



CITY OF ALVA, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR
ENDED JUNE 30, 2016

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Alva, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alva, Oklahoma, as of and for the year ended June 30, 2016, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Alva Hospital Authority d/b/a Share Medical Authority, which represent 79 percent, 84 percent, and 81 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts for Alva Hospital Authority d/b/a Share Medical Authority, is based solely on the report of the other auditors. 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 involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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 Alva, Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Alva Hospital Authority d/b/a Share Medical Authority, a business-type activity, will continue as a going concern. As discussed in Note 20, the Authority has suffered recurring operating losses and has negative working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are discussed in Note 20. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

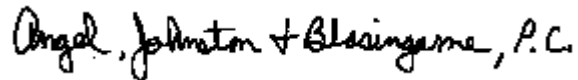
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alva's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the combining general fund statements, the schedule of federal awards, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the combining general fund statements, the schedule of federal awards, and statistical section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statement. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the combining general fund statements, and the schedule of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Audit Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 12, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alva's internal control over financial reporting and compliance.



Chickasha, Oklahoma
May 12, 2017

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CITY OF ALVA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The management of the City of Alva is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the fiscal year ended June 30, 2016. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts

FINANCIAL HIGHLIGHTS

- As reported on an accrual basis, the City's total net position decreased by \$307,120, and the assets and deferred outflows of the City exceed its liabilities and deferred inflows for the year ended June 30, 2016, by \$17,588,407 (net position).
- For the fiscal year ended June 30, 2016, the City's governmental funds reported combined ending fund balances of \$4,933,465. There is no unassigned fund balance for the City's governmental funds.
- For the year ended June 30, 2016, committed fund balance for the General Fund was \$763,000 or 12.5% of General Fund revenues. This amount is committed to the stabilization reserve fund and leaves the General Fund without any assigned or unassigned fund balance.

ABOUT THE CITY

The City of Alva is a municipality with a population of approximately 4,945 located in Woods County in northern Oklahoma. The City is a statutory aldermanic form of government with a weak mayor. The City is governed by the Mayor and an eight-member Board and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Board is a eight-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is hired by the City Board
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Board

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Utility Authority, certain utility services including water, wastewater, sanitation and landfill.

The City's Financial Reporting Entity

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

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

- **The City of Alva** – that operates the public safety, streets, health and welfare, culture and recreation, and administrative activities of the City – *reported as the primary government*
- **The Alva Economic Development Authority** – public trust created pursuant to 60 O.S. § 176 to promote the economic development of the City of Alva (*blended component unit*)
- **The Alva Utility Authority (AUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer, and sanitation services of the City, with the City Council members serving as the trustees – (*blended component unit*)
- **The Alva Hospital Authority** – public trust created pursuant to 60 O.S. § 176 to operate the hospital. The Alva Hospital Authority prepares separate financial statements and can be obtained by contacting the Authority's administration by telephoning 580-327-2800 – (*blended component unit*)

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trusts within the City's financial reporting entity.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Alva (the "City") and the three blended component units mentioned above. Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The governmental-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. These statements include all assets of the City (including infrastructure) and deferred outflows as well as all liabilities and deferred inflows (including long-term debt).

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the period's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of

CITY OF ALVA, OKLAHOMA
Management's Discussion and Analysis
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service to assess the overall health of the City. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, through the Utility Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on an accrual basis of accounting. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary funds are the Alva Utility Authority that accounts for the operation of the water, sewer, sanitation and landfill activities and the Alva Hospital Authority which operates the Hospital.

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Management's Discussion and Analysis
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Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-58 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, Hotel Tax Fund and the Airport Fund.

THE CITY AS A WHOLE

For the fiscal year ended June 30, 2016, net position for the governmental and business-type activities decreased by \$307,120.

Following is a summary of net position reported on an accrual basis for the City of Alva.

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Current assets	\$ 5,589	\$ 6,464	-14%	\$ 3,509	\$ 5,832	-40%	\$ 9,098	\$ 12,296	-26%
Capital assets, net	7,907	6,139	29%	15,535	15,236	2%	23,442	21,375	10%
Other non-current assets	235	437	-46%	91	131	-31%	326	568	-43%
Total assets	<u>13,731</u>	<u>13,040</u>	5%	<u>19,135</u>	<u>21,199</u>	-10%	<u>32,866</u>	<u>34,239</u>	-4%
Deferred outflow of resources	<u>418</u>	<u>207</u>	102%	<u>522</u>	<u>534</u>	-2%	<u>940</u>	<u>741</u>	27%
Current liabilities	894	960	-7%	3,918	3,787	3%	4,812	4,747	1%
Non-current liabilities	2,566	2,584	-1%	8,619	9,288	-7%	11,185	11,872	-6%
Total liabilities	<u>3,460</u>	<u>3,544</u>	-2%	<u>12,537</u>	<u>13,075</u>	-4%	<u>15,997</u>	<u>16,619</u>	-4%
Deferred inflow of resources	<u>202</u>	<u>551</u>	-63%	<u>18</u>	<u>53</u>	-66%	<u>220</u>	<u>604</u>	-64%
Net position:									
Net investment in capital assets	6,694	4,569	47%	7,304	7,221	1%	13,998	11,790	19%
Restricted	3,968	4,450	-11%	531	492	8%	4,499	4,942	-9%
Unrestricted (deficit)	(175)	133	-232%	(734)	892	-182%	(909)	1,025	-189%
Total net position	<u>\$ 10,487</u>	<u>\$ 9,152</u>	15%	<u>\$ 7,101</u>	<u>\$ 8,605</u>	-17%	<u>\$ 17,588</u>	<u>\$ 17,757</u>	-1%

The largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. At year end, the net investment in capital assets amounted to \$13,998,945.

CITY OF ALVA, OKLAHOMA
Management's Discussion and Analysis
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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.

A portion of the City's net position, \$4,498,468, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing needs. The governmental activities had negative unrestricted net position of \$174,791 and the business-type activities negative unrestricted net position was \$734,215.

TABLE 2
CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Revenues									
Charges for service	\$ 1,176	\$ 913	29%	\$ 14,124	\$ 14,859	-5%	\$ 15,300	\$ 15,772	-3%
Operating grants and contributions	391	259	51%	-	-	-	391	259	51%
Capital grants and contributions	582	192	203%	88	99	-11%	670	291	130%
Taxes	5,151	6,912	-25%	-	-	-	5,151	6,912	-25%
Investment income	31	32	-3%	6	11	-45%	37	43	-14%
Miscellaneous	790	1,222	-35%	-	-	-	790	1,222	-35%
Total revenues	8,121	9,530	-15%	14,218	14,969	-5%	22,339	24,499	-9%
Expenses									
General government	2,212	1,751	26%	-	-	-	2,212	1,751	26%
Public safety	1,730	1,700	2%	-	-	-	1,730	1,700	2%
Streets	872	979	-11%	-	-	-	872	979	-11%
Ambulance	684	591	16%	-	-	-	684	591	16%
Culture and recreation	825	826	-	-	-	-	825	826	-
Cemetery	69	74	-7%	-	-	-	69	74	-7%
Airport	303	332	-9%	-	-	-	303	332	-9%
Economic development	287	845	-66%	-	-	-	287	845	-66%
Health and Welfare	99	151	-34%	-	-	-	99	151	-34%
Interest on long-term debt	46	47	-2%	-	-	-	46	47	-2%
Water	-	-	-	402	431	-7%	402	431	-7%
Sewer	-	-	-	373	400	-7%	373	400	-7%
Homestead	-	-	-	106	149	-29%	106	149	-29%
Landfill	-	-	-	125	145	-14%	125	145	-14%
Hospital	-	-	-	13,732	13,677	-	13,732	13,677	-
Sanitation	-	-	-	782	743	5%	782	743	5%
Total expenses	7,127	7,296	-2%	15,520	15,545	-	22,647	22,841	-1%
Excess (deficiency) before transfers	994	2,234	-56%	(1,302)	(576)	126%	(308)	1,658	-119%
Net Transfers	63	(1,482)	-104%	(63)	1,482	-104%	-	-	-
Change in net position	1,057	752	41%	(1,365)	906	-251%	(308)	1,658	-119%
Beginning net position, restated	9,430	8,400	12%	8,466	7,699	10%	17,896	16,099	11%
Ending net position	\$ 10,487	\$ 9,152	15%	\$ 7,101	\$ 8,605	-17%	\$ 17,588	\$ 17,757	-1%

The City's governmental activities capital grants and contributions increased approximately \$390,000 due to FAA grants received in the current year. The City's governmental activities taxes decreased approximately \$1.7 million due primarily to a significant decrease in sales tax in the current year.

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The City's governmental activities general government and economic development expenditures fluctuated due to changing the classification of where particular expenditures are reported in the current year.

Net transfers varied significantly from prior year due to a large operating transfer from the AUA to the General Fund in the current year.

Governmental Activities

The City's governmental activities had an increase in net position of \$1,057,621.

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

	Total Expense		% Inc.	Net Revenue		% Inc.
	of Services			(Expense)		
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
General government	\$ 2,212	\$ 1,751	26%	(\$2,161)	(\$1,727)	25%
Public safety	1,730	1,700	2%	(1,389)	(1,455)	-5%
Streets	872	979	-11%	(679)	(723)	-6%
Ambulance	684	591	16%	(143)	(190)	-25%
Culture and recreation	825	826	-	(701)	(677)	4%
Cemetery	69	74	-7%	(35)	(42)	-17%
Airport	303	332	-9%	554	(75)	-839%
Economic development	287	845	-66%	(279)	(845)	-67%
Health and welfare	99	151	-34%	(99)	(151)	-34%
Interest on long-term debt	46	47	-2%	(46)	(47)	-2%
Total	<u>\$ 7,127</u>	<u>\$ 7,296</u>	-2%	<u>\$ (4,978)</u>	<u>\$ (5,932)</u>	-16%

Business-type Activities

The business-type activities had a decrease in net position of \$1,364,937.

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

	Total Expense		% Inc.	Net Revenue		% Inc.
	of Services			(Expense)		
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Water	\$ 402	\$ 431	-7%	\$ 776	\$ 808	-4%
Homestead	106	149	-29%	(106)	(148)	-28%
Sanitation	782	743	5%	453	542	-16%
Sewer	373	400	-7%	(120)	(83)	45%
Hospital	13,732	13,677	-	(2,194)	(1,702)	29%
Landfill	125	145	-14%	(117)	(4)	2825%
Total	<u>\$ 15,520</u>	<u>\$ 15,545</u>	-	<u>\$ (1,308)</u>	<u>\$ (587)</u>	123%

CITY OF ALVA, OKLAHOMA
Management's Discussion and Analysis
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its fiscal year ended June 30, 2016, the governmental funds reported a combined fund balance of \$4,933,465. For the year ended June 30, 2016, the General Fund's total fund balance decreased by \$590,664.

Budgetary Highlights

For fiscal year ended June 30, 2016, the General Fund reported revenues below final estimates by \$390,408 or a 4.5% negative variance. General Fund actual expenditures were over final appropriations by \$482,312 or a 5.5% negative variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the City had approximately \$23 million in capital assets (net of accumulated depreciation), as reported on an accrual basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets as of June 30, 2016.¹

TABLE 5
Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	restated <u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	restated <u>2015</u>
Land	\$ 719	\$ 719	\$ 133	\$ 133	\$ 852	\$ 852
Buildings and improvements	3,226	3,341	11,620	11,336	14,846	14,677
Machinery, furniture and equipment	2,597	2,171	2,079	2,666	4,676	4,837
Infrastructure	317	23	543	540	860	563
Construction in progress	1,048	213	1,159	561	2,207	774
Totals	<u>\$ 7,907</u>	<u>\$ 6,467</u>	<u>\$ 15,534</u>	<u>\$ 15,236</u>	<u>\$ 23,441</u>	<u>\$ 21,703</u>

This year's more significant capital asset additions include the following:

- Runway Lighting
- Young Street Waterline
- AMR Project
- Solid Waste Transfer Station
- Gun Range
- 2006 LeeBoy Paver
- Concession Concrete

¹ For more detailed information on capital asset activity please refer to pages 34-35, Note 6. Capital Assets and Depreciation

CITY OF ALVA, OKLAHOMA
Management's Discussion and Analysis
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- 2016 Street Overlays
- Library Roof

Debt Administration

At June 30, 2016, the City had \$12 million in long-term debt outstanding.

TABLE 6
Long-Term Debt
(In Thousands)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Notes payable	\$ 681	\$ 821	\$ 10,349	\$ 10,949	\$ 11,030	\$ 11,770
Refundable grant obligation	-	-	152	172	152	172
Capital leases	531	626	103	119	634	745
Deposits subject to refund	-	-	166	163	166	163
Accrued compensated absences	105	123	26	52	131	175
Totals	\$ 1,317	\$ 1,570	\$ 10,796	\$ 11,455	\$ 12,113	\$ 13,025

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- For fiscal year 2017, the City will continue with the construction of the Taxiway Extension and the gun range.
- The City will also continue work on various water main and sewer line replacements as well as the AMR Project.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 415 4th Street, Alva, Oklahoma 73717 or telephone at 580-327-1340.

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

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

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

Statement of Net Position – June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,055,895	\$ 1,182,776	\$ 3,238,671
Investments	2,379,795	180,181	2,559,976
Interest receivable	2,753	214	2,967
Accounts receivable, net of allowance	304,540	1,580,890	1,885,430
Internal balances	74,477	(74,477)	-
Due from other governmental agencies	718,608	-	718,608
Inventories	52,440	153,855	206,295
Other receivables	-	228,143	228,143
Prepaid expense	-	105,524	105,524
Interest in asset	-	152,364	152,364
Net pension asset	235,193	90,869	326,062
Capital Assets:			
Land and construction in progress	1,767,332	1,292,261	3,059,593
Other capital assets, net of depreciation	6,139,437	14,242,524	20,381,961
Total Assets	<u>\$ 13,730,470</u>	<u>\$ 19,135,124</u>	<u>\$ 32,865,594</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 418,396	\$ 43,414	\$ 461,810
Deferred amounts related to hospital	-	478,159	478,159
Total deferred outflows of resources	<u>418,396</u>	<u>521,573</u>	<u>939,969</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 552,405	\$ 1,655,464	\$ 2,207,869
Cash overdraft	-	54,260	54,260
Due to depositors	5,082	-	5,082
Accrued interest payable	-	31,202	31,202
Long-term liabilities			
Due within one year	336,095	2,177,483	2,513,578
Due in more than one year	981,161	8,618,985	9,600,146
Net pension liability	1,585,217	-	1,585,217
Total liabilities	<u>3,459,960</u>	<u>12,537,394</u>	<u>15,997,354</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pension	<u>201,568</u>	<u>18,234</u>	<u>219,802</u>
NET POSITION			
Net investment in capital assets	6,694,490	7,304,455	13,998,945
Restricted by:			
Other contracts	3,967,639	530,829	4,498,468
Unrestricted (deficit)	(174,791)	(734,215)	(909,006)
Total net position	<u>\$ 10,487,338</u>	<u>\$ 7,101,069</u>	<u>\$ 17,588,407</u>

See accompanying notes to the basic financial statements.

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

Statement of Activities – Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 2,212,439	\$ -	\$ 51,142	\$ -	\$ (2,161,297)	\$ -	\$ (2,161,297)
Public Safety	1,730,180	52,919	288,416	-	(1,388,845)	-	(1,388,845)
Streets	872,084	161,010	32,422	-	(678,652)	-	(678,652)
Ambulance	684,007	535,963	4,600	-	(143,444)	-	(143,444)
Culture and Recreation	824,659	109,689	13,967	-	(701,003)	-	(701,003)
Cemetery	69,247	34,455	-	-	(34,792)	-	(34,792)
Airport	303,132	274,407	-	582,401	553,676	-	553,676
Economic Development	287,069	7,783	-	-	(279,286)	-	(279,286)
Health and Welfare	98,968	-	-	-	(98,968)	-	(98,968)
Interest on Long-term debt	44,914	-	-	-	(44,914)	-	(44,914)
Total governmental activities	<u>7,126,699</u>	<u>1,176,226</u>	<u>390,547</u>	<u>582,401</u>	<u>(4,977,525)</u>	<u>-</u>	<u>(4,977,525)</u>
Business-Type Activities:							
Water	402,121	1,177,805	-	-	-	775,684	775,684
Homestead	105,669	-	-	-	-	(105,669)	(105,669)
Sanitation	782,056	1,234,711	-	-	-	452,655	452,655
Landfill	125,233	8,345	-	-	-	(116,888)	(116,888)
Hospital	13,731,787	11,449,873	-	88,191	-	(2,193,723)	(2,193,723)
Sewer	373,237	253,375	-	-	-	(119,862)	(119,862)
Total business-type activities	<u>15,520,103</u>	<u>14,124,109</u>	<u>-</u>	<u>88,191</u>	<u>-</u>	<u>(1,307,803)</u>	<u>(1,307,803)</u>
Total primary government	<u>\$ 22,646,802</u>	<u>\$ 15,300,335</u>	<u>\$ 390,547</u>	<u>\$ 670,592</u>	<u>\$ (4,977,525)</u>	<u>\$ (1,307,803)</u>	<u>\$ (6,285,328)</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 4,503,059	\$ -	\$ 4,503,059
Franchise taxes and public service taxes					393,124	-	393,124
Hotel/motel taxes					254,851	-	254,851
Unrestricted investment earnings					30,946	6,119	37,065
Miscellaneous					790,109	-	790,109
Transfers					63,253	(63,253)	-
Total general revenues and transfers					<u>6,035,342</u>	<u>(57,134)</u>	<u>5,978,208</u>
Change in net position					<u>1,057,817</u>	<u>(1,364,937)</u>	<u>(307,120)</u>
Net position - beginning, restated					<u>9,429,521</u>	<u>8,466,006</u>	<u>17,895,527</u>
Net position - ending					<u>\$ 10,487,338</u>	<u>\$ 7,101,069</u>	<u>\$ 17,588,407</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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

Governmental Funds Balance Sheet – June 30, 2016

	<u>General Fund</u>	<u>Hotel Tax Fund</u>	<u>Airport Fund</u>	<u>AEDA Scholarship Fund</u>	<u>AEDA Economic Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ 48,073	\$ 371,484	\$ 836,225	\$ 125,438	\$ 333,998	\$ 340,677	\$ 2,055,895
Investments	423,039	306,054	445,635	632,599	405,055	167,413	2,379,795
Interest receivable	123	524	420	982	544	160	2,753
Receivable from other governments	680,614	25,226	-	-	-	12,768	718,608
Due from other funds	18,020	66,703	-	71,442	71,442	-	227,607
Court fines receivable, net	12,618	-	-	-	-	-	12,618
Ambulance receivable, net	211,830	-	-	-	-	-	211,830
Accounts receivable, net	-	-	-	-	-	4,282	4,282
Other receivables	5,021	-	57,085	-	30	13,674	75,810
Inventories	19,673	-	29,949	-	2,818	-	52,440
Total assets	<u>\$ 1,419,011</u>	<u>\$ 769,991</u>	<u>\$ 1,369,314</u>	<u>\$ 830,461</u>	<u>\$ 813,887</u>	<u>\$ 538,974</u>	<u>\$ 5,741,638</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 262,173	\$ 62,201	\$ 27,742	\$ -	\$ 7,920	\$ 57,584	\$ 417,620
Accrued payroll payable	121,332	-	2,192	-	6,025	1,301	130,850
Due to other funds	147,980	-	1,045	-	3,213	892	153,130
Due to bondholders	5,082	-	-	-	-	-	5,082
Other payables	2,215	-	-	-	1,720	-	3,935
Total liabilities	<u>538,782</u>	<u>62,201</u>	<u>30,979</u>	<u>-</u>	<u>18,878</u>	<u>59,777</u>	<u>710,617</u>
Deferred inflows of resources:							
Deferred revenue	97,556	-	-	-	-	-	97,556
Fund balances:							
Nonspendable	19,673	-	-	-	-	-	19,673
Restricted	-	707,790	1,338,335	830,461	795,009	276,371	3,947,966
Committed	763,000	-	-	-	-	27,440	790,440
Assigned	-	-	-	-	-	175,386	175,386
Total fund balances	<u>782,673</u>	<u>707,790</u>	<u>1,338,335</u>	<u>830,461</u>	<u>795,009</u>	<u>479,197</u>	<u>4,933,465</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,419,011</u>	<u>\$ 769,991</u>	<u>\$ 1,369,314</u>	<u>\$ 830,461</u>	<u>\$ 813,887</u>	<u>\$ 538,974</u>	<u>\$ 5,741,638</u>

See accompanying notes to the basic financial statements.

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

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances – Year Ended June 30, 2016

	<u>General Fund</u>	<u>Hotel Tax Fund</u>	<u>Airport Fund</u>	<u>AEDA Scholarship Fund</u>	<u>AEDA Economic Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Taxes	\$ 4,726,385	\$ 254,851	\$ -	\$ -	\$ -	\$ -	\$ 4,981,236
Intergovernmental	394,901	-	582,401	-	-	46,239	1,023,541
Licenses and permits	26,016	-	-	-	-	-	26,016
Charges for services	464,756	-	273,011	-	91,022	195,465	1,024,254
Fines and forfeitures	51,687	-	-	-	-	-	51,687
Investment earnings	13,595	3,078	2,697	7,513	2,899	1,164	30,946
Miscellaneous	445,433	67,614	242,825	-	7,783	116,479	880,134
Total revenues	<u>6,122,773</u>	<u>325,543</u>	<u>1,100,934</u>	<u>7,513</u>	<u>101,704</u>	<u>359,347</u>	<u>8,017,814</u>
EXPENDITURES							
Current:							
General government	1,498,070	-	-	556,258	-	8,530	2,062,858
Public safety	1,777,039	-	-	-	-	78,967	1,856,006
Streets	710,202	-	-	-	-	133,451	843,653
Ambulance	657,919	-	-	-	-	-	657,919
Culture and recreation	372,671	-	-	-	384,393	17,498	774,562
Economic development	-	287,069	-	-	-	-	287,069
Airport	-	-	434,611	-	-	-	434,611
Cemetery	-	-	-	-	-	64,902	64,902
Health and welfare	98,968	-	-	-	-	-	98,968
Capital outlay	261,584	-	724,196	-	221,995	396,389	1,604,164
Debt service:							
Principal	94,658	-	-	-	139,905	-	234,563
Interest and other charges	20,573	-	-	-	24,341	-	44,914
Total expenditures	<u>5,491,684</u>	<u>287,069</u>	<u>1,158,807</u>	<u>556,258</u>	<u>770,634</u>	<u>699,737</u>	<u>8,964,189</u>
Excess (deficiency) of revenues over expenditures	<u>631,089</u>	<u>38,474</u>	<u>(57,873)</u>	<u>(548,745)</u>	<u>(668,930)</u>	<u>(340,390)</u>	<u>(946,375)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	1,419,030	-	1,134	575,847	575,787	216,113	2,787,911
Transfers out	(2,640,783)	(67,614)	-	-	-	(1,134)	(2,709,531)
Total other financing sources and uses	<u>(1,221,753)</u>	<u>(67,614)</u>	<u>1,134</u>	<u>575,847</u>	<u>575,787</u>	<u>214,979</u>	<u>78,380</u>
Net change in fund balances	(590,664)	(29,140)	(56,739)	27,102	(93,143)	(125,411)	(867,995)
Fund balances - beginning, restated	1,373,337	736,930	1,395,074	803,359	888,152	604,608	5,801,460
Fund balances - ending	<u>\$ 782,673</u>	<u>\$ 707,790</u>	<u>\$ 1,338,335</u>	<u>\$ 830,461</u>	<u>\$ 795,009</u>	<u>\$ 479,197</u>	<u>\$ 4,933,465</u>

See accompanying notes to the basic financial statements.

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

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance - Net Position Reconciliation:

Total fund balance, governmental funds	\$ 4,933,465
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	7,906,769
Other long-term assets and deferred outflows are not available to pay for current period expenditures and therefore are deferred or not reported in the funds.	
Deferred revenue	97,556
Net pension asset	235,193
Pension related deferred outflows	418,396
Certain long-term liabilities are not due and payable from current financial resources and therefore they, along with deferred inflows, are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	
Capital lease obligation	(531,401)
Notes payable	(680,878)
Accrued compensated absences	(104,977)
Net pension liability	(1,585,217)
Pension related deferred inflows	(201,568)
	<u>(2,352,896)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 10,487,338</u>

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net change in fund balances - total governmental funds:	\$ (867,995)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
Capital asset purchases capitalized	1,904,794
Depreciation expense	(449,531)
Capital assets transferred to enterprise fund	(15,127)
In the Statement of Activities, the net cost of pension benefits earned is calculated and reported as pension expense. The fund financial statements report pension contributions as pension expenditures. This amount represents the difference between pension contributions and calculated pension expense.	142,129
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	91,106
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:	
Principal payments on long-term debt	234,563
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Change in accrued compensated absences	<u>17,878</u>
Change in net position of governmental activities	<u>\$ 1,057,817</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

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

Proprietary Fund Statement of Net Position – June 30, 2016

	<u>Alva Utility Authority</u>	<u>Alva Hospital Authority</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,827	\$ 438,180	\$ 447,007
Restricted:			
Cash and cash equivalents	228,624	-	228,624
Investments	141,174	-	141,174
Accrued interest	214	-	214
Accounts receivable, net	327,159	1,253,731	1,580,890
Receivables from third-party payer	-	145,000	145,000
Other receivables	-	83,143	83,143
Inventories	-	153,855	153,855
Prepaid Expenses	-	105,524	105,524
Total current assets	<u>705,998</u>	<u>2,179,433</u>	<u>2,885,431</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	-	507,145	507,145
Investments	39,007	-	39,007
Investment in assets	-	152,364	152,364
Net pension asset	90,869	-	90,869
Capital assets:			
Land and construction in progress	1,068,220	224,041	1,292,261
Other capital assets, net of accumulated depreciation	2,072,013	12,170,511	14,242,524
Total non-current assets	<u>3,270,109</u>	<u>13,054,061</u>	<u>16,324,170</u>
Total assets	<u>3,976,107</u>	<u>15,233,494</u>	<u>19,209,601</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pension	43,414	-	43,414
Deferred amounts related to hospital	-	478,159	478,159
Total deferred outflows of resources	<u>43,414</u>	<u>478,159</u>	<u>521,573</u>
LIABILITIES			
Current liabilities:			
Accounts payable	109,371	1,522,254	1,631,625
Salaries payable	23,839	-	23,839
Accrued interest payable	31,202	-	31,202
Due to other funds	74,477	-	74,477
Cash overdraft	-	54,260	54,260
Deposits subject to refund	24,906	-	24,906
Compensated absences	20,593	-	20,593
Capital lease obligation	18,493	-	18,493
Refundable grant obligations	19,906	-	19,906
Notes payable	215,000	1,878,585	2,093,585
Total current liabilities	<u>537,787</u>	<u>3,455,099</u>	<u>3,992,886</u>
Non-current liabilities:			
Deposits subject to refund	141,135	-	141,135
Compensated absences	5,645	-	5,645
Capital lease obligation	84,330	-	84,330
Refundable grant obligations	132,321	-	132,321
Notes payable	1,980,000	6,275,554	8,255,554
Total non-current liabilities	<u>2,343,431</u>	<u>6,275,554</u>	<u>8,618,985</u>
Total liabilities	<u>2,881,218</u>	<u>9,730,653</u>	<u>12,611,871</u>
DEFERRED INFLOW OF RESOURCES			
Deferred amounts related to pension	18,234	-	18,234
NET POSITION			
Net investment in capital assets	776,363	6,528,092	7,304,455
Restricted for debt service	109,737	51,614	161,351
Restricted for other purposes	46,982	322,496	369,478
Unrestricted (deficit)	186,987	(921,202)	(734,215)
Total net position	<u>\$ 1,120,069</u>	<u>\$ 5,981,000</u>	<u>\$ 7,101,069</u>

See accompanying notes to the basic financial statements.

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

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position – Year Ended June 30, 2016

	<u>Alva Utility Authority</u>	<u>Alva Hospital Authority</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Water	\$ 1,162,563	\$ -	\$ 1,162,563
Sewer	250,326	-	250,326
Landfill	8,345	-	8,345
Sanitation	1,219,850	-	1,219,850
Hospital	-	9,680,173	9,680,173
Penalties	32,072	-	32,072
Miscellaneous	-	1,769,700	1,769,700
Total operating revenues	<u>2,673,156</u>	<u>11,449,873</u>	<u>14,123,029</u>
OPERATING EXPENSES			
Water/Sewer	651,158	-	651,158
Sanitation	700,710	-	700,710
Landfill	125,233	-	125,233
Homestead	32,324	-	32,324
Hospital	-	12,326,942	12,326,942
Depreciation	207,536	1,043,508	1,251,044
Total operating expenses	<u>1,716,961</u>	<u>13,370,450</u>	<u>15,087,411</u>
Operating income (loss)	<u>956,195</u>	<u>(1,920,577)</u>	<u>(964,382)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,125	4,994	6,119
Miscellaneous revenue	1,080	-	1,080
Interest expense	(71,355)	(361,337)	(432,692)
Total non-operating revenue (expenses)	<u>(69,150)</u>	<u>(356,343)</u>	<u>(425,493)</u>
Income (loss) before contributions and transfers	<u>887,045</u>	<u>(2,276,920)</u>	<u>(1,389,875)</u>
Capital contributions	-	88,191	88,191
Transfers in	15,127	1,340,650	1,355,777
Transfers out	(1,419,030)	-	(1,419,030)
Change in net position	<u>(516,858)</u>	<u>(848,079)</u>	<u>(1,364,937)</u>
Total net position - beginning, restated	1,636,927	6,829,079	8,466,006
Total net position - ending	<u>\$ 1,120,069</u>	<u>\$ 5,981,000</u>	<u>\$ 7,101,069</u>

See accompanying notes to the basic financial statements.

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

Proprietary Fund Statement of Cash Flows – Year Ended June 30, 2016

	<u>Alva Utility Authority</u>	<u>Alva Hospital Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,646,247	\$ 9,908,398
Payments to suppliers	(688,259)	(4,974,502)
Payments to employees	(899,606)	(7,236,302)
Receipts of customer utility deposits	37,704	-
Refunds of customer utility deposits	(34,885)	-
Interfund receipts/payments	61,607	-
Other income	-	1,769,700
Net Cash Provided by (Used in) Operating Activities	<u>1,122,808</u>	<u>(532,706)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	15,127	1,340,650
Transfers to other funds	(1,419,030)	-
Change in cash overdraft	-	(13,712)
Interest paid on line of credit	-	(5,716)
Non-capital gifts	-	60,614
Non-capital appropriations - City of Alva	-	48,267
Principal paid on lines of credit	-	(400,000)
Proceeds from draws on lines of credit	-	400,000
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(1,403,903)</u>	<u>1,430,103</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,226,943)	(313,086)
Debt proceeds	-	-
Principal paid on capital debt	(241,186)	(394,448)
Interest paid on capital debt	(76,611)	(261,467)
Capital grants and gifts	-	27,577
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(1,544,740)</u>	<u>(941,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	1,417	3,537
(Purchase) sale of investments	(35,268)	215,995
Contributions to Communities Foundation of Oklahoma, Inc	-	(25,000)
Net Cash Provided by (Used in) Investing Activities	<u>(33,851)</u>	<u>194,532</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,859,686)	150,505
Balance - beginning of the year	<u>2,097,137</u>	<u>794,820</u>
Balance - end of the year	<u>\$ 237,451</u>	<u>\$ 945,325</u>
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	8,827	438,180
Restricted cash and cash equivalents	<u>228,624</u>	<u>507,145</u>
Total cash and cash equivalents	<u>\$ 237,451</u>	<u>\$ 945,325</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	956,195	(1,920,577)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Miscellaneous revenue	1,080	-
Depreciation expense	207,536	1,043,508
Provision for uncollectible accounts	-	1,209,794
Change in assets and liabilities:		
Receivables	(27,989)	(1,266,569)
Supplies and prepaid expenses	-	(27,042)
Interfund receipts/payments	61,607	-
Estimated amounts due to third-party payer	-	285,000
Accounts payable and accrued liabilities	(39,611)	143,180
Accrued payroll payable	3,515	-
Net pension liability	(8,825)	-
Net pension asset	39,914	-
Deferred outflows	(47,532)	-
Meter deposit liability	2,819	-
Accrued compensated absences	(25,901)	-
Net cash provided by (used in) operating activities	<u>\$ 1,122,808</u>	<u>\$ (532,706)</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the basic financial statements:

1. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Alva) and three blended component units. This annual report includes all activities for which the City of Alva City Council/Manager is fiscally responsible.

- **The City of Alva** – operates the public safety, streets, health and welfare, culture and recreation, and administrative activities of the City – *reported as the primary government*
- **The Alva Economic Development Authority**– public trust created pursuant to 60 O.S. § 176 to promote economic development to the City of Alva. The City of Alva is the beneficiary of the trust and the City Council serves as the governing body of the trust. – *blended component unit*
- **The Alva Utility Authority (AUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer, landfill and sanitation services of the City. The City of Alva is the beneficiary of the trust and the City Council serves as the governing body of the trust.- *blended component unit*
- **The Alva Hospital Authority** – public trust created pursuant to 60 O.S. § 176 to operate the Share Medical Center under a bargain lease agreement with the City. The City of Alva is the beneficiary of the trust and the City Council appoints a majority of the governing body of the trust – *blended component unit*

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, “*The Financial Reporting Entity*” and Statement No. 61, “*The Financial Reporting Entity: Omnibus*” and includes all component units for which the City is financially accountable.

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

The Hospital Authority has a blended component unit called the Share Medical Center Foundation, Inc. The Foundations primary function is to raise and hold funds to support the Hospital Authority and its programs. The Board of the Foundation is self-perpetuating. Although the Hospital Authority does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Authority. Because these restricted resources held by the Foundation can only be used by or for the benefit of the Hospital Authority, the Foundation is considered a component unit of the Hospital Authority and is included in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Hospital Authority and the Foundation have been eliminated in the accompanying financial statements. The Foundation does not issue separate financial statements. The Alva Hospital Authority prepares separate financial statements and can be obtained by contacting the Authority's administration by telephoning 580-327-280.

2. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements of net position and activities are reported on the accrual basis of accounting and economic resources measurement focus. Under the economic resources focus, all assets, deferred outflows, liabilities and deferred inflows are reported, including current and non-current. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation) are recorded when the liability is incurred or economic asset used.

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

- General government: License and permits, inspection fees and operating and capital grants
- Public safety: Fine revenue, fire runs and operating and capital grants
- Streets and highways: Gas excise, commercial vehicle taxes, impact fees and capital and operating grants
- Health and welfare: Hospital funding
- Cemetery: Lot sales and interments
- Airport: charges for services rendered to the airport
- Culture and recreation: operating and capital grants
- Economic development: restricted sales tax for economic development for component unit
- Hospital – charges for services rendered to component unit

Governmental Funds:

General Fund – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds – are used to account for and report the proceeds of specific revenues sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Project Funds – are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds:

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Alva Utility Authority enterprise fund and the Alva Hospital Authority enterprise fund. These funds account for activities of the public trusts in providing, water, sewer, landfill, sanitation and hospital services to the public.

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds. For financial statement reporting purposes the General Fund contains the following combining accounts:
 - Alva Municipal Court Account
 - Revolving Account
- Hotel Tax Fund – accounts for hotel tax collections and related expenditures.
- Airport Fund – accounts for revenue and operations of the airport.
- Alva Economic Development Authority Scholarship Fund – accounts for half of one cent restricted sales tax dedicated to promote economic development for the City of Alva through scholarships.
- Alva Economic Development Authority – accounts for half of one cent restricted sales tax dedicated to promote economic development for the City of Alva.

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

Special Revenue Funds:

- ADP Drug Task Force Fund– accounts for police seizures
- Street and Alley Fund – accounts for state shared gasoline excise and commercial vehicle taxes and street maintenance fee legally restricted for street and alley purpose.
- Donation Fund- accounts for donations or gifts
- Cemetery Fund – accounts for cemetery fees restricted for cemetery care.

Capital Project Fund:

- Airport Grant Fund- accounts for airport grant money restricted for airport improvements.
- Homestead Capital Improvement Fund – accounts for funds that have self-imposed restrictions for improvements.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter (within 60 days of period end) to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus and accrual basis of accounting at the government-wide level.

Proprietary Funds:

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

- Alva Utility Authority (AUA) – accounts for the operation of the water, wastewater, landfill and sanitation activities and manages the Homestead Retirement Community.
- Alva Hospital Authority – accounts for the operations of Share Medical Center under a bargain lease agreement with the City. The Alva Utility Authority manages the administrative, financial and operational activities of the Homestead Retirement Community for a five year period with the option to extend.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts (or Authorities) are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

3. Cash, Cash Equivalents, and Investments

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

For the purposes of the statements of net position, balance sheets, and statement of cash flows, cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents for reporting purposes.

Marketable investments are reported at their fair value, based on quoted market prices.

For the year ended June 30, 2016, the City recognized \$37,065 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

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

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 2,725,394
Time deposit			2,869,496
Trustee money market mutual funds	On demand	AAAm	<u>203,757</u>
			<u>5,798,647</u>
Total deposits			<u>\$ 5,798,647</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 3,238,671
Investments			<u>2,559,976</u>
			<u>\$ 5,798,647</u>

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

As of June 30, 2016, the City's accounts were fully collateralized.

Investment Interest Rate Risk - the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

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

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Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for utility deposits, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2016 are as follows:

<u>Type of Restricted Assets</u>	Current	
	Cash and cash equivalents	Investments
Series 2014B Project Funds	\$ 62,818	\$ -
Series 2014B Revenue Interest Account	13,091	-
Series 2014A Revenue Principal Account	105,268	-
Series 2014A Revenue Interest Account	22,580	-
Utility Deposits	24,867	141,174
Total	\$ 228,624	\$ 141,174

<u>Type of Restricted Assets</u>	Non-current	
	Cash and cash equivalents	Other
Hospital - held by trustee for debt service	\$ 309,520	\$ -
Hospital - restricted for specific operating activities	139,327	-
Hospital - restricted for capital aquisition	58,298	-
Stabilization CD	-	39,007
Investment in assets	-	152,364
Net pension asset	-	90,869
	\$ 507,145	\$ 282,240

4. Interest in Assets at Communities Foundation of Oklahoma, Inc

The Foundation has transferred assets to Communities Foundation of Oklahoma, Inc. (Communities Foundation) and retained a beneficial interest in those assets. The Foundation is entitled to receive the interest annually. The Foundation may request a return of principal funds contributed to the Communities Foundation in accordance with the agency fund agreement. The Foundation has granted variance power to the Communities Foundation’s board of directors to modify any restriction of the donor as to distributions of the funds if the board of directors determines such restrictions to be unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. The fair value of the retained beneficial interest included in the accompanying statements of net position was \$152,364 at June 30, 2016.

Because the Communities Foundation has variance power over contributions received from third parties amounting to approximately \$28,000 at June 30, 2016, these amounts are not reported as assets by the Foundation even though the Foundation is designated as a beneficiary by the donors.

5. Inventories

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Inventories are stated at the lower of cost, determined using first-in, first-out method, or market.

6. Receivables

Primary Government Accounts Receivables:

Accounts receivable of the business-type activities consists of customer utilities receivable and patient accounts receivable for the Hospital Authority. Accounts receivable of the governmental activities consists of police fines, ambulance fees, and other receivables. Receivables detail at June 30, 2016, is as follows:

	Accounts Receivable	Less: Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental Activities:			
Court fines	\$ 84,117	\$ (71,499)	\$ 12,618
Ambulance fees	685,390	(473,560)	211,830
Airport	57,085	-	57,085
Other receivables	23,007	-	23,007
Total Governmental Activities	\$ 849,599	\$ (545,059)	\$ 304,540
Business-Type Activities:			
Utilities	\$ 382,941	\$ (70,050)	\$ 312,891
Hospital	2,490,731	(1,237,000)	1,253,731
Other receivables	14,268	-	14,268
Total Business-Type Activities	\$ 2,887,940	\$ (1,307,050)	\$ 1,580,890

7. Capital Assets and Depreciation

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$2,500 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are recorded at their fair value at the date of donation.

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

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	Restated Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
Governmental:				
Capital assets not being depreciated:				
Land	\$ 718,675	\$ -	\$ -	\$ 718,675
Construction in Progress	212,952	900,600	64,895	1,048,657
Total capital assets not being depreciated	<u>931,627</u>	<u>900,600</u>	<u>64,895</u>	<u>1,767,332</u>
Other capital assets:				
Buildings	8,455,301	47,803	-	8,503,104
Infrastructure	43,742	295,355	-	339,097
Machinery and Equipment	5,155,413	710,984	-	5,866,397
Total other capital assets at historical cost	<u>13,654,456</u>	<u>1,054,142</u>	<u>-</u>	<u>14,708,598</u>
Less accumulated depreciation for:				
Buildings	5,114,063	163,280	-	5,277,343
Infrastructure	20,719	1,712	-	22,431
Machinery and Equipment	2,984,848	284,539	-	3,269,387
Total accumulated depreciation	<u>8,119,630</u>	<u>449,531</u>	<u>-</u>	<u>8,569,161</u>
Other capital assets, net	<u>5,534,826</u>	<u>604,611</u>	<u>-</u>	<u>6,139,437</u>
Governmental, net capital assets	<u>\$ 6,466,453</u>	<u>\$ 1,505,211</u>	<u>\$ 64,895</u>	<u>\$ 7,906,769</u>
Business-Type:				
Capital assets not being depreciated:				
Land	\$ 132,829	\$ -	\$ -	\$ 132,829
Construction in Progress	560,831	1,288,240	689,639	1,159,432
Total capital assets not being depreciated	<u>693,660</u>	<u>1,288,240</u>	<u>689,639</u>	<u>1,292,261</u>
Other capital assets:				
Buildings	15,673,141	670,203	-	16,343,344
Machinery and Equipment	11,449,809	246,483	-	11,696,292
Infrastructure	1,699,334	34,436	-	1,733,770
Land Improvements	86,208	-	-	86,208
Total other capital assets at historical cost	<u>28,908,492</u>	<u>951,122</u>	<u>-</u>	<u>29,859,614</u>
Less accumulated depreciation for:				
Buildings	4,337,719	385,227	-	4,722,946
Machinery and Equipment	8,783,532	833,695	-	9,617,227
Infrastructure	1,159,108	31,749	-	1,190,857
Land Improvements	85,687	373	-	86,060
Total accumulated depreciation	<u>14,366,046</u>	<u>1,251,044</u>	<u>-</u>	<u>15,617,090</u>
Other capital assets, net	<u>14,542,446</u>	<u>(299,922)</u>	<u>-</u>	<u>14,242,524</u>
Business-Type, net capital assets	<u>\$ 15,236,106</u>	<u>\$ 988,318</u>	<u>\$ 689,639</u>	<u>\$ 15,534,785</u>

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

- Buildings 5-40 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 5-40 years
- Infrastructure 20-50 years

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

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Governmental Activities:

General government	\$ 165,125
Public safety	76,332
Highways and streets	80,701
Ambulance	35,670
Culture and recreation	59,811
Cemetery	5,028
Airport	26,864
Total accumulated depreciation	<u>\$ 449,531</u>

Business-Type Activities:

Water	\$ 47,658
Sewer	47,657
Sanitation	79,555
Homestead	32,666
Hospital	<u>1,043,508</u>
Total accumulated depreciation	<u>\$1,251,044</u>

The following capital assets were purchased by capital lease. The table discloses the amount capitalized and the related depreciation expense through June 30, 2016.

Machinery and Equipment:

<u>Date</u>	<u>Capital Asset</u>	<u>Amount</u>	<u>Accumulated Depreciation</u>
3/17/2014	580 Case Loader	\$ 69,654	\$ (11,029)
4/7/2014	2014 E-1 Pumper	240,590	(45,445)
7/7/2014	2012 CAT Wheel Loader	65,500	(13,100)
3/17/2014	924K Caterpillar	134,853	(20,228)
7/2/2014	2014 Freightliner	71,352	(20,386)
7/7/2014	2014 Distributor	85,613	(24,461)
7/21/2014	2014 Spreader	161,338	(46,097)
		<u>\$ 828,900</u>	<u>\$ (180,746)</u>

8. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2016, the reporting entity's long-term debt changed as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
<i>Governmental:</i>					
Capital lease obligation	\$ 626,059	\$ -	\$ 94,658	\$ 531,401	\$ 98,698
Revenue note payable	820,784	-	139,905	680,879	157,865
Accrued compensated absences	122,855	-	17,879	104,976	79,532
Total	<u>\$ 1,569,698</u>	<u>\$ -</u>	<u>\$ 252,442</u>	<u>\$ 1,317,256</u>	<u>\$ 336,095</u>
<i>Business-Type:</i>					
Notes payable	\$ 10,948,587	\$ -	\$ 599,448	\$ 10,349,139	\$ 2,093,585
Grant obligation payable	172,133	-	19,906	152,227	19,906
Capital lease obligation	119,103	-	16,280	102,823	18,493
Deposits subject to refund	163,222	37,704	34,885	166,041	24,906
Accrued compensated absences	52,139	-	25,901	26,238	20,593
Total	<u>\$ 11,455,184</u>	<u>\$ 37,704</u>	<u>\$ 696,420</u>	<u>\$ 10,796,468</u>	<u>\$ 2,177,483</u>

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Governmental Activities:

At June 30, 2016, the governmental long-term debt of the financial reporting entity consisted of the following:

Capital Lease Obligations:

\$885,000 lease with Community Bank for the purchase of several pieces of equipment, 84% or \$693,746 was used for business-type activities, issued January 2014 with an interest rate of 3.5%, maturing August 2021.	\$ 527,593
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\$42,521 lease with Usbank Equipment Finance for the purchase of ambulance equipment, issued September 2013 with an interest rate of 4.75% and maturing October 2016.	<u>3,808</u>
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Total Capital Lease Obligations	<u>\$ 531,401</u>
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Current portion	\$ 98,698
Non-current portion	432,703
Total	<u>\$ 531,401</u>

Notes Payable:

Alva Economic Development Authority:

Series 2013 Sales Tax Revenue Note, original amount of \$1,090,000, issued by the Alva Economic Development Authority, due in monthly installments of \$14,931.49, matures in July 2020, interest at 3.5%.	<u>\$ 680,879</u>
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Current portion	\$ 157,865
Non-current portion	523,014
Total	<u>\$ 680,879</u>

Business-Type Activities:

Long-term commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2016, includes the following:

Notes Payable:

Alva Utility Authority:

Series 2014A Utility Revenue Note Original amount of \$1,465,000 issued by the Alva Utility Authority, due in semi-annual installments of \$100,000 to \$115,000 through 2021, interest at 3%	1,260,000
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Series 2014B Utility Revenue Note Original amount of \$935,000 issued by the Alva Utility Authority, due in semi-annual installments of \$10,000 to \$140,000 through 2025, interest at 2.8%	<u>935,000</u>
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Total Utility Authority notes payable	<u>\$ 2,195,000</u>
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Current portion	\$ 215,000
Non-current portion	1,980,000
Total	<u>\$ 2,195,000</u>

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Alva Hospital Authority:

Note payable to bank in monthly installments issued by the Alva Hospital Authority, with interest rate of 4% collateralized by certain equipment. \$ 150,092

Note payable to trust due upon demand issued by the Alva Hospital Authority, with interest rate of 4% due annually. 1,500,000

Series 2013 Sales Tax and Utility Revenue Note Original amount of \$7,500,000 issued by the Alva Utility Authority, due in monthly installments of \$51,614 through 2029, interest at 3.8% 6,504,047

Total Hospital Authority notes payable \$ 8,154,139

Current portion	\$ 1,878,585
Non-current portion	<u>6,275,554</u>
Total	<u><u>\$ 8,154,139</u></u>

Total notes payable \$ 2,093,585

Current portion	\$ 2,093,585
Non-current portion	<u>8,255,554</u>
Total	<u><u>\$ 10,349,139</u></u>

Refundable Grant Obligation:

Alva Utility Authority:

Oklahoma Department of Commerce obligation payable, original amount of \$125,000, issued by the Alva Utility Authority, due in monthly installments of \$521 through 2019, non-interest bearing. \$ 21,355

Oklahoma Department of Commerce obligation payable, original amount of \$273,123, issued by the Alva Utility Authority, due in monthly installments of \$1,138 through 2026, non-interest bearing. 130,872

Total Utility Authority refunding grant obligations \$ 152,227

Current portion	\$ 19,906
Non-current portion	<u>132,321</u>
Total	<u><u>\$ 152,227</u></u>

Capital Lease Obligations:

Alva Utility Authority:

\$885,000 lease with Community Bank for the purchase of several pieces of equipment, 16% or \$135,154 was used for business-type activities, issued January 2014 with an interest rate of 3.5%, maturing August 2021. \$ 102,823

Current portion	\$ 18,493
Non-current portion	<u>84,330</u>
Total	<u><u>\$ 102,823</u></u>

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Payment Requirements to Maturity:

Year Ended June 30,	Governmental Activities				Business-Type Activities					
	Capital Lease Obligations		Notes Payable		Grant Obligation Payable		Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	98,698	17,163	157,865	21,313	19,906	-	2,093,585	348,518	18,493	3,306
2018	98,265	13,588	163,480	15,698	19,906	-	644,368	287,826	19,150	2,648
2019	101,760	10,093	169,294	9,884	19,906	-	671,010	264,507	19,832	1,967
2020	105,379	6,473	175,315	3,863	16,261	-	693,308	240,309	20,537	1,262
2021	109,128	2,725	14,925	6	13,656	-	702,489	215,379	21,267	531
2022-2026	18,171	80	-	-	62,592	-	3,515,441	698,852	3,544	16
2027-2031	-	-	-	-	-	-	2,028,938	138,066	-	-
Total	\$531,401	\$50,122	\$680,879	\$50,764	\$152,227	-	\$10,349,139	\$2,193,457	\$102,823	\$9,730

Pledge of Future Revenues

Utility Net Revenues Pledge

The City has pledged future water, sewer and sanitation net utility revenues to repay the Series 2014A and 2014B Utility System Revenue Notes of \$2,400,000. Proceeds from these notes were used to refund the 2005 Revenue Bond that was used for construction of retirement center and to finance certain water improvements. The notes are payable through 2021 and 2025. The total principal and interest payable for the remainder of the life of the notes is \$2,507,430. Pledged water, sewer and sanitation net utility revenues for the current year were \$1,281,996. Debt service payments of \$277,916 for the current fiscal year were 21.7% of the pledged utility net revenues.

Sales Tax Pledge

The City has pledged one-half of one cent of sales tax to repay the 2013 Sales Tax Revenue Note issued by the Economic Development Authority of \$1,090,000. Proceeds from the note were used to refinance the Series 2000 Recreational Facility Note. The note is payable from pledged sales tax and is payable through 2020. The total principal and interest payable for the remainder of the life of this note is \$731,643. Pledged sales tax revenue for the current year was \$505,284. Debt service payments of \$164,247 for the current fiscal year were 32.5% of the pledged sales tax.

9. Net Position and Fund Balances

Net Position:

Net position as reported in the government-wide and proprietary fund financial statements is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets, net of unexpended debt proceeds.
- b. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

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c. *Unrestricted net position* - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Prior Period Adjustments:

	Governmental Funds	Proprietary Funds	Governmental Activities	Business-type Activities/Funds
Beginning fund balance/net position, as previously reported	\$ 5,851,552	\$ 8,605,194	\$ 9,151,893	\$ 8,605,194
Understatement of capital assets	-	-	327,720	-
Overstatement of interest payable	-	36,458	-	36,458
Overstatement of unbilled receivable	-	(175,646)	-	(175,646)
Overstatement of airport receivable	(50,092)	-	(50,092)	-
Beginning fund balance/net position, restated	<u>\$ 5,801,460</u>	<u>\$ 8,466,006</u>	<u>\$ 9,429,521</u>	<u>\$ 8,466,006</u>

Fund Balances:

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

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

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The following table shows the fund balance classifications as shown in the Governmental Funds Balance Sheet:

	Major Special Revenue		Blended Component Units		Other Governmental Funds	TOTAL
	General Fund	Hotel Tax Fund	Airport Fund	AEDA Scholarship Fund		
Fund Balances:						
Nonspendable:	19,673	-	-	-	-	19,673
Restricted for:						
Capital outlay	-	-	-	-	80,649	80,649
Airport	-	-	1,338,335	-	-	1,338,335
Streets	-	-	-	-	134,016	134,016
Police	-	-	-	-	61,706	61,706
Economic Development Scholarships	-	-	-	830,461	-	830,461
Economic Development	-	-	-	-	795,009	795,009
Tourism	-	707,790	-	-	-	707,790
Sub-total Restricted	-	707,790	1,338,335	830,461	795,009	3,947,966
Committed to:						
Stabilization Fund	763,000	-	-	-	27,440	790,440
Assigned to:						
Homestead Capital	-	-	-	-	90,874	90,874
Cemetery	-	-	-	-	84,512	84,512
Sub-total Assigned	-	-	-	-	175,386	175,386
Unassigned:	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 782,673	\$ 707,790	\$ 1,338,335	\$ 830,461	\$ 795,009	\$ 4,933,465

Stabilization Reserve

The City Council adopted Ordinance No. 2015-050 establishing the fund's purpose establishing minimum and maximum amounts to be held in the fund and guidelines for expenditures from the fund.

The minimum amount to be contained in the Stabilization Reserve Fund is 16% of budgeted annual non-capital operating expenses for each of the funds contributing stabilization reserves into the Stabilization Reserve Fund.

The maximum amount to be contained in the Stabilization Reserve Fund is 35% of budgeted annual non-capital operating expenses for each of the Funds contributing stabilization reserves into the Stabilization Reserve Fund.

Amounts held that are above the minimum balance may be spent for the following purposes:

- i. Expenditures for emergency situations as defined above for life, health, or public safety issues for which no existing appropriation exists;
- ii. Situations where a significant expense or revenue decline arises that could not have reasonably been foreseen, and for which new revenue is not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels;

- iii. Expenditures where the proposed use is of a nonoperational nature involving capital or technical purchases having a useful life of greater than five years that will improve the efficiency of the City government;
- iv. Expenditures where the proposed use is of a nonrecurring nature, such as a study, or for start-up costs of a program whose ongoing costs are otherwise funded;
- v. Correcting the results of an inaccurate estimate, accounting error, or budgeting error.

Amounts held that are below the minimum balance may be spent for the following purposes:

- i. Expenditures for emergency situations as defined above for life, health, or public safety issues for which no existing appropriation exists;
- ii. Situations where a significant expense or revenue decline arises that could not have reasonably been foreseen, and for which new revenue is not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels;
- iii. Correcting the results of an inaccurate estimate, accounting error, or budgeting error.

10. Sales Tax Revenue

Sales tax revenue represents a four and one quarter cent tax on each dollar of taxable sales within the City. All four and one quarter cents is received and recorded in the General Fund. One cent is received and transferred to the Alva Economic Development Authority. This one cent is divided in half and placed in two separate funds for the AEDA where $\frac{1}{2}$ of the one cent is to be used for scholarships for full time students residing in Alva and attending Northwestern Oklahoma State University Alva campus. The other $\frac{1}{2}$ of the one cent is for economic development. Another cent and a quarter is received and transferred to the Alva Hospital Authority for the use of capital improvements of the Authority.

11. Net Patient Service Revenue

The Hospital Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. These third-party payment arrangements include:

- **Medicare** - Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's

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Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2014.

- **Medicaid** - The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 33% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

12. Charity Care

The Hospital Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to these services are as follows:

Charity allowances	\$ 45,000
State Medicaid programs	251,000
	<u>\$ 296,000</u>

The cost of uncompensated care is estimated by applying the ratio of costs to gross charges to the gross uncompensated charges from the most recent Medicare cost report. In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, home health programs, community educational services and various support groups.

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13. Income Taxes

The Hospital Authority as an essential government function of the City is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. The Share Medical Center Foundation, Inc is generally exempt from income taxes under Section 501 of the IRC. However, the Hospital Authority and the Share Medical Foundation, Inc are subject to federal income tax on any unrelated business taxable income.

14. Internal and Interfund Balances and Transfers

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

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2016 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	AEDA Economic Dev	575,787	Sales tax transfer
General Fund	AEDA Scholarship	575,847	Sales tax transfer
General Fund	Street and Alley Fund	120,000	Operating transfer
General Fund	AUA	15,127	Capital asset transfer
General Fund	Hospital Authority	1,340,650	Sales tax transfer
General Fund	Cemetery Fund	28,499	Operating transfer
Hotel Motel Fund	Donation Fund	67,614	Reclass of donation
AUA	General Fund	1,419,030	Operating transfer
Airport Grant Fund	Airport Fund	1,134	Grant reimbursement
Total		<u>\$ 4,143,688</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 2,787,911	\$ (2,709,531)	\$ 78,380
Proprietary Funds	1,355,777	(1,419,030)	(63,253)
	<u>\$ 4,143,688</u>	<u>\$ (4,128,561)</u>	<u>15,127</u>

Reconciliation to Statement of Activities:

Net transfers	\$ 78,380
Transfer of capital asset	(15,127)
	<u>\$ 63,253</u>

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Balances:

Interfund receivable and payables at June 30, 2016 were comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Internal Balance</u>
AEDA Economic Dev	General Fund	\$ 3,213	Operating subsidy
AEDA Economic Dev	General Fund	71,442	Interfund loan
AEDA Scholarship	General Fund	71,442	Interfund loan
General	Hotel Motel	5,096	Deposit in wrong fund
Airport	General Fund	1,045	Operating subsidy
Cemetery	General Fund	892	Operating subsidy
AUA	General Fund	74,477	Operating subsidy
Total		<u>\$ 227,607</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 227,607	\$ (153,130)	\$ 74,477
Proprietary Funds	-	(74,477)	(74,477)
Total	<u>\$ 227,607</u>	<u>\$ (227,607)</u>	<u>\$ -</u>

15. Risk Management

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

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.
- Workers' Compensation – Workers' compensation is covered through purchase of commercial insurance – CompSource Oklahoma.
- Employee's Group Health and Life – Covered through participation in Coventry Health Group risk entity pool.

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

16. Contingencies

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

judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

17. Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for three years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs is contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2016, the Authority completed the third-year requirements under the Medicare and Medicaid programs. The Authority recorded revenue of approximately \$783,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

18. Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation. In addition to the SHOPP, there is a separate voluntary pool created to assist hospitals that did not receive sufficient SHOPP funds to cover the assessment fees paid. The Oklahoma Hospital Association (OHA) Foundation receives voluntary contributions from Oklahoma hospitals and remits funds to those providers that did not receive SHOPP funds to reimburse them for the assessment fees paid.

During the year ended June 30, 2016 the Hospital Authority had the following activity related to the SHOPP:

SHOPP funds received	\$	140,000
OHA Foundation funds received		127,000
SHOPP assessment fees paid		(267,000)
 Net SHOPP benefit	 \$	 -

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds.

Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different from the net amounts received in 2016. SHOPP and OHA Foundation revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

19. Employee Retirement Plan Participation

The City participates in five employee retirement plans:

OFPRS:

Plan description - The City of Alva, as the employer, participates in the Firefighters Pension & retirement—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided - FPRS provides retirement, disability, and death benefits to members of the plan. Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have complete 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more of service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have complete 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more of service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% percent of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$50,243. The State of Oklahoma also made on-behalf contributions to FPRS in the amount of \$123,650 and is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$135,744. These on-behalf payments did not meet the criteria of a special funding situation.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,579,205 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was .1488% percent.

For the year ended June 30, 2016, the City recognized pension expense of \$162,696. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,200	\$ -
Net difference between projected and actual earnings on pension plan investments	-	117,718
Changes in proportion and differences between City contributions and proportionate share of contributions	153,501	-
City contributions during measurement date	-	1,893
City contributions subsequent to the measurement date	50,244	-
Total	\$ 234,945	\$ 119,611

The \$50,244 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (7,978)
2018	(7,978)
2019	(7,978)
2020	49,923
2021	30,162
Thereafter	8,939
	\$ 65,090

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.13%
Domestic equity	37%	8.02%
International equity	20%	9.94%
Real estate	10%	7.47%
Other assets	13%	6.25%

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease <u>6.5%</u>	Current Discount <u>Rate 7.5%</u>	1% Increase <u>8.5%</u>
Employers' net pension liability	\$ 2,050,433	\$ 1,579,205	\$ 1,183,985

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs .

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Oklahoma Police Pension and Retirement System

Plan description - The City of Alva, as the employer, participates in the Oklahoma Police Pension and Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS

Benefits provided - OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$56,019. The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$52,082 and is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$52,348.

Net Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$6,012 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was .1475% percent.

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For the year ended June 30, 2016, the City recognized pension expense of \$23,732. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 33,245
Net difference between projected and actual earnings on pension plan investments	-	23,135
Changes in proportion and differences between City contributions and proportionate share of contributions	6,469	-
City contributions during the measurement date	-	628
City contributions subsequent to the measurement date	56,019	-
Total	\$ 62,488	\$ 57,008

The \$56,019 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (23,345)
2018	(23,345)
2019	(23,345)
2020	21,063
2021	(1,567)
	\$ (50,539)

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
	Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.
	Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

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The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.24%
Domestic equity	4.87%
International equity	7.68%
Real estate	5.47%
Private equity	5.80%
Commodities	2.96%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Employers' net pension liability (asset)	\$ 361,256	\$ 6,012	\$ (293,483)

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Defined Benefit Plan - Oklahoma Municipal Retirement Fund

A. Plan Description

The City contributes to the OkMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by OkMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OkMRF plans' fiduciary net position is available in the separately issued OkMRF financial report.

C. Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>As of 07/01/15 OkMRF Plan</u>
a. Eligible to participate	Full-time employees except police, firefighters and other employees who are covered under an approved system.
b. Period Required to Vest	10 years of credited service
c. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement upon disability with 10 years of service -Death benefit with 10 years of service for married employees
d. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
e. Benefit Determination Methods:	
Normal Retirement	-1.125% of final average salary multiplied by credited years of service
Early Retirement	-Actuarially reduced benefit based upon age, final average salary, and years of service at termination
Disability Retirement	-Same as normal retirement
Death Benefit	-50% of employees accrued benefit, but terminates upon spouse re-marriage
Prior to 10 Years Service	-No benefits

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f. Benefit Authorization -Benefits are established and amended by City Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102

g. Form of Benefit Payments Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, option form based on actuarial equivalent.

D. Employees Covered by Benefit Terms

Active Employees	52
Deferred Vested Former Employees	8
Retirees or Retiree Beneficiaries	<u>9</u>
Total	<u>69</u>

E. Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 3.89% of covered payroll as of 7-1-15. For the year ended June 30, 2016, the City recognized \$99,582 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$2,169,546. Employees cannot contribute to the plan in accordance with the plan provisions adopted by the City Council.

F. Actuarial Assumptions

Date of Last Actuarial Valuation	July 1, 2015
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments and Discount Rate	7.75%
c. Projected Salary Increase	Varies between 7.42% and 4% based on age
d. Post Retirement cost-of-Living Increase	None
e. Inflation Rate	3%
f. Mortality Table	UP 1994, with projected mortality improvement
g. Percent of married employees	100%
h. Spouse age difference	3 years (female spouses younger)
i. Turnover	Select and ultimate rates Ultimate rates are age-related as shown

Additional rates per thousand are added during the first 5 years:

Year 1:	215
Year 2:	140
Year 3:	95
Year 4:	65
Year 5:	40

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j. Date of last experience study

September 2012 for fiscal years 2007 thru 2011

G. Discount Rate

The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2015 are summarized in the following table:

	Target Allocation	Real Return	Weighted Return
Large cap stocks S&P 500	25%	5.40%	1.35%
Small/mid cap stocks Russell 2500	10%	7.50%	0.75%
Long/short equity MSCI ACWI	10%	6.10%	0.61%
International stocks MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate NCREIF	5%	4.80%	0.24%
Cash equivalents 3 month Treasury	0%	0.00%	0.00%
TOTAL	100%		
Average Real Return			4.75%
Inflation			3.00%
Long-term expected return			7.75%

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H. Changes in Net Pension Liability (Asset)

The total pension liability was determined based on an actuarial valuation performed as of July 1, 2015 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2015 and the City's report ending date of June 30, 2016, that would have had a significant impact on the net pension liability (asset). The following table reports the components of changes in net pension liability (asset):

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)			
Increase (Decrease)			
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances Beginning of Year	\$ 2,799,213	\$ 3,320,164	\$ (520,951)
Changes for the Year:			
Service cost	85,811	-	85,811
Interest expense	213,582	-	213,582
Difference between expected and actual experience	67,198	-	67,198
Contributions--City	-	85,781	(85,781)
Contributions--members	-	-	-
Net investment income	-	92,829	(92,829)
Benefits paid	(88,271)	(88,271)	-
Plan administrative expenses	-	(6,908)	6,908
Net Changes	<u>278,320</u>	<u>83,431</u>	<u>194,889</u>
Balances End of Year	<u>\$ 3,077,533</u>	<u>\$ 3,403,595</u>	<u>\$ (326,062)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
Net Pension Liability (Asset)	\$ 107,854	\$ (326,062)	\$ (685,038)

The City reported \$164,903 in pension expense for the year ended June 30, 2016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 56,200	\$ -
Net difference between projected and actual earnings on pension plan investments	-	34,589
Changes in proportion and differences between City contributions and proportionate share of contributions	8,595	8,595
City contributions subsequent to the measurement date	99,582	-
Total	\$ 164,377	\$ 43,184

The \$99,582 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (10,772)
2018	(10,772)
2019	(10,772)
2020	41,719
2021	10,998
thereafter	1,210
	\$ 21,611

City of Alva Defined Contribution Plan

The City contributes to the Employee Retirement System of Alva, Oklahoma in the form of The Oklahoma Municipal Retirement System Master Contribution Plan and Trust, an agent multiple employer– defined contribution plan. The defined contribution plan is available to all eligible employees who are not already participating in the fire or police pension plan. Administration of the City’s individual plan rests with the City Council. The overall operations of OkMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. Bank One Trust Company of Oklahoma City acts as the administrator and securities custodian.

For the year ended June 30, 2016 the total contributions were 3.89% of covered payroll, of which 1.89% and 2.00% were contributed by the employer and employee respectively.

Schedule of Retirement Plan Contributions – Defined Contribution Plan

<u>Fiscal Year</u>	<u>Employer Contribution</u>
6/30/14	\$49,045
6/30/15	\$40,181
6/30/16	\$46,645

Alva Hospital Authority Defined Contribution Plan

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The Hospital Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions actually made by the Authority during 2016 were approximately \$0. Contributions actually made by plan members during 2016 were approximately \$187,000.

19. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

20. Management's Consideration of Going Concern Matters

The Hospital Authority has incurred significant operating losses since 2010 and has negative working capital. The accompanying financial statements have been prepared assuming the Authority will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year, including reviewing expenses and evaluating profitability of current and new lines of service. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in the accompanying financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules – Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	6,368,806	6,368,806	5,744,496	(624,310)
Intergovernmental	321,820	336,316	254,800	(81,516)
Charges for services	399,619	399,619	695,078	295,459
Fines and forfeitures	58,042	58,042	53,662	(4,380)
Licenses and permits	24,647	24,647	26,016	1,369
Investment Income	11,349	11,349	12,441	1,092
Miscellaneous	351,671	354,314	9,592	(344,722)
Transfers In	1,146,832	1,146,832	1,513,432	366,600
Total Resources (Inflows)	8,682,786	8,699,925	8,309,517	(390,408)
Charges to Appropriations (Outflows):				
General government	3,639,438	1,865,676	1,703,533	162,143
Public safety	1,565,097	1,567,740	2,173,009	(605,269)
Streets	741,711	741,711	1,039,786	(298,075)
Ambulance	589,553	604,049	731,577	(127,528)
Culture and recreation	448,216	448,216	469,948	(21,732)
Transfers out	1,698,771	3,472,533	3,064,384	408,149
Total Charges to Appropriations	8,682,786	8,699,925	9,182,237	(482,312)
Net change in fund balances	-	-	(872,720)	(872,720)
Fund balances - beginning	-	-	1,373,337	1,373,337
Fund balances - ending	\$ -	\$ -	\$ 500,617	\$ 500,617

	Hotel Tax Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 400,000	\$ 400,000	\$ 270,648	\$ (129,352)
Investment income	900	900	2,368	1,468
Total Resources (Inflows)	400,900	400,900	273,016	(127,884)
Charges to Appropriations (Outflows):				
Economic Development	296,000	296,000	224,868	71,132
Total Charges to Appropriations	296,000	296,000	224,868	71,132
Net change in fund balances	104,900	104,900	48,148	(56,752)
Fund balances - beginning	-	-	736,930	736,930
Fund balances - ending	\$ 104,900	\$ 104,900	\$ 785,078	\$ 680,178

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	Airport Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Resources (Inflows):				
Intergovernmental	\$ 511,808	\$ 511,808	\$ 583,535	\$ 71,727
Charges for services	264,203	264,203	273,011	8,808
Investment income	3,245	3,515	2,489	(1,026)
Miscellaneous	304,230	304,230	327,021	22,791
Total Resources (Inflows)	<u>1,083,486</u>	<u>1,083,756</u>	<u>1,186,056</u>	<u>102,300</u>
Charges to Appropriations (Outflows):				
Airport	1,290,124	1,575,055	1,108,247	466,808
Total Charges to Appropriations	<u>1,290,124</u>	<u>1,575,055</u>	<u>1,108,247</u>	<u>466,808</u>
Net change in fund balances	(206,638)	(491,299)	77,809	569,108
Fund balances - beginning, restated	-	-	1,395,074	1,395,074
Fund balances - ending	<u>\$ (206,638)</u>	<u>\$ (491,299)</u>	<u>\$ 1,472,883</u>	<u>\$ 1,964,182</u>

Footnotes to Budgetary Comparison Schedules:

1. The City prepares its budgets for all funds on a non-GAAP budgetary basis of accounting. For budgetary purposes expenditures are recorded in the period the invoice is received. All unexpended encumbrances lapse at year-end and therefore are not recorded as expenditures for budgetary purposes.

2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the City Managers approval and supplemental appropriations require City Council's approval.

The City exceeded the legal level of budgetary control as follows:

Public Safety	\$605,269
Streets	\$298,075
Ambulance	\$127,528
Culture and recreation	\$21,732

3. The budgetary basis differs from the modified accrual basis as shown below:

	General Fund	Hotel Tax Fund	Airport Fund
Total revenue - budgetary basis	\$ 8,309,517	\$ 273,016	\$ 1,186,056
Total expenses - budgetary basis	(9,182,237)	(224,868)	(1,108,247)
Change in fund balance - budgetary basis	(872,720)	48,148	77,809
Revenue accruals	(767,714)	52,527	(83,988)
Expenditure accruals	1,049,770	(129,815)	(50,560)
Change in fund balance - GAAP basis	<u>\$ (590,664)</u>	<u>\$ (29,140)</u>	<u>\$ (56,739)</u>

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Schedules of Required Supplementary Information
SCHEDULE OF THE CITY OF ALVA PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability/asset	0.1396%	0.1475%
City's proportionate share of the net pension liability/(asset)	\$ (47,005)	\$ 6,012
City's covered-employee payroll	\$ 413,903	\$ 430,880
City's proportionate share of the net pension liability/asset as a percentage of its covered-employee payroll	11.36%	1.40%
Plan fiduciary net position as a percentage of the total pension liability	101.53%	99.82%

Notes to Schedule:

Only the last two fiscal years are presented because 10-year data is not yet available.

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SCHEDULE OF CITY CONTRIBUTIONS
OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Statutorially required contribution	\$ 54,182	\$ 56,019
Contributions in relation to the statutorially required contribution	<u>54,182</u>	<u>56,019</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 413,903	\$ 430,880
Contributions as a percentage of covered-employee payroll	13.09%	13.00%

Notes to Schedule:

Only the last two fiscal years are presented because 10-year data is not yet available.

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Schedules of Required Supplementary Information
SCHEDULE OF THE CITY OF ALVA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability	0.1331%	0.1488%
City's proportionate share of the net pension liability	\$ 1,368,236	\$ 1,579,205
City's covered-employee payroll	\$ 395,364	\$ 358,407
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	346%	441%
Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the last two fiscal years are presented because 10-year data is not yet available.

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SCHEDULE OF CITY CONTRIBUTIONS
OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Statutorially required contribution	\$ 55,592	\$ 50,244
Contributions in relation to the statutorially required contribution	<u>55,592</u>	<u>50,244</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 395,364	\$ 358,407
Contributions as a percentage of covered-employee payroll	14.06%	14.02%

Notes to Schedule:

Only the last two fiscal years are presented because 10-year data is not yet available.

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Required Supplementary Information
Oklahoma Municipal Retirement Fund

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

	2015	2016
Total pension liability		
Service cost	\$ 77,381	\$ 85,811
Interest	204,865	213,582
Changes of benefit terms	-	-
Differences between expected and actual experience	-	67,198
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(96,353)	(88,271)
Net change in total pension liability	<u>185,893</u>	<u>278,320</u>
Total pension liability - beginning	2,613,320	2,799,213
Total pension liability - ending (a)	<u>\$ 2,799,213</u>	<u>\$ 3,077,533</u>
Plan fiduciary net position		
Contributions - employer	\$ 79,185	\$ 85,781
Contributions - member	-	-
Net investment income	471,323	92,829
Benefit payments, including refunds of member contributions	(96,353)	(88,271)
Administrative expense	(6,973)	(6,908)
Other	-	-
Net change in plan fiduciary net position	<u>447,182</u>	<u>83,431</u>
Plan fiduciary net position - beginning	2,872,982	3,320,164
Plan fiduciary net position - ending (b)	<u>\$ 3,320,164</u>	<u>\$ 3,403,595</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (520,951)</u>	<u>\$ (326,062)</u>
Plan fiduciary net position as a percentage of the total pension liability	118.61%	110.59%
Covered employee payroll	\$ 1,686,436	\$ 1,947,963
Net pension liability/asset as a percentage of covered-employee payroll	30.89%	16.74%

Notes to Schedule:

Only the last two fiscal years are presented because 10-year data is not yet available.

**CITY OF ALVA, OKLAHOMA
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**Required Supplementary Information
Oklahoma Municipal Retirement Fund**

Schedule of Employer Contributions

	2015	2016
Actuarially determined contribution	\$ 85,781	\$ 99,582
Contributions in relation to the actuarially determined contribution	85,781	99,582
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,868,876	\$ 2,169,546
Contributions as a percentage of covered-employee payroll	4.59%	4.59%

Notes to Schedule:

1. Only the last two fiscal years are presented because 10-year data is not yet available.
2. Latest Valuation Date: July 1, 2015
3. Actuarially determined contribution rate is calculated as of July 1, 2014 and July 1, 2015
 July 2014 through June 2015 contributions were at a rate of 4.14%
 July 2015 through June 2016 contributions were at a rate of 3.89%
4. Methods and assumptions used to determine contribution rates:
 - Actuarial cost method - Entry age normal
 - Amortization method - Level percent of payroll, closed
 - Remaining amortization period - 28 years
 - Asset valuation method - Actuarial:
 - Smoothing period - 4 years
 - Recognition method - Non-asymptotic
 - Corridor - 70% - 130%
 - Salary increases - 4.00% to 7.42% (varies by attained age)
 - Investment rate of return - 7.75%

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OTHER SUPPLEMENTARY INFORMATION

CITY OF ALVA, OKLAHOMA
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Combining Balance Sheet – Nonmajor Governmental Funds – June 30, 2016

	<u>Airport Grant Fund</u>	<u>APD Drug Task Force</u>	<u>Cemetery Fund</u>	<u>Donation Fund</u>	<u>Street and Alley Fund</u>	<u>Homestead Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ -	\$ 67,472	\$ 9,604	\$ 67,646	\$ 155,822	\$ 40,133	\$ 340,677
Investments	-	-	104,674	12,046	-	50,693	167,413
Interest receivable	-	-	112	-	-	48	160
Receivable from other governments	-	-	-	957	11,811	-	12,768
Utilities receivable, net	-	-	-	-	4,282	-	4,282
Other receivables	-	-	-	-	13,674	-	13,674
Total assets	<u>\$ -</u>	<u>\$ 67,472</u>	<u>\$ 114,390</u>	<u>\$ 80,649</u>	<u>\$ 185,589</u>	<u>\$ 90,874</u>	<u>\$ 538,974</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ 5,766	\$ 245	\$ -	\$ 51,573	\$ -	\$ 57,584
Due to other funds	-	-	892	-	-	-	892
Accrued payroll payable	-	-	1,301	-	-	-	1,301
Total liabilities	<u>-</u>	<u>5,766</u>	<u>2,438</u>	<u>-</u>	<u>51,573</u>	<u>-</u>	<u>59,777</u>
Fund balances:							
Restricted	-	61,706	-	80,649	134,016	-	276,371
Committed	-	-	27,440	-	-	-	27,440
Assigned	-	-	84,512	-	-	90,874	175,386
Total fund balances	<u>-</u>	<u>61,706</u>	<u>111,952</u>	<u>80,649</u>	<u>134,016</u>	<u>90,874</u>	<u>479,197</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 67,472</u>	<u>\$ 114,390</u>	<u>\$ 80,649</u>	<u>\$ 185,589</u>	<u>\$ 90,874</u>	<u>\$ 538,974</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds – Year Ended June 30, 2016

	<u>Airport Grant Fund</u>	<u>APD Drug Task Force</u>	<u>Cemetery Fund</u>	<u>Donation Fund</u>	<u>Street and Alley Fund</u>	<u>Homestead Capital Improvement Fund</u>	<u>Total-Other Governmental Funds</u>
REVENUES							
Intergovernmental	\$ -	\$ -	\$ -	\$ 13,817	\$ 32,422	\$ -	\$ 46,239
Charges for services	-	-	34,455	-	161,010	-	195,465
Investment earnings	-	-	859	46	-	259	1,164
Miscellaneous	-	-	9,617	106,862	-	-	116,479
Total revenues	<u>-</u>	<u>-</u>	<u>44,931</u>	<u>120,725</u>	<u>193,432</u>	<u>259</u>	<u>359,347</u>
EXPENDITURES							
Current:							
General government	-	-	-	8,530	-	-	8,530
Public Safety	-	-	-	78,967	-	-	78,967
Highways and roads	-	-	-	-	133,451	-	133,451
Culture and recreation	-	-	-	17,498	-	-	17,498
Cemetery	-	-	64,902	-	-	-	64,902
Capital Outlay	78,995	73,134	2,904	2,317	230,460	8,579	396,389
Total Expenditures	<u>78,995</u>	<u>73,134</u>	<u>67,806</u>	<u>107,312</u>	<u>363,911</u>	<u>8,579</u>	<u>699,737</u>
Excess (deficiency) of revenues over expenditures	<u>(78,995)</u>	<u>(73,134)</u>	<u>(22,875)</u>	<u>13,413</u>	<u>(170,479)</u>	<u>(8,320)</u>	<u>(340,390)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	28,499	67,614	120,000	-	216,113
Transfers out	(1,134)	-	-	-	-	-	(1,134)
Total other financing sources and uses	<u>(1,134)</u>	<u>-</u>	<u>28,499</u>	<u>67,614</u>	<u>120,000</u>	<u>-</u>	<u>214,979</u>
Net change in fund balances	(80,129)	(73,134)	5,624	81,027	(50,479)	(8,320)	(125,411)
Fund balances - beginning	80,129	134,840	106,328	(378)	184,495	99,194	604,608
Fund balances - ending	<u>\$ -</u>	<u>\$ 61,706</u>	<u>\$ 111,952</u>	<u>\$ 80,649</u>	<u>\$ 134,016</u>	<u>\$ 90,874</u>	<u>\$ 479,197</u>

CITY OF ALVA, OKLAHOMA
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Combining Balance Sheet – General Fund Accounts – June 30, 2016

	General Fund Operating Account	Revolving Account	Total General Fund Accounts
ASSETS			
Cash and cash equivalents	\$ 48,073	\$ -	\$ 48,073
Investments	423,039	-	423,039
Interest receivable	123	-	123
Receivable from other governments	680,614	-	680,614
Due from other funds	18,020	-	18,020
Court fines receivable, net	12,618	-	12,618
Ambulance receivable, net	211,830	-	211,830
Other receivables	5,021	-	5,021
Inventories	19,673	-	19,673
Total assets	\$ 1,419,011	\$ -	\$ 1,419,011
 LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 262,173	\$ -	\$ 262,173
Accrued payroll payable	121,332	-	121,332
Due to other funds	147,980	-	147,980
Due to bondholders	5,082	-	5,082
Other payables	2,215	-	2,215
Total liabilities	538,782	-	538,782
 Deferred inflows of resources:			
Deferred revenue	97,556	-	97,556
 Fund balances:			
Non-spendable	19,673	-	19,673
Committed	763,000	-	763,000
Total fund balances	782,673	-	782,673
Total liabilities, deferred inflows and fund balances	\$ 1,419,011	\$ -	\$ 1,419,011

CITY OF ALVA, OKLAHOMA
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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts – Year Ended June 30, 2016

	General Fund Operating Account	Revolving Account	Total General Fund Accounts
REVENUES			
Taxes	\$ 4,726,385	\$ -	\$ 4,726,385
Intergovernmental	394,901	-	394,901
Licenses and permits	26,016	-	26,016
Charges for services	464,756	-	464,756
Fines and forfeitures	51,687	-	51,687
Investment earnings	13,595	-	13,595
Miscellaneous	445,430	3	445,433
Total revenues	<u>6,122,770</u>	<u>3</u>	<u>6,122,773</u>
EXPENDITURES			
Current:			
General government	1,498,070	-	1,498,070
Public safety	1,777,039	-	1,777,039
Streets	710,202	-	710,202
Ambulance	657,919	-	657,919
Culture and recreation	372,671	-	372,671
Health and welfare	98,968	-	98,968
Capital outlay	261,584	-	261,584
Debt service:			
Principal	94,658	-	94,658
Interest and other charges	20,573	-	20,573
Total expenditures	<u>5,491,684</u>	<u>-</u>	<u>5,491,684</u>
Excess (deficiency) of revenues over expenditures	<u>631,086</u>	<u>3</u>	<u>631,089</u>
OTHER FINANCING SOURCES (USES)			
Interaccount transfers in	88,777	-	88,777
Interaccount transfers out	(31,484)	(57,293)	(88,777)
Transfers in	1,419,030	-	1,419,030
Transfers out	(2,640,783)	-	(2,640,783)
Total other financing sources and uses	<u>(1,164,460)</u>	<u>(57,293)</u>	<u>(1,221,753)</u>
Net change in fund balances	(533,374)	(57,290)	(590,664)
Fund balances - beginning	1,316,047	57,290	1,373,337
Fund balances - ending	<u>\$ 782,673</u>	<u>\$ -</u>	<u>\$ 782,673</u>

**CITY OF ALVA, OKLAHOMA
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Schedule of Expenditures of Federal Awards – For Year Ended June 30, 2016

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Awards Expended
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
Passed through Oklahoma Department of Health Hospital Preparedness Program	93.074	2015 H020094 EPRS	\$ 4,600	\$ 4,600
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Passed through Oklahoma Highway Safety Office: Disaster Grants - Public Assistance	20.600	PT-15-03-01-02	\$ 13,000	\$ 3,848
Disaster Grants - Public Assistance	20.600	PT-16-03-01-03	10,000	7,038
Total U.S. Department of Transportation			\$ 23,000	\$ 10,886
<u>FEDERAL AVIATION ADMINISTRATION:</u>				
Airport Improvement Program	20.106	3-40-0003-011-2014	\$ 53,838	\$ 15,021
Airport Improvement Program	20.106	3-40-0003-012-2015	569,281	521,975
Total Federal Aviation Administration			\$ 623,119	\$ 536,996
Total Federal Awards			\$ 650,719	\$ 552,482

CITY OF ALVA, OKLAHOMA
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Debt Service Coverage Schedule – June 30, 2016

Operating revenues :	
Water	\$1,162,563
Sewer	250,326
Sanitation	1,219,850
Interest revenues	1,125
Total gross revenues available	<u>2,633,864</u>
Authority operating expenses:	
Water	325,579
Sewer	325,579
Sanitation	700,710
Total operating expenses	<u>1,351,868</u>
Net Revenues Available for Debt Service	<u><u>\$1,281,996</u></u>
Maximum annual debt service requirements:	
2014A Revenue Note	\$251,225
2014B Revenue Note	<u>26,180</u>
Total maximum annual debt service	<u><u>\$277,405</u></u>
Computed Coverage	<u><u>4.62</u></u>
Coverage Requirement - Revenue Bond Indenture	<u><u>1.25</u></u>

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

INTERNAL CONTROL AND COMPLIANCE INFORMATION

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the City of Alva, Oklahoma Council
City of Alva, Oklahoma

We have audited audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alva, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 12, 2017 which contained *Emphasis of Matter* paragraphs regarding a substantial doubt about a business-type activity's ability to continue as a going concern for a reasonable period of time. Our report includes a reference to other auditors who audited the financial statements of the Alva Hospital Authority d/b/a Share Medical Center, a business-type activity, as described in our report on the City of Alva, Oklahoma's financial statements. This report does not include the results of the other Auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 16-1, 16-2, 16-3, 16-4, 16-5, 16-6, and 16-7.

Compliance and Other Matters

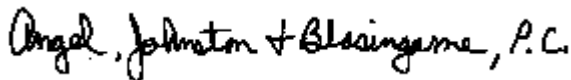
As part of obtaining reasonable assurance about whether the City of Alva, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as items 16-1, 16-2, 16-3 and 16-4.

City of Alva, Oklahoma's Responses to Findings

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

Purpose of This Report

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



Chickasha, Oklahoma
May 12, 2017

CITY OF ALVA, OKLAHOMA
SCHEDULE OF FINDINGS AND RECOMMENDATION
Year Ended June 30, 2016

- 16-1. Criteria – Purchase orders are to be used to initiate the purchasing process and an original invoice should be included with the purchase order. The purchase order should be signed by the encumbrance clerk to verify budgeted funds are available; original invoices should be signed and dated verifying the receipt of goods or services.

Condition – In our expenditure testing we noted six of thirty-three purchase orders tested were prepared after date of invoice, one original invoice could not be located, however a quote price sheet was provided, two purchase orders had the original amount marked out and a higher amount written in and paid. The manually changed purchase order did not have any signature or initials approving the higher amount paid.

Cause and Effect – A lack of consistency exists in following procedures to properly implement state purchasing laws. In addition, there is an increased likelihood budgets could be exceeded and improper purchases could be made.

Recommendation – The City should follow state statutes and properly implement purchase order procedures.

Management response – Management agrees.

- 16-2. Criteria – In order to comply with state statutes and good internal control all funds received should be deposited daily.

Condition – During our testing of one month’s deposits we noted three deposits were not made on the next business day.

Cause and Effect – Not following appropriate procedures to insure deposits are made timely increases the potential for fraud.

Recommendation – The City should make deposits by the next business day.

Management response – Management agrees.

- 16-3. Criteria – Oklahoma Statutes Title 11, Section 17:211A states “No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.”

Condition – Expenditures exceeded total appropriations in the General Fund by \$482,312.

Cause and Effect – A lack of proper procedures and controls for monitoring the City’s expenditures in relations to their approved budget appropriations allowed non-compliance with Oklahoma Statutes.

Recommendation – The City should closely monitor each budget on a monthly basis and not approve any expenditure exceeding appropriation until additional amendments have been made and approved. The categories of each budgeted fund should be tracked in order to determine the remaining budget balance. The City Council can authorize the City Manager or other designated employee to approve all transfers of appropriations between budgeted categories; however, all supplemental appropriations require the approval of the City Council.

Management response – Management agrees.

CITY OF ALVA, OKLAHOMA
SCHEDULE OF FINDINGS AND RECOMMENDATION
Year Ended June 30, 2016

- 16-4. Criteria – All adjustments to utility billing process should have documentation, approval process and tracking by the City.

Condition – Utility billing adjustments do not have documentation, any type of approval process and are not being tracked by the City. In addition, the same employee collecting and posting payments is the employee making adjustments in the utility billing system.

Cause and Effect – Not having good internal control and procedures or approval process or ability to track the adjustments made to the utility billing creates the potential for fraud.

Recommendation – The City should implement procedures to document, approve and track all utility billing adjustments.

Management response – Management agrees.

- 16-5. Criteria – In order to have good internal control over the utility billing and collection process a monthly reconciliation of activity should be done.

Condition – There is no monthly reconciliation of utility receivables. This is required to make sure all activities in customers' accounts are properly recorded

Cause and Effect – There is a lack of established procedures to reconcile utility billings and receivables on a timely basis. Improper charges, payments and adjustments to customers' accounts could occur and not be identified.

Recommendation – The City should establish reconciliation procedures to ensure all customers utility billings and cash receipts are recorded and that all adjustments are appropriate.

Management response – Management agrees.

- 16-6. Criteria – Open bonds and adjustments to police fines should have documentation, an approval process and tracking by the City.

Condition – The employee who receives the money for the police fines has the ability to adjust the fines and no one is verifying these adjustments. Open bonds need to be followed up on to clear any totals, as we noted bonds from the past that should no longer be open.

Cause and Effect – The same employee collecting money also having the ability to adjust the fines with no other approval process and no follow up on open bonds creates the potential for fraud.

Recommendation – The City should implement procedures to document and approve all police fine adjustments and clear up any open bonds.

Management response – Management agrees.

CITY OF ALVA, OKLAHOMA
SCHEDULE OF FINDINGS AND RECOMMENDATION
Year Ended June 30, 2016

16-7. Criteria – All goods for resale should be inventoried at year end.

Condition – The fuel for resale at the airport has not been inventoried.

Cause and Effect – Not taking a year-end inventory of all goods for sale creates the potential for misstatement of the financial statements and fraud.

Recommendation – The City should implement procedures to take inventory at year end.

Management response – Management agrees.

CITY OF ALVA, OKLAHOMA
SUMMARY OF PRIOR YEAR FINDINGS
Year Ended June 30, 2016

Deficiencies of Internal Control, Compliance and Other Matters:

2015-1.

Criteria – All expenditures are to have a purchase order submitted prior to any order of goods or services, which includes a predetermined amount, all invoices or packing slips are to be signed by personnel receiving goods or services and invoices are required documentation before payment is made. Purchase orders are to be retained for five (5) years after the year of origination.

Condition – During the examination of 116 expenditures I noted ten (10) purchase orders were dated after the invoice date, two (2) were not signed and one (1) was not available for review.

Disposition – This continues to be a finding during 2015-16 fiscal year.

2015-2.

Criteria The governing board of any municipality may enter into an agreement to ease personal property wherein the initial purchase is made by the lessor and the title remains in the name of the lessor until final payment is made.

Condition – The City entered into a lease-purchase agreement for equipment for a nine-year period but received the financing from the lessor and payment was made to the vendors by the City. Title to the equipment was in the name of the lessee.

Disposition – This was not noted in the subsequent year.

2015-3.

Criteria – State law requires all public construction contracts exceeding \$50,000.00 be awarded to the lowest responsible bidder after solicitation for sealed bids, and awarded by a public agency.

Condition – Sealed bids were received meeting bidding requirements and were approved by a committee for construction of a facility, costing in excess of \$50,000.00, at the Gun Range. The bids were accepted by the committee but not delivered to or approved by the governing board.

Disposition – This was not a finding during 2015-16 fiscal year.

2015-4.

Criteria – Remittance slips and other collection documentation are to be retained in office until one (1) year audit is complete.

Condition – Nine (9) of 49 miscellaneous revenue receipts did not have remittance slips on file.

Disposition – This was not a finding during 2015-16 fiscal year.