324,321
Water rights			12,967,959	12,967,959	12,967,959	12,967,959
Capital assets, net	<u>\$ 22,697,635</u>	<u>\$ 20,073,115</u>	<u>\$ 47,415,467</u>	<u>\$ 46,066,424</u>	<u>\$ 70,113,102</u>	<u>\$ 66,139,539</u>

Additional information of the City's capital assets can be found in Note V.D and V.E. on pages 32–34 of this report.

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$ 29,077,059. This represents debt secured solely by specified revenue sources (i.e., revenue notes) of \$ 24,812,395, general obligation bonds of \$ 500,000, capital lease obligations totaling \$ 282,296, accrued compensated absences of \$ 1,420,729, and \$ 2,061,639 for claims and judgments payable.

See disclaimer in accompanying Independent Auditor's Report.

City of Shawnee
Outstanding Debt
June 30, 2004, and 2003

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 500,000	\$ 600,000			\$ 500,000	\$ 600,000
Capital lease obligations	282,296	509,023			282,296	509,023
Accrued compensated absences	1,167,414	1,220,937	\$ 253,315	\$ 254,295	1,420,729	1,475,232
Claims and judgments	2,061,639	1,764,039			2,061,639	1,764,039
Notes and revenue notes payable			24,812,395	25,841,759	24,812,395	25,841,759
Capital assets, net	<u>\$ 4,011,349</u>	<u>\$ 4,093,999</u>	<u>\$ 25,065,710</u>	<u>\$ 26,096,054</u>	<u>\$ 29,077,059</u>	<u>\$ 30,190,053</u>

The City's total debt decreased by \$ 1,112,994 during the current fiscal year. The key factors in this decrease were pay downs of notes and lease obligations offset by an increase in amounts due on worker's compensation claims.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 34-38 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2004 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. The downturn of the national economy has affected the local economy. Unemployment is up, sales tax revenues have been flat for the last several years, and utility revenues were less than expected.

These indicators were taken into account when adopting the general fund budget for 2005.

- ❖ Revenues for the City's general fund are expected to increase slightly overall. However, expenditures appropriated for 2005 were approximately \$ 7,921 less than those budgeted at the beginning of the fiscal year 2004.
- ❖ As for the City's proprietary fund activities, we expect a growth in the revenues for 2005 over those received in 2004. Utility water rates increased 30% for 2005.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Shawnee's city manager, City of Shawnee, Post Office Box 1448, Shawnee, Oklahoma 74802-1448.

See disclaimer in accompanying Independent Auditor's Report.

City of Shawnee, Oklahoma
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,874,597	\$ (2,723,252)	\$ 3,151,345
Investments	55,920		55,920
Receivables, net of allowance for uncollectibles:			
Accounts	14,177	1,075,690	1,089,867
Notes	225,854		225,854
Taxes	2,313,700		2,313,700
Accrued interest	8,008	3,467	11,475
Other	29,477	239	29,716
Assessments		24,166	24,166
Court fines	105,553		105,553
Due from other governments	59,541		59,541
Due from component unit	234,554	107,661	342,215
Internal balances	1,294,151	(1,294,151)	0
Prepaid expenses	2,500		2,500
Restricted assets - cash and investments		7,049,537	7,049,537
Other assets	257,847	8,689	266,536
Total current assets	<u>10,475,879</u>	<u>4,252,046</u>	<u>14,727,925</u>
Noncurrent assets:			
Intangible assets		12,967,959	12,967,959
Net pension asset	594,180	312,418	906,598
Receivables:			
Deferred assessments		259,505	259,505
Restricted accrued interest		1,780	1,780
Debt issuance costs, net of accumulated amortization		291,069	291,069
Capital assets, net of accumulated depreciation	22,697,634	34,447,508	57,145,142
Total noncurrent assets	<u>23,291,814</u>	<u>48,280,239</u>	<u>71,572,053</u>
Total assets	<u>33,767,693</u>	<u>52,532,285</u>	<u>86,299,978</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	721,653	533,001	1,254,654
Customer deposits		523,210	523,210
Current portion of long-term obligations	414,180	1,061,520	1,475,700
Due to other governments		36,130	36,130
Due to primary government			0
Short term claims	366,486		366,486
Total current liabilities	<u>1,502,319</u>	<u>2,153,861</u>	<u>3,656,180</u>

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

Component Units	
Civic & Cultural Development Authority	Shawnee Industrial Development Authority
\$ 692,839	\$ 6,293

61,019	
<u>753,858</u>	<u>6,293</u>

5,812,493	
<u>5,812,493</u>	<u>0</u>
<u>6,566,351</u>	<u>6,293</u>

36,295	
6,221	
342,215	
<u>384,731</u>	<u>0</u>

City of Shawnee, Oklahoma
Statement of Net Assets
June 30, 2004
(continued)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Noncurrent liabilities:			
Capital lease obligations	\$ 84,857		\$ 84,857
Bonds payable	400,000	\$ 23,750,874	24,150,874
Accrued interest payable		640,429	640,429
Accrued compensated absences	1,050,673	253,315	1,303,988
Long-term claims	1,695,153		1,695,153
Unearned revenue	293,304	21,848	315,152
Escrow liability		131,448	131,448
Other long-term liabilities			0
Total noncurrent liabilities	<u>3,523,987</u>	<u>24,797,914</u>	<u>28,321,901</u>
Total liabilities	<u>5,026,306</u>	<u>26,951,775</u>	<u>31,978,081</u>
NET ASSETS			
Invested in capital assets, net of related debt	20,779,219	18,944,499	39,723,718
Restricted for:			
Capital projects	2,223,477	3,950,080	6,173,557
Debt service	132,303	2,362,915	2,495,218
Economic development	105,112		105,112
Public safety	159,347		159,347
Public works	3,147,486		3,147,486
Community development	110,950		110,950
Unrestricted	2,083,493	323,016	2,406,509
Total net assets	<u>\$ 28,741,387</u>	<u>\$ 25,580,510</u>	<u>\$ 54,321,897</u>

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

Component Units	
Civic & Cultural Development Authority	Shawnee Industrial Development Authority

\$ 55,994

175,223

11,433	
<u>242,650</u>	\$ 0
<u>627,381</u>	<u>0</u>

5,812,493

126,477	6,293
<u>\$ 5,938,970</u>	<u>\$ 6,293</u>

City of Shawnee, Oklahoma
Statement of Activities
Year Ended June 30, 2004

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 3,309,105	\$ 500,426	\$ 261,356	
Public safety	8,406,912	351,535	44,834	
Public works	2,572,811			\$ 193,196
Culture and recreation	834,722	71,470		
Community development	1,146,625		809,265	
Economic development	284,397			
Payment to component unit	349,107			
Total governmental activities	<u>16,903,679</u>	<u>923,431</u>	<u>1,115,455</u>	<u>193,196</u>
Business-type activities:				
Water	3,268,075	3,672,667		
Wastewater	2,645,892	2,035,446		
Airport and lake	697,304	69,168		22,972
Sanitation	1,063,587	1,059,201		
Total business-type activities	<u>7,674,858</u>	<u>6,836,482</u>	<u>0</u>	<u>22,972</u>
Total government	<u>\$ 24,578,537</u>	<u>\$ 7,759,913</u>	<u>\$ 1,115,455</u>	<u>\$ 216,168</u>
COMPONENT UNITS				
Civic & Cultural Development Authority	\$ 1,666,527	\$ 1,094,122	\$ 300,000	
Shawnee Industrial Development Authority	2,500	100		
Total component units	<u>\$ 1,669,027</u>	<u>\$ 1,094,222</u>	<u>\$ 300,000</u>	<u>\$ 0</u>
General revenues:				
Taxes:				
Sales and use				
Franchise				
Other				
Payment from City of Shawnee				
Interest income				
Miscellaneous				
Transfers – internal activity				
Total general revenues and transfers				
Change in net assets				
NET ASSETS, beginning				
NET ASSETS, ending				

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Civic & Cultural Development Authority	Shawnee Industrial Development Authority
\$ (2,547,323)		\$ (2,547,323)		
(8,010,543)		(8,010,543)		
(2,379,615)		(2,379,615)		
(763,252)		(763,252)		
(337,360)		(337,360)		
(284,397)		(284,397)		
(349,107)		(349,107)		
<u>(14,671,597)</u>		<u>(14,671,597)</u>		
	\$ 404,592	404,592		
	(610,446)	(610,446)		
	(605,164)	(605,164)		
	(4,386)	(4,386)		
0	<u>(815,404)</u>	<u>(815,404)</u>		
<u>(14,671,597)</u>	<u>(815,404)</u>	<u>(15,487,001)</u>		
			\$ (272,405)	\$ (2,400)
			<u>(272,405)</u>	<u>(2,400)</u>
0	0	0		
13,294,349		13,294,349		
1,455,739		1,455,739		
491,525		491,525		
			349,107	
64,158	79,135	143,293	2,613	15
113,843	15,853	129,696	12,690	
348,559	(348,559)	0		
<u>15,768,173</u>	<u>(253,571)</u>	<u>15,514,602</u>	<u>364,410</u>	<u>15</u>
1,096,576	(1,068,975)	27,601	92,005	(2,385)
27,644,811	26,649,485	54,294,296	5,846,965	8,678
<u>\$ 28,741,387</u>	<u>\$ 25,580,510</u>	<u>\$ 54,321,897</u>	<u>\$ 5,938,970</u>	<u>\$ 6,293</u>

City of Shawnee, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2004

	General	Capital Improvement Fund	Street Improvement Fund	Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 394,605	\$ 2,003,192	\$ 2,683,677	\$ 748,441
Investments				55,920
Receivables:				
Accounts, net of allowance for uncollectibles	13,564			613
Taxes	106,318	269,326	304,078	121,632
Notes				225,923
Accrued interest	970	4,282	1,890	799
Other				19,723
Court fines	105,553			
Due from other governments	1,535,875			36,011
Due from other funds	1,372,404			
Due from component unit	234,554			
Total assets	<u>\$ 3,763,843</u>	<u>\$ 2,276,800</u>	<u>\$ 2,989,645</u>	<u>\$ 1,209,062</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 531,085	\$ 18,884	\$ 111,357	\$ 27,100
Due to other funds	653,548			29,073
Unearned revenue	41,261	34,439		217,605
Total liabilities	<u>1,225,894</u>	<u>53,323</u>	<u>111,357</u>	<u>273,778</u>
Fund balances:				
Reserved for:				
Encumbrances	42,261	195,904	1,140,462	75,511
Unreserved, reported in:				
General fund	2,495,688			
Capital projects		2,027,573	1,737,826	68,445
Debt service				132,303
Special revenue funds				659,025
Total fund balances	<u>2,537,949</u>	<u>2,223,477</u>	<u>2,878,288</u>	<u>935,284</u>
Total liabilities and fund balances	<u>\$ 3,763,843</u>	<u>\$ 2,276,800</u>	<u>\$ 2,989,645</u>	<u>\$ 1,209,062</u>

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
- Other assets
- Net pension asset
- Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:
 - General obligation bonds
 - Capital lease obligations
 - Claims and judgments payable
 - Accrued compensated absences

NET ASSETS OF GOVERNMENTAL ACTIVITIES

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

Total
Governmental
Funds

\$ 5,829,915
55,920

14,177
801,354
225,923
7,941
19,723
105,553
1,571,886
1,372,404
234,554
\$ 10,239,350

\$ 688,426
682,621
293,305
1,664,352

1,454,138
2,495,688
3,833,844
132,303
659,025
8,574,998

22,697,635
257,846
594,180

(500,000)
(282,296)
(1,433,558)
(1,167,418)
\$ 28,741,387

City of Shawnee, Oklahoma
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
Year Ended June 30, 2004

	General	Capital Improvement Fund	Street Improvement Fund	Other Governmental Funds
REVENUES				
Taxes	\$ 10,443,561	\$ 1,623,065	\$ 1,832,492	\$ 732,998
Licenses and permits	184,863			252,277
Intergovernmental	328,262	193,196	205,000	1,073,718
Fines and forfeitures	351,535			
Charges for services	43,711			105,550
Other	118,085	18,114		27,352
Interest	7,088	40,836	9,751	6,404
Rental	90,760			
Total revenues	<u>11,567,865</u>	<u>1,875,211</u>	<u>2,047,243</u>	<u>2,198,299</u>
EXPENDITURES				
Current:				
General government	2,712,167			
Public safety	7,670,537			44,822
Public works	1,767,819			251,955
Culture and recreation	630,852			936,477
Community development	249,625			
Debt service:				
Bond principal		65,764		169,621
Interest		2,110		34,804
Economic development				284,397
Capital outlay		1,629,556	2,735,270	14,078
Payment to component unit	349,107			
Total expenditures	<u>13,380,107</u>	<u>1,697,430</u>	<u>2,735,270</u>	<u>1,736,154</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,812,242)</u>	<u>177,781</u>	<u>(688,027)</u>	<u>462,145</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,792,500	70,530		49,000
Transfers (out)	(49,000)	(723,941)	(70,530)	(720,000)
Total other financing sources (uses)	<u>1,743,500</u>	<u>(653,411)</u>	<u>(70,530)</u>	<u>(671,000)</u>
Net change in fund balances	(68,742)	(475,630)	(758,557)	(208,855)
FUND BALANCES, beginning	<u>2,606,691</u>	<u>2,699,107</u>	<u>3,636,845</u>	<u>1,144,139</u>
FUND BALANCES, ending	<u>\$ 2,537,949</u>	<u>\$ 2,223,477</u>	<u>\$ 2,878,288</u>	<u>\$ 935,284</u>

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

Total
Governmental
Funds

\$ 14,632,116
437,140
1,800,176
351,535
149,261
163,551
64,079
90,760

17,688,618

2,712,167
7,715,359
2,019,774
1,567,329
249,625

235,385
36,914
284,397
4,378,904
349,107

19,548,961

(1,860,343)

1,912,030
(1,563,471)

348,559

(1,511,784)

10,086,782

\$ 8,574,998

City of Shawnee, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2004

Net change in fund balances – total governmental funds	\$ (1,511,784)
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.	
Capital outlay expenditures, net	4,378,904
Depreciation expense	(1,141,562)
	<u>3,237,342</u>
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. While changes in long-term debt liabilities for worker's compensation and accrued compensated absences do not use current funds.	
Principal payments on capital lease obligations	226,727
Principal payments on general obligation bonds	100,000
Increase in worker's compensation claims payable	(773,124)
Accrued compensated absences	53,527
Other assets	(2,361,087)
	<u>(2,753,957)</u>
Change in net assets of governmental activities	<u>\$ (1,028,399)</u>

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

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City of Shawnee, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2004

	Business-Type Activities – Enterprise Funds		
	Shawnee Municipal Authority	Shawnee Airport Authority	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ (2,699,619)	\$ (23,633)	\$ (2,723,252)
Receivables:			
Accounts, net of allowance for uncollectibles	1,075,690		1,075,690
Accrued interest	3,430	38	3,468
Other	239		239
Assessments	24,166		24,166
Due from other funds			
Due from component unit	107,661		107,661
Prepaid expenses			
Restricted assets - cash and investments	7,049,537		7,049,537
Other assets		8,689	8,689
Total current assets	<u>5,561,104</u>	<u>(14,906)</u>	<u>5,546,198</u>
Noncurrent assets:			
Intangible assets	12,967,959		12,967,959
Receivables:			
Deferred assessments	259,505		259,505
Restricted accrued interest	1,780		1,780
Net pension asset	312,418		312,418
Debt issuance costs, net of accumulated amortization	291,069		291,069
Capital assets, net of accumulated depreciation	30,195,621	4,251,887	34,447,508
Total noncurrent assets	<u>44,028,352</u>	<u>4,251,887</u>	<u>48,280,239</u>
Total assets	<u>49,589,456</u>	<u>4,236,981</u>	<u>53,826,437</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	530,643	2,355	532,998
Accrued interest payable	640,429		640,429
Due to other funds	1,294,151		1,294,151
Due to other governments	36,130		36,130
Customer deposits	519,450	3,761	523,211
Short term claims			
Current portion of long-term obligations	1,061,520		1,061,520
Total current liabilities	<u>4,082,323</u>	<u>6,116</u>	<u>4,088,439</u>
Noncurrent liabilities:			
Revenue bonds payable	23,750,874		23,750,874
Accrued compensated absences	253,315		253,315
Escrow liability	131,448		131,448
Long-term claims			
Unearned revenue		21,848	21,848
Total noncurrent liabilities	<u>24,135,637</u>	<u>21,848</u>	<u>24,157,485</u>
Total liabilities	<u>28,217,960</u>	<u>27,964</u>	<u>28,245,924</u>

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

Governmental
Activities –
Internal
Service
Funds

\$ 44,683

9,755

604,368

2,500

661,306

0
661,306

366,486

366,486

261,595

261,595
628,081

City of Shawnee, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2004
(continued)

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Shawnee Municipal Authority</u>	<u>Shawnee Airport Authority</u>	<u>Total</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,692,174	4,251,887	18,944,061
Restricted:			
Capital improvements	3,950,080		3,950,080
Debt service	2,362,915		2,362,915
Unrestricted	366,324	(42,870)	323,454
Total net assets	<u>\$ 21,371,493</u>	<u>\$ 4,209,017</u>	<u>\$ 25,580,510</u>

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

**Governmental
Activities --**

**Internal
Service
Funds**

\$ 0

City of Shawnee, Oklahoma
Statement of Revenues, Expenses, and Changes in
Fund Net Assets – Proprietary Funds
Year Ended June 30, 2004

	Business-Type Activities – Enterprise Funds			Governmental Activities –
	Shawnee Municipal Authority	Shawnee Airport Authority	Total	Internal Service Funds
OPERATING REVENUES				
Intergovernmental		\$ 22,972	\$ 22,972	
Charges for services:				
Water	\$ 3,502,021		3,502,021	
Wastewater	1,999,679		1,999,679	
Sanitation	1,040,589		1,040,589	
Other	56,209		56,209	\$ 465,627
Penalties/late charges	117,017		117,017	
Miscellaneous	42,199		42,199	
Rental	9,570	69,198	78,768	
Total operating revenues	<u>6,767,284</u>	<u>92,170</u>	<u>6,836,482</u>	<u>465,627</u>
OPERATING EXPENSES				
General and administration	351,517		351,517	
Lake operations	65,215		65,215	
Water	1,572,768		1,572,768	
Wastewater	1,935,481		1,935,481	
Sanitation	984,046		984,046	
Airport		105,746	105,746	
Claims expense				465,710
Depreciation and amortization	951,771	526,343	1,478,114	
Total operating expenses	<u>5,860,798</u>	<u>632,089</u>	<u>6,492,887</u>	<u>465,710</u>
Net operating income (loss)	906,486	(539,919)	343,595	(83)
NONOPERATING REVENUES (EXPENSES)				
Miscellaneous revenues		15,853	15,853	
Interest income	78,597	539	79,136	83
Interest expense and fiscal charges	(1,181,971)		(1,181,971)	
Total nonoperating revenues (expenses)	<u>(1,103,374)</u>	<u>16,392</u>	<u>(1,086,982)</u>	<u>83</u>
Income (loss) before contributions and transfers	(196,888)	(523,527)	(743,387)	0
OPERATING TRANSFERS				
Transfers in	723,941		723,941	
Transfers (out)	(1,072,500)		(1,072,500)	
Total operating transfers	<u>(348,559)</u>	<u>0</u>	<u>(348,559)</u>	<u>0</u>
Change in net assets	(545,447)	(523,527)	(1,091,946)	0
NET ASSETS, beginning	21,916,940	4,732,544	26,649,484	698,062
NET ASSETS, ending	<u>\$ 21,371,493</u>	<u>\$ 4,209,017</u>	<u>\$ 25,557,538</u>	<u>\$ 698,062</u>

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

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City of Shawnee, Oklahoma
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2004

	Business-Type Activities – Enterprise Funds	
	Shawnee Municipal Authority	Shawnee Airport Authority
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 7,331,020	\$ 92,170
Payments to suppliers	(1,709,027)	
Payments to employees	(3,210,100)	(112,331)
Net cash provided (used) by operating activities	<u>2,411,893</u>	<u>(20,161)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund receivables/payables	(108,235)	
Increase (decrease) in customer deposits	2,839	3,761
Miscellaneous revenues		15,853
Operating transfers in (out)	(348,559)	
Net cash provided (used) by noncapital financing activities	<u>(453,955)</u>	<u>19,614</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt		
(Increase) decrease in debt issuance costs		
Principal paid on long-term debt	395,000	
Interest expense and fiscal charges	(1,424,364)	
(Increase) decrease in restricted assets	(1,181,971)	
(Acquisition) disposition of capital assets	(2,786,851)	(26,465)
Net cash provided (used) by capital and related financing activities	<u>(4,998,186)</u>	<u>(26,465)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in investments	1,976,384	
Interest income	78,597	539
Net cash provided (used) by investing activities	<u>2,054,981</u>	<u>539</u>
Net increase (decrease) in cash and cash equivalents	<u>(985,267)</u>	<u>(26,473)</u>
CASH AND CASH EQUIVALENTS, beginning	<u>5,335,186</u>	<u>2,840</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 4,349,919</u></u>	<u><u>\$ (23,633)</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 906,486	\$ (539,913)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	951,771	526,343
Changes in assets and liabilities:		
(Increase) decrease in receivables	(91,838)	
Increase (decrease) in accounts payable	242,318	(6,591)
Increase (decrease) in accrued expenses	403,156	
Total adjustments	<u>1,505,407</u>	<u>519,752</u>
Net cash provided (used) by operating activities	<u><u>\$ 2,411,893</u></u>	<u><u>\$ (20,161)</u></u>

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

Business-Type Activities – Enterprise Funds	Governmental Activities – Internal Service Funds
Totals	
\$ 7,423,190	\$ 465,627
(1,709,027)	
(3,322,431)	(490,856)
<u>2,391,732</u>	<u>(25,229)</u>
(108,235)	64,676
6,600	
15,853	
(348,559)	
<u>(434,341)</u>	<u>64,676</u>
0	
0	
395,000	
(1,424,364)	
(1,181,971)	
(2,813,316)	
<u>(5,024,651)</u>	<u>0</u>
1,976,384	
79,136	83
<u>2,055,520</u>	<u>83</u>
(1,011,740)	39,530
5,338,026	5,153
<u>\$ 4,326,286</u>	<u>\$ 44,683</u>
\$ 366,573	\$ (83)
1,478,114	
(91,838)	11,610
235,727	27,920
403,156	(64,676)
<u>2,025,159</u>	<u>(25,146)</u>
<u>\$ 2,391,732</u>	<u>\$ (25,229)</u>

City of Shawnee, Oklahoma
Statement of Fiduciary Net Assets – Fiduciary Fund
June 30, 2004

	Agency Fund <u>URM /DEPCA</u>
ASSETS	
Cash and cash equivalents	\$ 3,420
Total assets	<u>3,420</u>
LIABILITIES	
URM/DEPCA payable	<u>3,420</u>
Total liabilities	<u>3,420</u>
NET ASSETS	<u><u>\$ 0</u></u>

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

City of Shawnee, Oklahoma
Notes to Financial Statements
June 30, 2004

I. Organization

The City of Shawnee, Oklahoma, (the City) operates under a Council-Manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation, social services, culture and recreation, public improvements, utilities, planning and zoning, and general administrative services.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements include two discretely presented component units, which are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended component units. The Shawnee Municipal Authority (SMA) was created November 11, 1968, to finance, develop, and operate the water, sewer, and solid waste activities. The current City Commission serves as its entire governing body (trustees) of the SMA. Any issuance of debt would require a two-thirds approval of the City Commission. SMA is reported as an enterprise fund.

The Shawnee Airport Authority (SAA) was created March 18, 1974, to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate air transportation facilities. The current City Commission serves as its entire governing body (trustees) of the SAA. Any issuance of debt would require a two-thirds approval of the City Commission. SAA is reported as an enterprise fund.

Separate financial statements have not been prepared for the component units.

Discretely presented component units. Shawnee Civic & Cultural Development Authority (SCCDA) was created January 5, 1976, to acquire by lease and to operate, regulate and administer all physical properties, real or personal which shall be of public use or of civic and/or cultural benefit or incident to carrying out an authority or proper function of the City. The governing body consists of seven members; the City Manager of the Beneficiary, a management level employee of the Shawnee News Star, three citizens representing the general public appointed by the SCCDA trustees, and two residents of Pottawatomie County appointed by the Commissioners of Pottawatomie County and approved by the SCCDA trustees. Any issuance of debt requires a two-thirds approval of the City Commission.

The SCCDA did not issue separate financial statements.

The Shawnee Industrial Development Authority was created June 30, 1979, to promote the development of industry and culture and industrial, manufacturing, cultural and educational activities within and without the territorial limits of the City. The SIDA governing body is comprised of five members appointed by the City Commission from a list of three qualified

individuals, per trustee position, prepared by the Trustees of the SIDA. Any issuance of debt would require a two-thirds approval of the City Commission.

Complete financial statements for the Shawnee Industrial Development Authority may be obtained at the entity's administrative offices.

Shawnee Industrial Development Authority
Post Office Box 1222
Shawnee, Oklahoma 74802-1222

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Combining financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Sales and use taxes, property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The capital improvement fund accounts for the purchase of capital equipment and construction of facilities.

The street improvement fund accounts for the construction or major reconstruction of street projects.

The City reports the following major proprietary funds:

The Shawnee Municipal Authority accounts for the City's water, sewer, and sanitation operations.

The Shawnee Airport Authority accounts for the City's airport operations.

Additionally, the City reports the following fund type:

Internal service fund accounts for workers' compensation insurance services provided to other departments or agencies of the City on a cost reimbursement basis.

Finally, included in the aggregated governmental fund totals are the following funds:

The street and alley fund accounts for the operation and maintenance of local streets and thoroughfares.

The E-911 fund accounts for the operations and maintenance of the City's 911 emergency services.

The revolving oil & gas fund accounts for the inspection and monitoring of oil and gas wells.

The economic development fund accounts for the promotion of economic development.

The spay and neuter fund accounts for the City's animal adoption program.

The hotel/motel surcharge fund accounts for the collection of the City's hotel/motel surcharge.

The police sales tax fund accounts for the 1/16 cent of a one-cent dedicated sales tax revenue for police officers.

The fire sales tax fund accounts for the 1/16 cent of a one-cent dedicated sales tax revenue for firefighters.

The CDBG & HOME grants accounts for federal funds received by the City and expenditures related to the operation of these grants.

The library fund accounts for the maintenance of the municipal library.

The cemetery care fund accounts for the continuing care and maintenance as well as future capital investments of the City owned cemetery.

The senior citizens fund accounts for the maintenance of the senior citizens center.

The gifts & contributions fund accounts for monies donated for various park projects, economic development, civic events, police and fire donations.

The sister cities fund accounts for the financial activity of the sister cities program.

The debt service fund accounts for ad-valorem taxes levied by the City for use in retiring general obligation bonds, court-assessed judgments, and their related expense and fiscal agent fees.

The 1994 Street improvement project accounts for general obligation bond proceeds designated for the construction of specific street projects.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Shawnee Municipal Authority and Shawnee Airport Authority enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component units, are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

3. Restricted assets

Certain proceeds of the Shawnee Municipal Authority's enterprise fund promissory notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements other than buildings	20–50
Infrastructure	20–100
Furniture, equipment, and vehicles	5–10

5. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave may be accumulated up to a maximum of 75 days. Accumulated sick leave is paid to employees only upon retirement at a rate of one day's pay for every three days accumulated sick leave, up to a maximum of 40 days. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

III. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

Bonds payable	\$ 500,000
Claims and judgments payable	1,433,558
Capital leases payable	282,296
Accrued compensated absences	<u>1,167,414</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 3,383,268</u>

Another difference concerns capital and other long-term asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

Notes receivable	\$ 257,847
Net pension assets	594,180
Capital assets, net of accumulated depreciation	<u>22,697,634</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 23,549,661</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay	\$ 4,378,904
Depreciation expense	<u>(1,141,562)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,237,342</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Principal repayments:	
General obligation bonds	\$ 100,000
Capital lease obligations	226,727
Increase in worker's compensation claims payable	(773,124)
Increase in compensated absences	<u>(182,585)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (628,982)</u>

IV. Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted for all governmental funds, the Shawnee Municipal Authority, and the Shawnee Municipal Airport Authority. All unencumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city council meets with the city manager and city financial officer to review the needs estimates and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council in July.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

V. Detailed notes on all funds

A. Deposits and investments

The City of Shawnee's carrying amount of deposits was \$ 10,256,802 as of June 30, 2004, and the bank balances totaled \$ 10,456,802. Deposits held by trustee banks totaled \$ 2,494,456. Collateral for the City's deposits and investments is categorized to give an indication of the level of risk assumed by the City at year-end.

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized.

	Category			Bank Balances	Carrying Value
	1	2	3	06/30/04	06/30/04
Deposits:					
Cash and investments	\$ 6,893,385	\$ 1,068,961		\$ 7,962,346	\$ 7,762,346
Deposits held by trustees	2,494,456			2,494,456	2,494,456
Total deposits	<u>\$ 9,387,841</u>	<u>\$ 1,068,961</u>	<u>\$ 0</u>	<u>\$ 10,456,802</u>	<u>\$ 10,256,802</u>

Oklahoma Statutes allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trusts revenue bonds, except industrial revenue bonds; bonds of the State of Oklahoma and wholly owned corporations of the United States; short-term obligations of the United States; and certificates of deposit. All City funds have been invested in accordance with *Oklahoma Statutes*.

The carrying amount of deposits for the discretely presented component units was \$ 699,132 and the bank balances were \$ 699,132. Of the bank balances, \$ 106,293 was covered by federal depository insurance, and the remaining \$ 586,546 was collateralized with securities held by the bank's trust department or agents.

B. Receivables

Receivables as of June 30, 2004, for the City of Shawnee's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Major Governmental Funds	Nonmajor Governmental Funds	Business- Type Activities	Total
Receivables:					
Taxes	\$ 1,618,664	\$ 573,404	\$ 121,632		\$ 2,313,700
Accounts	13,564		613	\$ 1,249,201	1,263,378
Due from other governments	23,529		36,011		59,540
Other	226,513		19,723	283,910	530,146
Accrued interest	970	6,172	799	5,247	13,188
Gross receivables	1,883,240	579,576	178,778	1,538,358	4,179,952
Less: allowance for uncollectibles	(378,087)			(173,511)	(551,598)
Net total receivables	<u>\$ 1,505,153</u>	<u>\$ 579,576</u>	<u>\$ 178,778</u>	<u>\$ 1,364,847</u>	<u>\$ 3,628,354</u>

C. Restricted assets

The Shawnee Municipal Authority's various revenue notes include restricted cash and investments for the unexpended portion of the project fund, a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. All funds are on deposit with the trustee bank.

Restricted assets:	
Debt service	\$ 607,596
Trustee accounts	2,494,456
Project fund	3,947,485
Total restricted assets	<u>\$ 7,049,537</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2004, were as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,259,094		\$	\$ 2,259,094
Construction in progress	200,750	\$ 239,629	(267,661)	172,718
Total capital assets, not being depreciated	<u>2,459,844</u>	<u>239,629</u>	<u>(267,661)</u>	<u>2,431,812</u>
Capital assets, being depreciated:				
Buildings and improvements	7,571,972	6,190		7,578,162
Equipment	7,637,043	559,130	(536,773)	7,659,400
Infrastructure	25,535,038	3,371,648		28,906,686
Total capital assets, being depreciated	<u>40,744,053</u>	<u>3,936,968</u>	<u>(536,773)</u>	<u>44,144,248</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,506,624)	(227,295)		(3,733,919)
Equipment	(4,346,387)	(512,851)	393,919	(4,465,319)
Infrastructure	(15,277,771)	(401,416)		(15,679,187)
Total accumulated depreciation	<u>(23,130,782)</u>	<u>(1,141,562)</u>	<u>393,919</u>	<u>(23,878,425)</u>
Total capital assets, being depreciated, net	<u>17,613,271</u>	<u>2,795,406</u>	<u>(142,854)</u>	<u>20,265,823</u>
Governmental activities capital assets, net	<u>\$ 20,073,115</u>	<u>\$ 3,035,035</u>	<u>\$ (410,515)</u>	<u>\$ 22,697,635</u>
Business-type activities				
Shawnee Municipal Authority				
Capital assets, not being depreciated:				
Land	\$ 931,354			\$ 931,354
Construction in progress	454,051	\$ 433,278	\$ (454,051)	433,278
Total capital assets, not being depreciated	<u>1,385,405</u>	<u>433,278</u>	<u>(454,051)</u>	<u>1,364,632</u>
Capital assets, being depreciated:				
Buildings and improvements	1,324,961			1,324,961
Equipment	2,690,608	43,450	(335,535)	2,398,523
Utility property	37,478,617	2,764,174	(3,500)	40,239,291
Total capital assets, being depreciated	<u>41,494,186</u>	<u>2,807,624</u>	<u>(339,035)</u>	<u>43,962,775</u>
Less accumulated depreciation for:				
Buildings and improvements	(895,209)	(29,027)		(924,236)
Equipment	(1,489,221)	(124,011)	331,468	(1,281,764)
Utility property	(12,154,296)	(774,989)	3,500	(12,925,785)
Total accumulated depreciation	<u>(14,538,726)</u>	<u>(928,027)</u>	<u>334,968</u>	<u>(15,131,785)</u>
Total capital assets, being depreciated, net	<u>26,955,460</u>	<u>1,879,597</u>	<u>(4,067)</u>	<u>28,830,990</u>
Shawnee Municipal Authority capital assets, net	<u>\$ 28,340,865</u>	<u>\$ 2,312,875</u>	<u>\$ (458,118)</u>	<u>\$ 30,195,622</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Shawnee Airport Authority				
Capital assets, not being depreciated:				
Land	\$ 550,361			\$ 550,361
Total capital assets, not being depreciated	550,361	\$ 0	\$ 0	550,361
Capital assets, being depreciated:				
Buildings and improvements	8,261,268	19,380		8,280,648
Equipment	167,292	5,250	(15,998)	156,544
Total capital assets, being depreciated	8,428,560	24,630	(15,998)	8,437,192
Less accumulated depreciation for:				
Buildings and improvements	(4,085,575)	(521,586)		(4,607,161)
Equipment	(139,747)	(4,757)	15,998	(128,506)
Total accumulated depreciation	(4,225,322)	(526,343)	15,998	(4,735,667)
Total capital assets, being depreciated, net	4,203,238	(501,713)	0	3,701,525
Shawnee Airport Authority capital assets, net	4,753,599	(501,713)	0	4,251,886
Total Shawnee Municipal Authority, net	28,340,865	2,312,875	458,118	30,195,622
Business-type activities capital assets, net	\$ 33,094,464	\$ 1,811,162	\$ 458,118	\$ 34,447,508

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 95,306
Public safety	328,827
Public works	553,037
Community development	16,902
Culture and recreation	147,490
Total depreciation expense – governmental activities	<u>\$ 1,141,562</u>
Business-type activities:	
Water	\$ 440,884
Wastewater	484,602
Operations	526,343
Sanitation	2,541
Total depreciation expense – business-type activities	<u>\$ 1,454,370</u>

Discretely Presented Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Shawnee Civic & Cultural Development Authority				
Capital assets, not being depreciated:				
Land	\$ 94,493			\$ 94,493
Construction in progress	2,403,817	\$ 246,677	\$ (2,650,494)	0
Total capital assets, not being depreciated	2,498,310	246,677	(2,650,494)	94,493
Capital assets, being depreciated:				
Buildings and improvements	6,628,637	2,668,612		9,297,249
Equipment	557,395		(18,601)	538,794
Total capital assets, being depreciated	7,186,032	2,668,612	(18,601)	9,836,043
Less accumulated depreciation for:				
Buildings and improvements	(3,419,648)	(180,556)		(3,600,204)
Equipment	(478,685)	(27,754)	18,601	(487,838)
Total accumulated depreciation	(3,898,333)	(208,310)	18,601	(4,088,042)
Total capital assets, being depreciated, net	3,287,699	2,460,302	0	5,748,001
Shawnee Civic & Cultural Development Authority, capital assets, net	\$ 5,786,009	\$ 2,706,979	\$ (2,650,494)	\$ 5,842,494

E. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2004, cash and investments included \$ 519,450 available for refund of customer deposits, while the liability to customers was \$ 501,723.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2004, \$ 33,307 was being held that was subject to refund.

F. Long-term debt

Long-term liabilities of the City of Shawnee as of June 30, 2004, are summarized as follows:

Governmental activities

General obligation bonds:

\$ 1,400,000 General Obligation Limited Access Facilities Bonds of 1994, due in annual installments of \$ 100,000, final installment due February 1, 2009, with interest rates at 3.5% to 6.5%.

\$ 500,000

Total general obligation bonds

500,000

Capital lease obligations:

Capital lease, dated May 1, 2000, in the amount of \$ 85,166 payable in monthly installments of \$ 1,686 including interest at 6.75%, due June 2005, for a backhoe loader.

20,682

Capital lease, dated June 9, 2000, in the amount of \$ 79,782 payable in monthly installments of \$ 1,557 including interest at 6.75%, due June 2005, for a backhoe loader.	\$ 20,193
Capital lease, dated April 1, 2000, in the amount of \$ 432,431 payable in monthly installments of \$ 8,439, including interest at 5.946%, due July 2005 for communication equipment.	98,161
Capital lease, dated February 28, 2001, in the amount of \$ 185,557 payable in monthly installments of \$ 5,524 including interest at 5.95%, due October 2006, for computer software.	143,260
Total capital lease obligations	<u>282,296</u>
Accrued compensated absences	1,167,414
Claims and judgments payable	<u>2,061,639</u>
Total governmental activities	<u>\$ 4,011,349</u>
Business-type activities	
Shawnee Municipal Authority	
Notes payable:	
\$ 18,850,000 Series 2003 Utility Revenue Note dated April, 2003, payable in semiannual installments ranging from \$ 390,000 to \$ 1,265,000, interest from 2.0% to 5.0% through July 1, 2026, to fund utility improvements.	\$ 18,850,000
\$ 1,073,279 1997A SFR Promissory Note to Oklahoma Water Resources Board, dated September, 2, 1997, payable in annual installments of \$ 57,000, with no interest and a 0.05% administrative fee.	706,105
\$ 1,900,000 1997B Promissory Note to Oklahoma Water Resources Board, dated September, 1, 1997, payable in semiannual installments of approximately \$ 80,000, interest from 3.895% to 5.245% through 2017.	1,465,000
\$ 5,350,000 2001 Sales Tax Revenue Note, to a financial institution, dated September, 1, 1997, payable in 120 installments of \$ 54,804, interest at 4.25% through November 28, 2011.	4,217,204
\$ 395,000 Series 2003 Sales Tax Revenue Note dated September 25, 2003, payable in 99 installments of \$ 4,739, interest at 4.25% through December 28, 2011.	364,656
Deferred loss on 2003 refunding	(881,552)
Bond premium	<u>90,982</u>
Total Shawnee Municipal Authority	<u>24,812,395</u>
Accrued compensated absences	<u>253,315</u>
Total business-type activities	<u>25,065,710</u>
Total primary government	<u>\$ 29,077,059</u>

Discretely presented component unit
Shawnee Civic and Cultural Development Authority

Accrued compensated absences	\$ 62,214
Total Shawnee Civic and Cultural Development Authority	62,214
Total discretely presented component unit	\$ 62,214

Primary Government

Long-term liabilities transactions for the year ended June 30, 2004, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
General obligation bonds	\$ 600,000		\$ 100,000	\$ 500,000	\$ 100,000
Capital lease obligations	509,023		226,727	282,296	197,439
Claims and judgments payable	1,764,039	\$ 773,124	475,524	2,061,639	366,486
Accrued compensated absences	1,220,937	122,093	175,616	1,167,414	116,741
Total governmental activities	4,093,999	895,217	977,867	4,011,349	780,666
Business-type activities					
Notes and revenue notes payable	25,841,759	395,000	1,424,364	24,812,395	1,061,520
Accrued compensated absences	254,295	24,450	25,430	253,315	25,331
Total business-type activities	26,096,054	419,450	1,449,794	25,065,710	1,086,851
Total primary government	\$ 30,190,053	\$ 1,314,667	\$ 2,427,661	\$ 29,077,059	\$ 1,867,517

Interest expense on long-term debt including amortization of deferred loss refunding of \$ 39,912, debt issuance costs of \$ 23,744, and a premium amortization of \$ 4,166. Interest expense allocated to functions was charged to functions in the statement of activities as follows:

Business-Type Activities	
Water	\$ 1,107,611
Wastewater	74,360
Total	\$ 1,181,971

Discretely Presented Component Units

Shawnee Civic and Cultural Development Authority:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Accrued compensated absences	\$ 62,214	\$ 6,221	\$ 6,221	\$ 62,214	\$ 6,221
Total discretely presented component units	\$ 62,214	\$ 6,221	\$ 6,221	\$ 62,214	\$ 6,221

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	General Obligation Bonds		Capital Lease Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 100,000	\$ 22,500	\$ 197,439	\$ 22,964	\$ 1,061,520	\$ 996,762
2006	100,000	18,400	84,857	15,469	1,284,490	959,976
2007	100,000	14,400			1,318,456	919,963
2008	100,000	9,800			1,358,460	877,033
2009	100,000	5,000			1,409,548	830,720
2010-2014					5,949,268	3,435,516
2015-2020					4,562,977	2,529,520
2021-2025					5,000,000	1,484,400
2026					3,658,245	255,530
Totals	<u>\$ 500,000</u>	<u>\$ 70,100</u>	<u>\$ 282,296</u>	<u>\$ 38,433</u>	<u>\$ 25,602,964</u>	<u>\$ 12,289,420</u>

The Shawnee Municipal Authority (SMA) entered into an agreement with the Pottawatomie County Development Authority (PCDA) for the development of the North Deer Creek Reservoir Project (Reservoir) in which the PCDA issued bonds totaling \$ 18,180,000 for the construction of the Reservoir. SMA issued its Utility Revenue Note, Series 1990B in the amount of \$ 18,180,000 to the PCDA. (These notes were defeased during the 1993 fiscal year with the issuance of the SMA Utility Revenue Note, Series 1993A in the amount of \$ 21,165,000. During the 2003 fiscal year, the 1993 notes were defeased in the amount of \$ 18,850,000.) The debt service payments made by SMA on their Series 2003 Note will be used by the PCDA to make their debt service payments on their Series 2003 Bonds.

SMA acquired a contractual interest in the water rights of the reservoir by issuing their Series 1990B Note. They issued the note totaling \$ 18,180,000 and received restricted funds back from PCDA to establish a reserve fund totaling \$ 1,263,881. The net amount of the note face value less the reserve fund, which totals \$ 16,916,119, represented SMA's investment in the water rights contract with PCDA. Pursuant to an agreement dated December 1, 2001, between the SMA, the PCDA and a trustee Bank, during a prior fiscal year, the SMA received \$ 3,948,160 in surplus bond proceeds remaining in the PCDA trust funds to be used for SMA utility system improvements. These proceeds have been accounted for as a reduction in the investment in the water rights contract with PCDA. The balance is \$ 12,967,959 at June 30, 2004.

The term of the water rights agreement shall be for a period of one hundred (100) years from its effective date and may be extended by written agreement of the parties. Upon the expiration of the term of this agreement and any extension thereof, PCDA shall by quit claim deed and bid of sale, convey to each party an undivided fractional interest in the facilities and all personal property titled in PCDA that is used in the operation of the facilities except PCDA's files and records.

Due to the long-term nature of this agreement, and the infinite economic life of the water rights, the SMA's investment in the water rights is considered similar to land and is not being amortized.

Defeased bonds outstanding – The City, through its public trusts, has in substance defeased an outstanding revenue note payable by placing deposits in irrevocable trusts, escrow accounts, for the purchase of U.S. Government Securities to pay principal and interest on the

refunded notes payable as they are due and payable. For financial reporting purposes, both the defeased notes outstanding and the escrowed securities have been excluded from the financial statements. At year end, the remaining outstanding defeased debt issues were as follows:

1993 Revenue Note	<u>\$ 18,475,000</u>
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Advanced refunding of debt – In April 2003, the Shawnee Municipal Authority issued \$ 18,850,000 of Refunding Revenue Notes Series 2003 to provide funds to advance refund the outstanding debt obligation of the 1993A Series Revenue Notes and to pay certain expenses related to the issuance of the Notes.

The advanced refunding resulted in an in-substance defeasance of the 1993A Series Refunding Revenue Notes by placing deposits in an irrevocable trust and escrow account for the purchase of U.S. government securities to pay the principal and interest on the defeased bonds as they are due and payable. For financial reporting purposes, both the defeased bonds outstanding and the escrowed securities have been excluded from the financial statements. At year-end, the remaining outstanding defeased notes were \$ 18,475,000.

G. Debt issuance costs

Debt issuance costs of \$ 314,812 have been capitalized on enterprise fund revenue notes and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2004, \$ 23,744 in debt issuance costs was amortized.

H. Compensated absences

Full-time employees with at least one year of service earn vacation of ten to twenty days per year depending on years of service completed. A maximum of ten to thirty days may be carried over from one benefit year into another, depending on years of service completed. In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation as follows:

Governmental activities	\$ 1,167,414
Business-type activities	253,315
Total accrued compensated absences	<u>\$ 1,420,729</u>

Full-time employees earn sick leave at the rate of ten hours per month, up to 120 days. Upon retirement, employees are paid at the rate of one day's pay for every three days accumulated sick leave up to a maximum of 40 days.

I. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	CDBG & Home Grants Fund	\$ 29,073
	Shawnee Municipal Authority	660,711
Worker's Comp Fund	General	603,100
	Shawnee Municipal Authority	1,267
Total		<u>\$ 1,294,151</u>

Interfund transactions:

	Transfers In				Totals
	General Fund	Shawnee Municipal Authority	Nonmajor Governmental	Discretely Presented Component Units	
Transfers out:					
General fund			\$ 49,000	\$ 349,107	\$ 398,107
Nonmajor governmental	\$ 720,000				720,000
Street improvement	70,530				70,530
Shawnee Municipal Authority	1,072,500				1,072,500
Capital improvements	70,530	\$ 723,941			794,471
Totals	<u>\$ 1,933,560</u>	<u>\$ 723,941</u>	<u>\$ 49,000</u>	<u>\$ 349,107</u>	<u>\$ 3,055,608</u>

VI. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property and general liability. The City is self-insured for workers' compensation and unemployment, with applicable excess loss coverage for workers' compensation. A third party workers' compensation administrator is used to evaluate claims and estimate the City's liability for outstanding claims not assumed by the issuer. The City is self-insured up to \$ 300,000 per occurrence and \$ 1,000,000 in the aggregate, and has obtained overlying insurance coverage for claims in excess of these amounts. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment. Judgments against the City may be paid by a property tax assessment over a three-year period.

B. Commitments and contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The Oklahoma Housing Finance agency requires the City to maintain records supporting the banked match that is necessary for participation in the Home Grant Program. As of June 30, 2004, the City's records indicate that the City's banked match of the Home Grant Program totaled \$ 349,895.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

The following construction project commitments were outstanding at June 30, 2004:

<u>Fund/Project</u>	<u>Original Contract</u>	<u>Balance Remaining</u>
Capital Project Fund:		
Street improvement projects		
North Union Street	\$ 193,403	\$ 42,879
Rehab Asphalt Streets	611,469	2,555
Bell Street Streetscape	779,956	142,598
Enterprise Fund:		
Shawnee Municipal Authority Projects:		
Water Treatment Plant Improvements (Phase II)	739,860	59,252
Sewer Rehab Project	406,496	350,143
Totals	<u>\$ 2,731,184</u>	<u>\$ 597,427</u>

C. Employee retirement systems and pension plans

The City of Shawnee participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Shawnee maintains the Oklahoma Municipal Retirement Fund.

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Shawnee contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2004, for employees and employer were \$ 145,280 and \$ 275,579, respectively, on covered payroll of \$ 2,119,843.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Shawnee contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2004, for employees and employer were \$ 180,951 and \$ 299,782, respectively, on covered payroll of \$ 2,306,013.

Oklahoma Municipal Retirement Fund Employee Retirement System of Shawnee, Oklahoma

Plan Description – The City maintains a defined benefit retirement plan, the Oklahoma Municipal Retirement Fund Employee Retirement System of Shawnee, Oklahoma (the Plan), which covers employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). The OMRF board of trustees retains BankOne as custodian to hold the Plan's assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after seven years of service. Employees who retire at age 65 or completion of seven years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.625% of final average compensation multiplied by the number of years of credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed ten years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled after completion of seven years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age if the employee is also eligible for a disability benefit from Social Security.

Employee contributions are returned with accrued interest if their employment is terminated prior to completion of seven years of service. A death benefit is payable after five years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse.

Funding Policy – The amount shown below as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a

result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of July 1, 2004. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.5% compounded annually, and 2) future salary increases of 5.0% per year.

Total actuarial accrued liability was more than net assets available for benefits by \$ 936,500 as of January 1, 2004, as follows:

Actuarial accrued liability	\$ 20,893,487
Net assets available for benefits (actuarial value)	19,956,987
Underfunded actuarial accrued liability	<u>\$ 936,500</u>

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll over a period of thirty years.

For the year ended June 30, 2004, employees were required to contribute 0.0% of annual compensation while the City contributed 11.48%. Contributions to the Plan for the year ended June 30, 2004, for employees and employer were \$ 0 and \$ 582,528, respectively.

For the year ended June 30, 2004, the City's covered payroll was \$ 5,074,281. Covered payroll refers to all compensation paid by the City of Shawnee to active employees covered by the Plan on which contributions are based.

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

The schedule of funding progress for the Plan for the past eight years is as follows:

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/04	\$ 19,956,987	\$ 20,893,487	\$ 936,500	95.5%	\$ 5,273,332	(17.8)%
01/01/03	19,398,530	18,661,318	(737,212)	104.00%	4,692,250	15.70 %
01/01/02	21,491,773	18,552,363	(2,939,410)	115.80%	4,692,782	62.60 %
01/01/01	20,721,347	14,717,465	(6,003,882)	140.80%	4,331,334	138.60 %
01/01/00	20,116,523	14,668,807	(5,447,716)	137.10%	4,101,801	132.80 %
01/01/99	17,166,334	14,670,486	(2,495,848)	117.00%	4,008,020	62.30 %
01/01/98	14,485,687	13,200,100	(1,285,587)	109.70%	4,010,361	32.10 %

Oklahoma Municipal Retirement Fund (the Plan)

Plan Description – The City has also provided a defined contribution plan and trust known as the City of Shawnee Plan and Trust (the Plan) in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). The plan is administered by Bank One of Oklahoma City, Oklahoma. The defined contribution plan is available to all full-time employees except those participating in the state fire or police program.

OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. Benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding Policy – Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon employment, and must make a mandatory minimum pre-tax contribution of 4.25%. Employees are allowed to contribute in excess of the 4.25%; however, these contributions are not pre-tax. By City ordinance, the City, as employer, is required to make variable contributions to the plan, based on availability of funds. The employee is fully vested after 7 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 Commission. Contributions to the plan for the year ended June 30, 2004, for employees and employer were \$ 215,657 and \$ 0, respectively, on a covered payroll of \$ 5,074,281. No employer contributions were made due to budget constraints.

City of Shawnee 457 Deferred Compensation Plan (DC Plan)

Plan Description – The City of Shawnee makes available to all full-time employees two Section 457 deferred compensation plans. The DC Plan was created in accordance with Section 457 of the *Internal Revenue Code*, and permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employee until retirement, termination, death, or unforeseeable emergency. Employees may choose investments offered by International City/County Management Association (ICMA) or Nationwide Retirement Solutions, Inc.

Funding Policy – DC Plan participants may contribute up to \$ 13,000 of eligible compensation. During the year ended June 30, 2004, employees contributed \$ 128,006 to the DC Plan.

ICMA Retirement

In addition to the above plans, the City of Shawnee offers a retirement plan through ICMA. One employee participated in the plan. Contributions to the plan for the year ended June 30, 2004, for employee and employer were \$ 2,376 and \$ 6,172, respectively.

Required Supplementary Information

City of Shawnee, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual – General Fund
Year Ended June 30, 2004

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 10,093,857	\$ 10,093,857	\$ 10,366,933	\$ 273,076
Licenses and permits	161,685	162,345	184,863	22,518
Intergovernmental	363,630	339,735	328,262	(11,473)
Fines and forfeitures	315,278	315,278	312,830	(2,448)
Charges for services	29,484	29,484	43,711	14,227
Miscellaneous	122,340	133,011	130,628	(2,383)
Rental revenue	92,259	92,259	90,760	(1,499)
Interest	19,932	19,932	7,088	(12,844)
Total revenues	<u>11,198,465</u>	<u>11,185,901</u>	<u>11,465,075</u>	<u>279,174</u>
EXPENDITURES				
General government:				
Administration	1,299,106	1,408,154	1,373,463	34,691
City attorney	71,466	70,446	70,243	203
City clerk	241,386	252,802	225,959	26,843
Municipal court	207,185	231,505	247,936	(16,431)
Public safety:				
Police department	3,520,426	3,935,918	3,898,696	37,222
Fire department	2,869,789	3,200,340	3,137,728	62,612
Emergency management	214,625	239,950	223,403	16,547
Communications	436,713	423,593	410,709	12,884
Public works:				
Administration	186,592	204,592	198,885	5,707
Engineering	206,398	322,358	310,405	11,953
Code enforcement & planning	426,109	444,585	441,777	2,808
Street department	1,054,099	991,177	975,808	15,369
Municipal building, community center, senior	64,630	71,630	64,262	7,368
Culture and recreation:				
Parks and cemetery	595,092	656,852	643,252	13,600
Shared costs	1,231,626	407,264	541,124	(133,860)
Equipment and maintenance	271,156	320,890	313,789	7,101
Total expenditures	<u>12,896,398</u>	<u>13,182,056</u>	<u>13,077,439</u>	<u>104,617</u>
Excess (deficit) of revenues over expenditures	(1,697,933)	(1,996,155)	(1,612,364)	383,791
OTHER FINANCING SOURCES (USES)				
Transfers in	2,070,000	1,792,500	1,792,500	0
Transfers (out)	(791,163)	(425,927)	(398,107)	27,820
Total other financing sources (uses)	<u>1,278,837</u>	<u>1,366,573</u>	<u>1,394,393</u>	<u>27,820</u>
Net change in fund balances	(419,096)	(629,582)	(217,971)	411,611
FUND BALANCES, beginning	<u>817,291</u>	<u>817,291</u>	<u>824,113</u>	<u>6,822</u>
FUND BALANCES, ending	<u>\$ 398,195</u>	<u>\$ 187,709</u>	<u>\$ 606,142</u>	<u>\$ 418,433</u>

See disclaimer in accompanying Independent Auditor's Report.

City of Shawnee, Oklahoma
Explanation of Differences between Revenues, Expenditures, and Other
Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and
GAAP General Fund on a GAAP Basis
Year Ended June 30, 2004

<u>BUDGETARY FUNDS</u>	<u>General Fund</u>
<u>FINANCIAL STATEMENT MAJOR FUNDS</u>	
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedule	\$ 11,465,075
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	<u>102,790</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 11,567,865</u></u>
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 13,077,439
Reclassifications:	
Transfers to component unit and due from component unit classified as expenses other than transfers	289,449
Adjustments:	
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	<u>13,219</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances — governmental funds	<u><u>\$ 13,380,107</u></u>

See disclaimer in accompanying Independent Auditor's Report.

City of Shawnee, Oklahoma
Explanation of Differences between Revenues, Expenditures, and Other
Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and
GAAP General Fund on a GAAP Basis
Year Ended June 30, 2004

<u>BUDGETARY FUNDS</u>	<u>General Fund</u>
<u>FINANCIAL STATEMENT MAJOR FUNDS</u>	
Other financing sources (uses)	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	<u>\$ 1,394,393</u>
Reclassifications:	
Payment to component unit shown as part of shared costs	<u>349,107</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 1,743,500</u></u>

See disclaimer in accompanying Independent Auditor's Report.

Supplementary Information

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City of Shawnee, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2004

	Special Revenue				
	Street and Alley Fund	E-911	Revolving Oil & Gas Fund	Economic Development Fund	Spay & Neuter Fund
ASSETS					
Cash and cash equivalents	\$ 81,660	\$ 52,730	\$ 95,696	\$ 63,045	\$ 21,300
Investments					
Receivables:					
Accounts, net					
Taxes				34,752	
Notes					
Accrued interest	46	20	46	85	12
Other		10,475			
Due from other governments	23,304				
Total assets	<u>\$ 105,010</u>	<u>\$ 63,225</u>	<u>\$ 95,742</u>	<u>\$ 97,882</u>	<u>\$ 21,312</u>
LIABILITIES					
Accounts payable and accrued liabilities		\$ 7,062			
Due to other funds					
Unearned revenue					
Total liabilities	<u>\$ 0</u>	<u>7,062</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
FUND BALANCES					
Reserved for:					
Encumbrances					
Unreserved:					
Designated	105,010	56,163	95,742	97,882	21,312
Total fund balances	<u>105,010</u>	<u>56,163</u>	<u>95,742</u>	<u>97,882</u>	<u>21,312</u>
Total liabilities and fund balances	<u>\$ 105,010</u>	<u>\$ 63,225</u>	<u>\$ 95,742</u>	<u>\$ 97,882</u>	<u>\$ 21,312</u>

Special Revenue						
Hotel/Motel Surcharge Fund	Police Sales Tax Fund	Fire Sales Tax Fund	CDBG & Home Grants Fund	Library Fund	Cemetery Care Fund	Senior Citizens Fund
\$ 6,452	\$ 8,092	\$ 8,092	\$ (25,414)	\$ 14,403	\$ 136,992	\$ 26,321
	43,440	43,440	225,855		68	
	61	61		12		14
9,248			12,707			
<u>\$ 15,700</u>	<u>\$ 51,593</u>	<u>\$ 51,593</u>	<u>\$ 213,148</u>	<u>\$ 14,415</u>	<u>\$ 137,060</u>	<u>\$ 26,335</u>
\$ 8,471			\$ 7,296	\$ 3,870		
			29,073			
			216,757			
<u>8,471</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>253,126</u>	<u>3,870</u>	<u>\$ 0</u>	<u>\$ 0</u>
				3,007	71,701	
7,229	51,593	51,593	(39,978)	7,538	65,359	26,335
7,229	51,593	51,593	(39,978)	10,545	137,060	26,335
<u>\$ 15,700</u>	<u>\$ 51,593</u>	<u>\$ 51,593</u>	<u>\$ 213,148</u>	<u>\$ 14,415</u>	<u>\$ 137,060</u>	<u>\$ 26,335</u>

City of Shawnee, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>
	<u>Gifts & Contributions Fund</u>	<u>Sister Cities Fund</u>	<u>Sinking Fund</u>	<u>1994 Street Improvement Project Fund</u>	<u>Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 42,092	\$ 16,100	\$ 132,470	\$ 68,410	\$ 748,441
Investments	55,920				55,920
Receivables:					
Accounts, net			613		613
Taxes					121,632
Notes					225,923
Accrued interest	327	12	68	35	799
Other					19,723
Due from other governments					36,011
Total assets	<u>\$ 98,339</u>	<u>\$ 16,112</u>	<u>\$ 133,151</u>	<u>\$ 68,445</u>	<u>\$ 1,209,062</u>
LIABILITIES					
Accounts payable and accrued liabilities		\$ 401			\$ 27,100
Due to other funds					29,073
Unearned revenue			\$ 848		217,605
Total liabilities	<u>\$ 0</u>	<u>401</u>	<u>848</u>	<u>\$ 0</u>	<u>273,778</u>
FUND BALANCES					
Reserved for:					
Encumbrances		803			75,511
Unreserved:					
Designated	98,339	14,908	132,303	68,445	859,773
Total fund balances	<u>98,339</u>	<u>15,711</u>	<u>132,303</u>	<u>68,445</u>	<u>935,284</u>
Total liabilities and fund balances	<u>\$ 98,339</u>	<u>\$ 16,112</u>	<u>\$ 133,151</u>	<u>\$ 68,445</u>	<u>\$ 1,209,062</u>

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City of Shawnee, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue			
	Street and Alley Fund	E-911	Revolving Oil & Gas Fund	Economic Development Fund
REVENUES				
Taxes				\$ 209,428
Licenses and permits	\$ 3,615	\$ 124,978	\$ 5,710	
Intergovernmental	262,951			5,000
Charges for services				
Other				
Interest	265	119	252	236
Total revenues	<u>266,831</u>	<u>125,097</u>	<u>5,962</u>	<u>214,664</u>
EXPENDITURES				
Current:				
Public safety		38,257		
Public works	251,955			
Culture and recreation				
Debt service:				
Bond principal		69,621		
Interest		6,329		
Economic development				160,000
Capital outlay				
Total expenditures	<u>251,955</u>	<u>114,207</u>	<u>0</u>	<u>160,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,876</u>	<u>10,890</u>	<u>5,962</u>	<u>54,664</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)				(15,000)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(15,000)</u>
Net change in fund balances	14,876	10,890	5,962	39,664
FUND BALANCES, beginning	<u>90,134</u>	<u>45,273</u>	<u>89,780</u>	<u>58,218</u>
FUND BALANCES, ending	<u>\$ 105,010</u>	<u>\$ 56,163</u>	<u>\$ 95,742</u>	<u>\$ 97,882</u>

Special Revenue						
Spay & Neuter Fund	Hotel/Motel Surcharge Fund	Police Sales Tax Fund	Fire Sales Tax Fund	CDBG & Home Grants Fund	Library Fund	Cemetery Care Fund
		\$ 261,785	\$ 261,785			
\$ 4,650	\$ 94,402			\$ 802,767 6,498		\$ 4,780
63		268	268		\$ 58	372
4,713	94,402	262,053	262,053	809,265	58	5,152
6,565						
				880,098	44,137	
	92,752					
6,565	92,752	0	0	2,881 882,979	11,197 55,334	0
(1,852)	1,650	262,053	262,053	(73,714)	(55,276)	5,152
0	0	(360,000) (360,000)	(360,000) (360,000)	0	49,000 49,000	0
(1,852)	1,650	(97,947)	(97,947)	(73,714)	(6,276)	5,152
23,164	5,579	149,540	149,540	33,736	16,821	131,908
\$ 21,312	\$ 7,229	\$ 51,593	\$ 51,593	\$ (39,978)	\$ 10,545	\$ 137,060

City of Shawnee, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2004
(continued)

	<u>Special Revenue</u>			<u>Debt Service</u>
	<u>Senior Citizens Fund</u>	<u>Gifts & Contributions Fund</u>	<u>Sister Cities Fund</u>	<u>Sinking Fund</u>
REVENUES				
Taxes				
Licenses and permits				\$ 117,974
Intergovernmental		\$ 3,000		
Charges for services				
Other		9,074	\$ 13,498	
Interest	\$ 74	3,804	70	364
Total revenues	<u>74</u>	<u>15,878</u>	<u>13,568</u>	<u>118,338</u>
EXPENDITURES				
Current:				
Public safety				
Public works				
Culture and recreation		12,242		
Debt service:				
Bond principal				100,000
Interest				28,475
Economic development			31,645	
Capital outlay				
Total expenditures	<u>0</u>	<u>12,242</u>	<u>31,645</u>	<u>128,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>74</u>	<u>3,636</u>	<u>(18,077)</u>	<u>(10,137)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			15,000	
Transfers (out)				
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>15,000</u>	<u>0</u>
Net change in fund balances	<u>74</u>	<u>3,636</u>	<u>(3,077)</u>	<u>(10,137)</u>
FUND BALANCES, beginning	<u>26,261</u>	<u>94,703</u>	<u>18,788</u>	<u>142,440</u>
FUND BALANCES, ending	<u>\$ 26,335</u>	<u>\$ 98,339</u>	<u>\$ 15,711</u>	<u>\$ 132,303</u>

<u>Capital Project</u>	
<u>1994 Street Improvement Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	\$ 732,998
	252,277
	1,073,718
	105,550
	27,352
\$ 191	6,404
<u>191</u>	<u>\$ 2,198,299</u>
	44,822
	251,955
	936,477
	169,621
	34,804
	284,397
	14,078
<u>0</u>	<u>1,736,154</u>
<u>191</u>	<u>462,145</u>
	15,000
	(686,000)
<u>0</u>	<u>(671,000)</u>
191	(208,855)
<u>68,254</u>	<u>1,144,139</u>
<u>\$ 68,445</u>	<u>\$ 935,284</u>

City of Shawnee, Oklahoma
Schedule of Reserve Account Balance Requirements –
Shawnee Municipal Authority
June 30, 2004

	<u>2003 Utility Revenue Note Reserve</u>	<u>1997B OWRB Promissory Note Reserve</u>
Required balance, June 30, 2004	<u>\$ 1,233,350</u>	<u>\$ 160,459</u>
Balance in trustee account, June 30, 2004	<u>1,310,490</u>	<u>162,451</u>
Amount over (under) required balance	<u><u>\$ 77,140</u></u>	<u><u>\$ 1,992</u></u>

City of Shawnee, Oklahoma
Schedule of Debt Service Coverage –
Shawnee Municipal Authority
Year Ended June 30, 2004

GROSS REVENUES AVAILABLE FOR DEBT SERVICE

Charges for services	\$ 5,726,695
Investment income	78,597
Total gross revenues available	<u>5,805,292</u>

EXPENSES

Operating	5,860,798
Less:	
Depreciation and amortization	(951,771)
Sanitation expense	(984,046)
Allocation for indirect costs	<u>(41,924)</u>

Net operating expenses	<u>3,883,057</u>
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Net revenues available for debt service	<u>\$ 1,922,235</u>
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Debt service requirements:

Maximum annual debt service - 2003 revenue note and 1997 promissory notes	<u>\$ 1,533,200</u>
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Computed coverage	<u>125%</u>
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Coverage requirement	<u>125%</u>
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Note: The above gross revenue and operating expenses only include the activities of the water and sewer systems, excluding depreciation and amortization. Sanitation revenues have been excluded along with a portion of Utility Administration expense related to sanitation.

**Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

December 30, 2004

City Commission
City of Shawnee
Shawnee, Oklahoma

We have audited 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 Shawnee as of and for the year ended June 30, 2004, which collectively comprise the City of Shawnee's basic financial statements and have issued our report thereon dated December 30, 2004, which was qualified because of inadequacies in the accounting records for revenues of the Shawnee Civic and Cultural Development Authority, (a discretely presented component unit). We did not audit management's discussion and analysis and the budgetary comparison information, which is required supplementary information, and therefore, expressed no opinion on it. Except as discussed on the basic financial statements, 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Shawnee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shawnee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Shawnee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Shawnee in a separate letter dated December 30, 2004.

This report is intended solely for the information and use of the city commission and management of the City of Shawnee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carlson & Cottrell

Single Audit

City of Shawnee, Oklahoma
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant - Entitlement Program	14.218		\$ 598,256
Pass-through Program From:			
Oklahoma Housing Finance Agency			
Home Investment Partnership Program	14.239	8993 HOME 02	169,052
Total U.S. Department of Housing and Urban Development			<u>767,308</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership Program	16.607		6,435
Local Law Enforcement Block Grants	16.592		64,728
Pass-through Program From:			
Oklahoma Office of Homeland Security:			
Oklahoma Department of Public Safety			
Oklahoma First Responder Equipment Program - Phase 1	16.007	2002-TE-CX-006	43,424
Total U.S. Department of Justice			<u>114,587</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration			
Airport Improvement Program	20.106		25,525
Pass-through Program From:			
Oklahoma Department of Agriculture			
Recreational Trails Program	20.219	TEA21-03-09	23,085
Total U.S. Department of Transportation			<u>48,610</u>
<u>U.S. Department of Energy</u>			
Pass-through Program From:			
Oklahoma Department of Commerce			
State Energy Program	81.041	11073 SEP 03	16,500
Total U.S. Department of Energy			<u>16,500</u>
<u>Federal Emergency Management Agency</u>			
Pass-Through Program From:			
Oklahoma Department of Civil Emergency Management			
Assistance to Firefighter Grant	83.554		72,281
Emergency Management Performance Grants	83.552		69,560
Total U.S. Emergency Management Agency			<u>141,841</u>
Total Expenditures of Federal Awards			<u>\$ 1,088,846</u>

The accompanying notes are an integral part of this schedule.

City of Shawnee, Oklahoma
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

I. Basis of accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Shawnee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. Expenditures

Expenditures represent the current year federal grant/contract portion only.

III. Noncash awards

The City of Shawnee expended no form of noncash assistance during the year and had no loan or loan guarantees outstanding at June 30, 2004, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

IV. Subrecipients

The City of Shawnee provided no federal awards to subrecipients.

City of Shawnee, Oklahoma
Summary Schedule of Prior Audit Findings

Financial Statement Findings

03-1. Documentation of Revenues (Shawnee Civic and Cultural Development Authority)

Condition: Presently, the Civic and Cultural Development Authority maintains a number of different ledgers and journals and receipt documents for monies collected for events. The Authority makes the daily deposits and reports the bank statement activity to the City on a monthly basis. However, the reports provided to the City's accounting department do not include the information necessary for the City staff to determine the completeness of the revenue deposited for all events. Such a report is provided, however, to the Authority's Board of Trustees.

Status: The condition, as of June 30, 2004 was not resolved. See finding 04-1.

Federal Award Findings and Questioned Costs

There were no matters reported in the prior year's audit report.

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

December 30, 2004

City Commission
City of Shawnee
Shawnee, Oklahoma

Compliance

We have audited the compliance of the City of Shawnee with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Shawnee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Shawnee's management. Our responsibility is to express an opinion on the City of Shawnee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shawnee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Shawnee's compliance with those requirements.

In our opinion, the City of Shawnee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Shawnee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shawnee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Carlson & Cottrell, CPAs, PLC

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Shawnee's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-2, 04-3 and 04-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-3 and 04-4 to be material weaknesses.

This report is intended solely for the information and use of the city commission and management of the City of Shawnee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carlson & Cottrell

City of Shawnee, Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Qualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be material weakness(es)?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	

CFDA Number(s)
14.218

Name of Federal Program or Cluster
Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

04-1 SCCDA Revenue Documentation

Criteria – Documentation in the form of pre-numbered receipts or tickets, or an automated process such as an electronic cash register, should be utilized for all revenues received.

Condition – The SCCDA does not issue pre-numbered receipts or tickets or use any form of automated process such as a cash register to document and record monies received for events, rentals, or fees. A receipt is prepared at the end of each day for the total amounts received and deposited. Revenues are collected by several different SCCDA employees.

Cause and Effect – No reconciliation is prepared at the end of each day of the funds on hand with what should be there. There is no way to verify management’s completeness assertion for revenues received.

Recommendation – We recommend the SCCDA install some form of cash register system, or issue individual pre-numbered receipts for all funds received. At the end of each day, the funds collected and on hand should be reconciled with the automated system report and/or receipts issued.

Section III – Federal Award Findings and Questioned Costs

04-2 Financial Reporting

**Community Development Block Grant (CDBG), CFDA No. 14.218
Federal Award No's. B-01-MC-40-0007(2001), B-02-MC-40-0007(2002), and B-03-MC-40-0007(2003)**

Criteria – Office of Management and Budget (OMB) Circular A-102 (2 Post-award Policies – c. Financial Status Reports)

Basic Guidelines reads as follows:

“1. Federal agencies shall require grantees to use the SF-269a, Financial Status Report-Short Form, to report the status of funds for all non-construction projects or programs. Federal agencies need not require the Financial Status Report when the SF-270, Request for Advance or Reimbursement, or SF-272, Report of Federal Cash Transactions, is determined to provide adequate information.”

Office of Management and Budget (OMB) Circular A-110 (.52 Financial reporting (2) SF-272, Report of Federal Cash Transactions (iv)

“(iv) Recipients shall be required to submit...SF-272 15 calendars days following the end of each quarter.”

Condition – During our examination of CDBG documentation for reporting to the Federal awarding agency no documentation could be located to support that the fourth quarter report SF-272, Federal Cash Transactions Report for federal grants numbered B-01-MC-40-0007(2001), B-02-MC-40-0007(2002), and B-03-MC-40-0007(2003) had been submitted.

Cause and Effect – Internal control procedures are not in place to ensure the City of Shawnee is submitting the required reports to HUD within the required time limits.

Recommendation – We recommend that the City review their procedures for filing reports to ensure that SF-272, Federal Cash Transactions Reports be submitted 15 calendar days following the end of each quarter for each open grant during the reporting quarter.

04-3 Financial Reporting

Community Development Block Grant (CDBG), CFDA No. 14.218

Federal Award No's. B-01-MC-40-0007(2001), B-02-MC-40-0007(2002), and B-03-MC-40-0007(2003)

Criteria – Office of Management and Budget (OMB) Circular A-110 (Financial and Program Management __.20, __.21 Standards for financial management systems reads as follows:

- 1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section __.52. Performances Reporting
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

Office of Management and Budget (OMB Circular A-133 __.105, reads as follows:

- “(1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; ...”

Condition – During our audit comparison of City of Shawnee financial reports to CDBG financial federal reports for HUD the City was unable to reconcile amounts reported in the trial balance with amounts included in reports to HUD.

Cause and Effect – Internal controls over the City of Shawnee's grant financial accounting management or system do not adequately identify and provide proper data for reconciliation between CDBG and City of Shawnee records. This affects the process to permit the preparation of reliable financial statements and Federal reports.

Recommendation – We recommend the City of Shawnee establish an accounting system that provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both, and records and reports that identify adequately the source and application of funds for federally-sponsored activities. These records should contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest. We recommend that reports be provided to managers and/or other employees responsible for grant review, reconciliation, etc... as needed.

04-4 Federal Program - All federally funded grants except CDBG

Criteria – Office of Management and Budget (OMB) Circular A-110 (Financial and Program Management __.20, __.21 Standards for financial management systems reads as follows:

- 1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section __.52. Performances Reporting

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

Office of Management and Budget (OMB Circular A-133____.105, reads as follows:

- “(1) Transactions are properly recorded and accounted for to:
- (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; ...”

Condition – The City of Shawnee does not have the capability to generate an accurate system based report that provides key grant information by grant and grant year from a particular start date to a particular ending date. This information should include total grant expenditures, total indirect costs charged to the grant, total amounts claimed to funding sources and the total reimbursement received from the funding source, i.e., deposits made. This report is a key ingredient to the timely reconciliation of grant activity.

Cause and Effect – Internal controls over the City of Shawnee’s grant financial accounting management or system does not adequately identify and provide concise data for the timely reconciliation between the City of Shawnee general ledger records and amounts reported to funding sources. The reconciliation process is necessary to permit the preparation of reliable financial statements and Federal reports on a timely basis.

Recommendation – We recommend the City of Shawnee establish an accounting system that provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both, and records and reports that identify adequately the source and application of funds for federally-sponsored activities. This system should contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest, and include the reconciliation of actual with account based totals.

City of Shawnee, Oklahoma
Management's Corrective Action Plan

04-1 SCCDA Revenue Documentation

This finding has been given to the SCCDA Board for action. The City of Shawnee has requested that the SCCDA Board request the SCCDA management to install some form of an automated accounting system and an annual audit. The installment may be implemented in stages to minimize the disruption of activities.

04-2 Financial Reporting

**Community Development Block Grant (CDBG), CFDA No 14.218
Federal Award No's. B-01-MC-40-0007(2001), B-02-MC-40-0007(2002), AND B-03-MC-40-0007(2003)**

Submitting the required reports to HUD within the required time limits has been assigned to the Chief Accountant. The reports in question have been submitted.

04-3 Financial Reporting

**Community Development Block Grant (CDBG), CFDA No. 14.218
Federal Award No's. B-01-MC-40-0007(2001), B-02-MC-40-0007(2002), and B-03-MC-40-0007(2003)**

The City will reconcile the amounts reported in the trial balance with the amounts included in reports to HUD. This has been assigned to the Chief Accountant.

04-4 Federal Program – All federally funded grants except CDBG

The City will adapt the current project accounting module to generate an accurate system based report that provides key grant information by grant and grant year from a particular start date to a particular ending date. This information will include total grant expenditures, total indirect costs charged to the grant, total amounts claimed to funding sources and the total reimbursement received from the funding source.