

THE CITY OF MORRIS, OKLAHOMA

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

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Basis of Accounting

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

Other Matters

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morris, Oklahoma's basic financial statements. The management's discussion and analysis, budgetary comparison information, combining schedules, federal and state award information, and debt service coverage information on pages 7–12 and 35–40, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 29, 2016, on my consideration of the City of Morris, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Morris, Oklahoma's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
November 29, 2016

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT - Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The management of the City of Morris is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 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. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$134,313, and the assets of the City exceed its liabilities at June 30, 2016, by \$1,496,340 (net position). Of this amount, \$1,251,960 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2016, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$485,713.
- At the end of fiscal year 2016, unassigned fund balance on a modified cash basis for the General Fund was \$49,288 or 10.4% of General Fund revenues.

ABOUT THE CITY

The City of Morris is an incorporated municipality with a population of approximately 1,479 located in eastern Oklahoma. The City is an Aldermanic form of government that provides for three branches of government:

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

The City provides typical municipal services such as public safety, cemetery, streets and public works, and utility services including water, sewer, and sanitation.

The City's Financial Reporting Entity

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

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

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- **The City of Morris** – operates the public safety, cemetery, streets and public works, and administrative activities of the City.
- **The Morris Public Works Authority (MPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Morris is the beneficiary of the trust and the City Council serves as the governing body of the trust.

In addition, as required by state law, all debt obligations incurred by the trust 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 trust within the City's financial reporting entity. The public trust does not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

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

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, and sanitation utilities are reported as business-type activities.

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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 utilizes two kinds of funds – *governmental and proprietary*.

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

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The City's proprietary fund is the Morris Public Works Authority that accounts for the operation of the water, sewer, and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 24-33 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 and the Street and Alley Fund, combining schedules for General Fund accounts, a federal and state award schedule and a debt service coverage schedule.

Unaudited

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

THE CITY AS A WHOLE

For the year ended June 30, 2016, net position on a modified cash basis for the governmental and business-type activities increased \$134,313.

The City of Morris's Net Position (Modified Cash Basis)
June 30, 2016

	Governmental Activities	Business-type Activities	Total
Beginning net position, restated	\$ 440,668	\$ 921,359	\$ 1,362,027
Increase	45,045	89,268	134,313
Ending net position	\$ 485,713	\$ 1,010,627	\$ 1,496,340

Following is a summary of net position at June 30 reported on a modified cash basis for the City of Morris.

	Governmental Activities		Business-type Activities		Total	
	2016	2015 *	2016	2015 *	2016	2015
Assets:						
Current and other assets	\$ 486,461	\$ 429,424	\$ 1,059,586	\$ 971,498	\$ 1,546,047	\$ 1,400,922
Total assets	486,461	429,424	1,059,586	971,498	1,546,047	1,400,922
Liabilities:						
Current and other liabilities	748	1,085	48,959	31,743	49,707	32,828
Total liabilities	748	1,085	48,959	31,743	49,707	32,828
Net position:						
Restricted	244,380	231,880	-	-	244,380	231,880
Unrestricted	241,333	196,459	1,010,627	939,755	1,251,960	1,136,214
Total net position	\$ 485,713	\$ 428,339	\$ 1,010,627	\$ 939,755	\$ 1,496,340	\$ 1,368,094

* prior year amounts not restated for md&a purposes

A portion of the City's net position, \$244,380, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1,251,960, may be used to meet the government's ongoing needs.

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CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT - Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The City of Morris Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2016

	Governmental		Business-type		Total	
	Activities		Activities		Total	
	*		*		*	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for Services	\$ 56,983	\$ 71,093	\$ 696,427	\$ 693,137	\$ 753,410	\$ 764,230
Operating Grants & Contributions	51,055	23,296	-	-	51,055	23,296
Capital Grants & Contributions	-	-	-	150,987	-	150,987
General Revenues:						
Sales & Use Tax	326,133	320,616	-	-	326,133	320,616
Other Taxes	26,341	27,535	-	-	26,341	27,535
Other General Revenues	35,288	20,931	519	411	35,807	21,342
Net Transfers	-	13,707	-	(13,707)	-	-
Total Revenues	495,800	477,178	696,946	830,828	1,192,746	1,308,006
Program Expenses:						
General Government	159,655	183,431	-	-	159,655	183,431
Public Safety	226,999	212,383	-	-	226,999	212,383
Highways & Streets	48,333	66,461	-	-	48,333	66,461
Cemetery	15,768	13,306	-	-	15,768	13,306
Water	-	-	371,753	436,561	371,753	436,561
Sewer	-	-	106,873	122,380	106,873	122,380
Sanitation	-	-	129,052	138,532	129,052	138,532
Total Expenses	450,755	475,581	607,678	697,473	1,058,433	1,173,054
Increase in Net Position	\$ 45,045	\$ 1,597	\$ 89,268	\$ 133,355	\$ 134,313	\$ 134,952

* prior year amounts not restated for md&a purposes

Governmental Activities

The City's governmental activities had an increase in net position of \$45,045. A decrease in fine revenue, caused by employee turnover in the police department, resulted in a decrease in charges for services of approximately \$14,000. Operating grants and contributions increased by approximately \$28,000 due primarily to the remainder of a REAP grant received in the current year.

Net Revenue (Expense) of Governmental Activities

	Total Expense		% Inc. (Dec.)	Net Revenue		% Inc. (Dec.)
	of Services			(Expense) of Services		
	2016	2015		2016	2015	
General government	\$ 159,655	\$ 183,431	-13%	\$ (124,436)	\$ (177,161)	-30%
Public Safety	226,999	212,383	7%	(190,236)	(154,351)	23%
Streets	48,333	66,461	-27%	(34,928)	(52,649)	-34%
Cemetery	15,768	13,306	19%	6,883	2,969	132%
Total	\$ 450,755	\$ 475,581	-5%	\$ (342,717)	\$ (381,192)	-10%

Unaudited

**CITY OF MORRIS, OKLAHOMA
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Business-type Activities

The City's business-type activities had an increase in net position of \$89,268. Capital grants and contributions decreased approximately \$151,000 due to grants received in the prior year to replace a water line.

Net Revenue (Expense) of Business-type Activities

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Water	\$ 371,753	\$ 436,561	-15%	\$ (44,185)	\$ 44,115	-200%
Sewer	106,873	122,380	-13%	105,822	95,132	11%
Sanitation	<u>129,052</u>	<u>138,532</u>	-7%	<u>27,112</u>	<u>7,404</u>	266%
Total	<u>\$ 607,678</u>	<u>\$ 697,473</u>	-13%	<u>\$ 88,749</u>	<u>\$ 146,651</u>	-39%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2016 fiscal year, the governmental funds reported a combined fund balance of \$485,713. For the year ended June 30, 2016, the General Fund's total fund balance increased by \$32,545.

Budgetary Highlights

For the year ended June 30, 2016, the General Fund reported actual budgetary basis revenues less than final estimates by \$46,218 or a 9.3% negative variance. General Fund actual expenditures were under final appropriations by \$41,626 or a 9% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The City plans to continue work on the water line improvements as grant monies and City funds will allow.
- The City also plans to apply for grant monies and also use City funds to repair streets.

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 501 S. Hughes, Morris, Oklahoma 74447 or telephone at 918-733-4222.

Unaudited

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

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 457,406	\$ 1,065,294	\$ 1,522,700
Investments	23,347	-	23,347
Internal balances	5,708	(5,708)	-
Total Assets	<u>486,461</u>	<u>1,059,586</u>	<u>1,546,047</u>
LIABILITIES			
Due to other governments	300	-	300
Due to bondholders	398	-	398
EMS payable	-	1,901	1,901
Refundable deposits	50	47,058	47,108
Total Liabilities	<u>748</u>	<u>48,959</u>	<u>49,707</u>
NET POSITION			
Restricted	244,380	-	244,380
Unrestricted	241,333	1,010,627	1,251,960
Total Net Position	<u>\$ 485,713</u>	<u>\$ 1,010,627</u>	<u>\$ 1,496,340</u>

See accompanying notes to the basic financial statements.

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

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

Functions/Programs	Expenses	Program Revenues			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	\$ 159,655	\$ 1,859	\$ 33,360	\$ -	\$ (124,436)	\$ -	\$ (124,436)
Public Safety	226,999	32,473	4,290	-	(190,236)	-	(190,236)
Highways and Streets	48,333	-	13,405	-	(34,928)	-	(34,928)
Cemetery	15,768	22,651	-	-	6,883	-	6,883
Total governmental activities	<u>450,755</u>	<u>56,983</u>	<u>51,055</u>	<u>-</u>	<u>(342,717)</u>	<u>-</u>	<u>(342,717)</u>
Business-type activities:							
Water	371,753	327,568	-	-	-	(44,185)	(44,185)
Sewer	106,873	212,695	-	-	-	105,822	105,822
Sanitation	129,052	156,164	-	-	-	27,112	27,112
Total business-type activities	<u>607,678</u>	<u>696,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,749</u>	<u>88,749</u>
Total primary government	<u>\$ 1,058,433</u>	<u>\$ 753,410</u>	<u>\$ 51,055</u>	<u>\$ -</u>	<u>(342,717)</u>	<u>88,749</u>	<u>(253,968)</u>
General revenues:							
Taxes:							
Sales and use tax					326,133	-	326,133
Franchise and public service taxes					26,341	-	26,341
Intergovernmental revenue not restricted to specific programs					12,062	-	12,062
Investment income					303	519	822
Miscellaneous					22,923	-	22,923
Total general revenues and transfers					<u>387,762</u>	<u>519</u>	<u>388,281</u>
Change in net position					45,045	89,268	134,313
Net position - beginning, restated					440,668	921,359	1,362,027
Net position - ending					<u>\$ 485,713</u>	<u>\$ 1,010,627</u>	<u>\$ 1,496,340</u>

See accompanying notes to the basic financial statements.

**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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

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

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 213,127	\$ 164,491	\$ 79,788	\$ 457,406
Investments	23,347	-	-	23,347
Due from other funds	8,088	-	195	8,283
	<u>244,562</u>	<u>164,491</u>	<u>79,983</u>	<u>489,036</u>
Total Assets	<u>\$ 244,562</u>	<u>\$ 164,491</u>	<u>\$ 79,983</u>	<u>\$ 489,036</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 2,481	\$ 94	\$ -	\$ 2,575
Due to other governments	300	-	-	300
Due to bondholders	398	-	-	398
Refundable deposits	50	-	-	50
	<u>3,229</u>	<u>94</u>	<u>-</u>	<u>3,323</u>
Total Liabilities	<u>3,229</u>	<u>94</u>	<u>-</u>	<u>3,323</u>
Fund Balances:				
Restricted:				
Street & alley purposes	-	164,397	-	164,397
Cemetery	-	-	79,983	79,983
Assigned:				
Cemetery	44,622	-	-	44,622
Capital projects	147,423	-	-	147,423
Unassigned	49,288	-	-	49,288
	<u>241,333</u>	<u>164,397</u>	<u>79,983</u>	<u>485,713</u>
Total Fund Balances	<u>241,333</u>	<u>164,397</u>	<u>79,983</u>	<u>485,713</u>
Total Liabilities and Fund Balances	<u>\$ 244,562</u>	<u>\$ 164,491</u>	<u>\$ 79,983</u>	<u>\$ 489,036</u>

See accompanying notes to the basic financial statements.

CITY OF MORRIS, 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
(Modified Cash Basis) – Year Ended June 30, 2016

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 352,474	\$ -	\$ -	\$ 352,474
Intergovernmental	49,712	13,405	-	63,117
Charges for services	16,988	-	5,663	22,651
Fines and forfeitures	32,473	-	-	32,473
Licenses and permits	1,859	-	-	1,859
Investment income	303	-	-	303
Miscellaneous	20,398	-	2,525	22,923
Total Revenues	474,207	13,405	8,188	495,800
Expenditures:				
Current:				
General government	159,655	-	-	159,655
Public safety	226,569	-	-	226,569
Highways and streets	39,240	9,093	-	48,333
Cemetery	15,768	-	-	15,768
Capital outlay	430	-	-	430
Total Expenditures	441,662	9,093	-	450,755
Excess of revenues over expenditures	32,545	4,312	8,188	45,045
Fund balances - beginning, restated	208,788	160,085	71,795	440,668
Fund balances - ending	\$ 241,333	\$ 164,397	\$ 79,983	\$ 485,713

See accompanying notes to basic financial statements.

**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2016

	Morris Public Works Authority <u>Enterprise Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,018,236
Restricted cash and cash equivalents	47,058
Due from other funds	2,286
 Total Assets	 <u>\$ 1,067,580</u>
 LIABILITIES	
EMS payable	\$ 1,901
Due to other funds	7,994
Meter deposit liability	47,058
 Total liabilities	 <u>56,953</u>
 NET POSITION	
Unrestricted	1,010,627
 Total net position	 <u>\$ 1,010,627</u>

See accompanying notes to the basic financial statements.

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

	Morris Public Works Authority <u>Enterprise Fund</u>
Operating Revenues:	
Charges for services:	
Water	\$ 312,322
Sewer	202,795
Sanitation	148,896
Penalties	23,595
Reconnect fees	8,556
Miscellaneous	263
Total Operating Revenues	<u>696,427</u>
Operating Expenses:	
Water	257,968
Sewer	106,873
Sanitation	129,052
Total Operating Expenses	<u>493,893</u>
Operating Income	202,534
Non-Operating Revenues (Expenses):	
Investment income	519
Debt service:	
Principal retirement	(91,520)
Interest expense	(22,265)
Total Non-Operating Revenues (Expenses)	<u>(113,266)</u>
Change in net position	89,268
Total net position - beginning, restated	921,359
Total net position - ending	<u><u>\$ 1,010,627</u></u>

See accompanying notes to the basic financial statements.

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

	Morris Public Works Authority Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 696,427
Payments to suppliers	(365,782)
Payments to employees	(128,122)
Receipts of customer utility deposits	9,950
Refunds of customer utility deposits	(11,119)
Net Cash Provided by Operating Activities	<u>201,354</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(91,520)
Interest and fiscal agent fees paid on capital debt	(22,265)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(113,785)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	519
Net Cash Provided by Investing Activities	<u>519</u>
Net Increase in Cash and Cash Equivalents	88,088
Balance - beginning of the year	<u>977,206</u>
Balance - end of the year	<u>\$ 1,065,294</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	1,018,236
Restricted cash and cash equivalents - current	47,058
Total cash and cash equivalents	<u>\$ 1,065,294</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 202,534
Change in assets and liabilities:	
EMS payable	(11)
Meter deposit liability	(1,169)
Net cash provided by operating activities	<u>\$ 201,354</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. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes two separate legal entities reported as the primary government.

- **The City of Morris** – that operates the public safety, cemetery, streets, health and welfare, culture and recreation, and administrative activities.

- **The Morris Public Works Authority** – that operates the water, sewer, and sanitation services of the City through a public trust of which the City is the beneficiary. The City Council serves as trustee for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the City Council.

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

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

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

In addition, due to the use of this modified cash basis of accounting, capital asset and long-term debt transactions are excluded from reporting within the financial statements. Capital assets are expensed when purchased and long-term debts are reported as cash receipts when issued and received. However, information about long-term debt is disclosed in Note 9 Commitments and Contingencies.

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, rents and royalties
- Public safety: Fine revenue, operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales

Governmental Funds:

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

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Street and Alley Fund (Special Revenue Fund) - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.
- Cemetery Care Fund (Capital Projects Fund) - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Type Fund:

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

Morris Public Works Authority:

- Morris Public Works Authority Enterprise Fund – accounts for the operation of the water, sewer, and sanitation activities.

The proprietary type fund is also reported on a modified cash basis, as defined above.

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

C. Cash, Cash Equivalents, and Investments

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

D. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 9.

E. Fund Balances and Net Position

Fund Statements:

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

- a. Nonspendable – 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 is available. The City’s policy for the use of the 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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Net Position:

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net position* - All other net position that does not meet the definition of “restricted.”

The City has restricted net position for streets and cemetery.

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 elements are available.

Beginning net position was restated as of July 1, 2015 as follows:

	Government-Wide		Fund Level	
	Governmental Activities	Business-type Activities	General Fund	Morris Public Works Authority
Beginning net position, as previously reported	\$ 428,339	\$ 939,755	\$ 196,459	\$ 939,755
Understatement of deposits with insurance pool	12,329	-	12,329	-
Understatement of meter deposit liability	-	(18,396)	-	(18,396)
Beginning net position, restated	<u>\$ 440,668</u>	<u>\$ 921,359</u>	<u>\$ 208,788</u>	<u>\$ 921,359</u>

F. Internal and Interfund Balances and Transfers

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

2. Deposits and Investments

For the year ended June 30, 2016, the City recognized \$822 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:

Primary Government	Carrying Value
Deposits:	
Petty cash	\$ 653
Demand deposits	1,522,047
Time deposits - certificates of deposit	23,347
Total Deposits	\$ 1,546,047
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 1,522,700
Investments	23,347
	\$ 1,546,047

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.

At June 30, 2016, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

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

At June 30, 2016, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

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 trust.

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Concentration of Investment Credit Risk

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

At June 30, 2016, the City had no concentration of credit risk as defined above.

Restricted Cash and Cash Equivalents – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for utility deposits of the Morris Public Works Authority. The restricted assets as of June 30, 2016 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	<u>\$ 47,058</u>
Total Restricted Assets	<u><u>\$ 47,058</u></u>

3. Sales Tax Revenue

Sales tax revenue represents a 4.0 cent local tax on each dollar of taxable sales within the City. Three and one-half cents of the sales tax received are recorded as sales tax revenue within the General Fund to be used for general operations of the City. One-half cent has been assigned by the City to be used for future capital projects.

4. Property Tax Levy

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

5. Internal and Interfund Balances and Transfers

Balances:

Interfund balances at June 30, 2016, were as follows:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
MPWA	General Fund	\$ 7,994	Claims paid on behalf of other funds
Street and Alley Fund	General Fund	94	Claims paid on behalf of other funds
General Fund	MPWA	2,286	Claims paid on behalf of other funds
General Fund	Cemetery Care Fund	195	Claims paid on behalf of other funds
		<u>\$ 10,569</u>	

Reconciliation to fund financial statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 8,283	\$ (2,575)	\$ 5,708
Proprietary Funds	2,286	(7,994)	(5,708)
Total	<u>\$ 10,569</u>	<u>\$ (10,569)</u>	<u>\$ -</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

7. Pension Plan Participation

The City of Morris participates in two pension or retirement plans:

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

Firefighter Pension System:

Plan Summary Information. The City of Morris, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

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

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2014	\$780	\$780
2015	\$900	\$900
2016	\$1,020	\$1,020

OMRF Defined Contribution Plan:

During the year ending June 30, 2010, the City began providing a defined contribution plan and trust known as the City of Morris Plan and Trust (the “OMRF Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available to all full-time employees. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by JPMorgan Chase Bank of Oklahoma City. The defined contribution plan is mandatory to all full-time employees who are not already participating in another plan. The employee contributes to the Plan an amount up to 2% of their gross wages. The City as employer, contributes a match amount also up to 2% of the employee’s wages. If an employee terminates before becoming fully vested, the employer’s contributions that are forfeited may be used to reduce the City’s current-period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2014	\$3,981	\$3,981
2015	\$3,724	\$3,724
2016	\$3,394	\$3,394

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

8. Pledge of Future Revenues

Utility Net Revenues Pledge – The City has also pledged future net water and sewer revenues to repay \$1,650,000 of the OWRB ORF Promissory Note. Proceeds from the note provided financing for utility system capital assets. The note is payable through September 2023. The total principal and interest payable for the remainder of the life of this note is \$787,761. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$105,035, which was 57% of pledged net utility revenues of \$182,946.

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9. Commitments and Contingencies

Long-term Debt Commitments:

At June 30, 2016, the City and MPWA reported the following as long-term debt commitments:

Notes Payable of the Morris Public Works Authority (Payable from future utility revenues):

OWRB Promissory Note for water improvements dated October 1, 2002, original amount of \$1,650,000, payments of \$52,397 made semi-annually each March 15 and September 15, with an annual interest rate of 2.865%. \$703,361

Oklahoma Department of Commerce Note (8675 CDBG 98), original amount of \$175,000, payable in 240 monthly installments of \$729 interest free, final payment due June 1, 2022. 52,500

Balance of Notes Payable at June 30, 2016 \$755,861

Payment Requirements to Maturity

Year Ended June 30,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	93,997	19,788
2018	96,486	17,298
2019	99,049	14,736
2020	101,655	12,130
2021	104,400	9,385
2022-2024	<u>260,274</u>	<u>11,063</u>
Total	<u>\$ 755,861</u>	<u>\$ 84,400</u>

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2016, is summarized as follows:

- General Fund – accrued compensated absences \$1,211
- MPWA – accrued compensated absences \$3,505

Related Party Transactions:

During the 2016 fiscal year, the City and MPWA purchased items from the NAPA store in Morris, which was owned by the Mayor's spouse. The total transactions with the City and MPWA were \$1,902 and \$477, respectively, and these are amounts for July 1, 2015 to December 30, 2015. The business was sold in December 2015.

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Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Morris participates in various federal or state grant/loan programs from year to year. In 2016, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 111,004	\$ 111,004	\$ 165,533	\$ 54,529
Resources (Inflows):				
Taxes	341,000	341,000	352,474	11,474
Intergovernmental	39,500	74,500	45,422	(29,078)
Fines and Forfeitures	63,000	63,000	32,473	(30,527)
Licenses and Permits	1,500	1,500	1,859	359
Investment Income	50	50	156	106
Miscellaneous	5,200	18,950	20,398	1,448
Transfers In	18,230	-	-	-
Total Resources (Inflows)	<u>468,480</u>	<u>499,000</u>	<u>452,782</u>	<u>(46,218)</u>
Amounts available for appropriation	<u>\$ 579,484</u>	<u>\$ 610,004</u>	<u>\$ 618,315</u>	<u>\$ 8,311</u>
Charges to Appropriations (Outflows):				
General Government	\$ 86,070	\$ 135,820	\$ 125,951	\$ 9,869
Streets	94,150	56,150	39,240	16,910
Police	242,850	221,850	216,298	5,552
Fire	16,550	16,550	6,411	10,139
Council	4,060	4,560	3,875	685
City Clerk/Treasurer	18,800	19,300	20,897	(1,597)
Community Center	6,000	9,000	8,932	68
Total Charges to Appropriations	<u>468,480</u>	<u>463,230</u>	<u>421,604</u>	<u>41,626</u>
Ending Budgetary Fund Balance	<u>\$ 111,004</u>	<u>\$ 146,774</u>	<u>\$ 196,711</u>	<u>\$ 49,937</u>

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 157,664	\$ 157,664	\$ 160,085	\$ 2,421
Resources (Inflows):				
Intergovernmental	11,500	11,500	13,405	1,905
Total Resources (Inflows)	<u>11,500</u>	<u>11,500</u>	<u>13,405</u>	<u>1,905</u>
Amounts available for appropriation	<u>\$ 169,164</u>	<u>\$ 169,164</u>	<u>\$ 173,490</u>	<u>\$ 4,326</u>
Charges to Appropriations (Outflows):				
Streets	\$ 13,000	\$ 13,000	\$ 9,093	\$ 3,907
Total Charges to Appropriations	<u>13,000</u>	<u>13,000</u>	<u>9,093</u>	<u>3,907</u>
Ending Budgetary Fund Balance	<u>\$ 156,164</u>	<u>\$ 156,164</u>	<u>\$ 164,397</u>	<u>\$ 8,233</u>

Unaudited

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Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor’s approval, while supplemental appropriations require City Council approval.
3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$618,315
Differences – budget to Modified Cash:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(165,533)
Cemetery Account combined as an account of the General Fund per GASB 54	17,135
Rural Fire grant not budgeted for by City	<u>4,290</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$474,207</u>
Uses/Outflows of resources	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$421,604
Differences – budget to Modified Cash:	
Cemetery Account combined as an account of the General Fund per GASB 54	15,768
Rural Fire expenditures not budgeted for by City	<u>4,290</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$441,662</u>

4. Expenditures exceeded appropriations in the General Fund in the following department:

- City Clerk/Treasurer \$1,597

Unaudited

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2016

	<u>General Fund</u>	<u>Cemetery Account</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 190,762	\$ 22,365	\$ 213,127
Investments	-	23,347	23,347
Due from other funds	7,994	94	8,088
Due from other account	-	1,102	1,102
 Total Assets	 <u>\$ 198,756</u>	 <u>\$ 46,908</u>	 <u>\$ 245,664</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 195	\$ 2,286	\$ 2,481
Due to other account	1,102	-	1,102
Due to other governments	300	-	300
Due to bondholders	398	-	398
Refundable deposits	50	-	50
 Total Liabilities	 <u>2,045</u>	 <u>2,286</u>	 <u>4,331</u>
Fund Balances:			
Assigned for:			
Cemetery	-	44,622	44,622
Capital projects	147,423	-	147,423
Unassigned	49,288	-	49,288
Total Fund Balances	<u>196,711</u>	<u>44,622</u>	<u>241,333</u>
 Total Liabilities and Fund Balances	 <u>\$ 198,756</u>	 <u>\$ 46,908</u>	 <u>\$ 245,664</u>

Unaudited

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

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2016

	<u>General Fund</u>	<u>Cemetery Account</u>	<u>Totals</u>
Revenues:			
Taxes	\$ 352,474	\$ -	\$ 352,474
Intergovernmental	49,712	-	49,712
Charges for services	-	16,988	16,988
Fines & forfeitures	32,473	-	32,473
Licenses & permits	1,859	-	1,859
Investment income	156	147	303
Miscellaneous	20,398	-	20,398
Total Revenues	<u>457,072</u>	<u>17,135</u>	<u>474,207</u>
Expenditures:			
Current:			
General government	159,655	-	159,655
Public safety	226,569	-	226,569
Highways and streets	39,240	-	39,240
Cemetery	-	15,768	15,768
Capital outlay	430	-	430
Total Expenditures	<u>425,894</u>	<u>15,768</u>	<u>441,662</u>
Excess of revenues over expenditures	31,178	1,367	32,545
Fund balances, beginning, restated	165,533	43,255	208,788
Fund balances, ending	<u>\$ 196,711</u>	<u>\$ 44,622</u>	<u>\$ 241,333</u>

Unaudited

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

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Award Amount</u>	<u>Passed Through to Subrecipients</u>	<u>Awards Expended</u>
FEDERAL AWARDS:					
<u>Department of Housing and Urban Development:</u>					
Passed through Oklahoma Department of Commerce					
Community Development Block Grant	14.228	15667 CDBG CIP 13	\$ 38,360	\$ -	\$ 33,360
TOTAL FEDERAL AWARDS			<u>\$ 38,360</u>	<u>\$ -</u>	<u>\$ 33,360</u>
STATE AWARDS:					
<u>Oklahoma Department of Agriculture:</u>					
Rural Fire Grant	N/A	N/A	\$ 4,290	\$ -	\$ 4,290
TOTAL STATE AWARDS			<u>\$ 4,290</u>	<u>\$ -</u>	<u>\$ 4,290</u>

Note: This schedule is prepared on a basis consistent with the new Uniform Guidance. (Federal Awards Expended).

Unaudited

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

Schedule of Debt Service Coverage Requirements Compliance

Gross Revenue Available for Debt Service:	
Operating revenues of leased systems	\$ 547,268
Interest income	<u>519</u>
Total Gross Revenues Available	547,787
System Operating Expenses	<u>364,841</u>
Net Revenues Available for Debt Service	<u><u>\$ 182,946</u></u>
Debt Service Requirements:	
Maximum annual debt service - OWRB note and ODOC note	<u>\$ 113,543</u>
Total Debt Service Requirements	<u><u>\$ 113,543</u></u>
Coverage	<u><u>161%</u></u>
Coverage Requirement	<u><u>125%</u></u>

Unaudited

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

INTERNAL CONTROL AND COMPLIANCE

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

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Anne Marie Elfrink, MS, CPA

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

To the Honorable Mayor and Members of the City Council
City of Morris, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of City of Morris, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Morris, Oklahoma's basic financial statements-modified cash basis and have issued my report thereon dated November 29, 2016. As described in Note 1B, the City of Morris, Oklahoma has elected to report on a modified cash basis of accounting, which is a special purpose framework other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morris, Oklahoma's financial statements – modified cash basis are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is described in the accompanying schedule of findings and responses. [2016-01]

City of Morris, Oklahoma's Response to Findings

The City of Morris, Oklahoma's response to the finding identified in my audit is described in the accompanying schedule of finding. The City of Morris, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
November 29, 2016

City of Morris, Oklahoma
Schedule of Finding and Response
June 30, 2016

2016-01 – Collateral Requirements

CONDITION: At June 30, 2016, the City's uninsured bank deposits exceeded the market value of pledged deposits by \$87,641. This is continued from the prior year.

CRITERIA: Title 62 Section 511 of the Oklahoma Statutes requires that deposits cannot exceed the federal insurance limit unless secured by acceptable collateral.

CAUSE OF CONDITION: The City's bank balances increased during the year and the pledged collateral did not increase sufficiently to assure that deposits were protected.

POTENTIAL EFFECT OF CONDITION: In the event of a bank failure, the City may be unable to recover all of its deposits.

RECOMMENDATION: The City should consider a policy of requiring collateral at a minimum of 110% of uninsured deposits and/or move some of its funds to a different bank to take advantage of the additional FDIC coverage. The collateral coverage should be monitored at least quarterly, if not monthly, to assure that the collateral is sufficient. When receiving a large deposit (such as a grant reimbursement), the collateral should be reviewed prior to depositing the funds.

RESPONSE: City management is aware of the issue and will consider the recommendations.