

**THE CITY OF OKEMAH,  
OKLAHOMA**

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

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

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

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Council  
City of Okemah, Oklahoma

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, 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 conformity with the basis of accounting described in Note 1(B).

### **Basis of Accounting**

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

### **Other Matters**

#### *Report on Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The management's discussion and analysis, budgetary comparison information, the non-major governmental funds combining statements—modified cash basis, schedules of expenditures of federal and state awards, and schedule of debt service coverage requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis on pages 9 through 17, and the budgetary comparison information on pages 49 and 50 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 it.

The non-major governmental funds combining statements—modified cash basis, schedules of expenditures of federal and state awards, and schedule of debt service coverage requirements 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

**Other Matters, Continued**

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive style with a large, stylized "F" and "C".

Shawnee, Oklahoma  
November 18, 2016

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF OKEMAH, OKLAHOMA  
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The management of the City of Okemah 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 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 analysis 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 \$239,825, and the assets of the City exceed its liabilities at June 30, 2016, by \$21.3 million (net position). Of this amount, \$2.2 million (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 approximately \$2.2 million.
- At the end of fiscal year 2016, unassigned fund balance on a modified cash basis for the General Fund was \$203,722 or 13% of General Fund revenues.

**About the City**

The City of Okemah is an incorporated municipality with a population of approximately 3,085 located in central Oklahoma. The City is a home rule charter form of government and operates under a charter that provides for three branches of government:

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

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, sewer, sanitation and economic development services.

***The City's Financial Reporting Entity***

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

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

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City, with such activities reported in the General Fund and various other governmental funds.
- **The Okemah Utilities Authority (OUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Okemah is the

beneficiary of the trust and the City Council serves as the governing body of the trust. The OUA is currently reported as an enterprise fund.

- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the City Council members serving as the trustees. The OEDA is currently reported as an enterprise fund.

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 trust within the City’s financial reporting entity. The public trusts do 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 Okemah (the “City”), the Okemah Utilities Authority (the “Authority”) and the Okemah Economic Development Authority (OEDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, along with fund financial statements for the City (governmental funds) and the OUA and OEDA (enterprise funds).

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

### **Reporting the City as a Whole**

#### **The Statement of Net Position and the Statement of Activities**

One of the most frequently asked questions about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady over the past year?” 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, 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.

These two government-wide statements report the City’s net position and changes in them from the prior year. You can think of the City’s net position – the difference between assets and liabilities– as one way to measure the City’s financial condition, or position. Over time, increases or decreases in the City’s net position are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the City’s tax base, the condition of the City’s roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, 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, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** -- The City typically charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, and sanitation activities and economic development activities are reported here.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many 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* -- Most 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 that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine 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, mainly through the Utilities Authority, charges customers for the services it provides, these services are generally reported in a type of proprietary fund known as an "enterprise fund". The City's proprietary-type enterprise funds are reported on the modified cash basis of accounting, with the exception of enterprise fund capital assets which are capitalized and depreciated, and principal payments on long-term debt which are recorded as a reduction to the liability. The City's proprietary-type enterprise funds are the Okemah Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities as well as the Okemah Economic Development Authority that accounts for economic development activities.

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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 29-47 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents a Management's Discussion and Analysis, a Budgetary Comparison Schedule for the General Fund, federal and state award schedules, and debt service coverage and debt reserve schedules.

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the primary government, on a modified cash basis, assets exceeded liabilities by \$21.3 million at the close of the most recent fiscal year.

**NET POSITION - Modified Cash Basis (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Current assets	\$ 2,195	\$ 1,888	16%	\$ 2,663	\$ 3,854	-31%	\$ 4,858	\$ 5,742	-15%
Capital assets, net	6,949	7,072	-2%	14,616	13,833	6%	21,565	20,905	3%
<b>Total assets</b>	<u>9,144</u>	<u>8,960</u>	2%	<u>17,279</u>	<u>17,687</u>	-2%	<u>26,423</u>	<u>26,647</u>	-1%
Current liabilities	35	11	218%	699	666	5%	734	677	8%
Non-current liabilities	84	2	4124%	4,286	4,889	-12%	4,370	4,891	-11%
<b>Total liabilities</b>	<u>119</u>	<u>13</u>	819%	<u>4,985</u>	<u>5,555</u>	-10%	<u>5,104</u>	<u>5,568</u>	-8%
Net position									
Net investment in capital assets	6,831	7,058	-3%	10,421	10,032	4%	17,252	17,090	1%
Restricted	1,258	1,096	15%	567	655	-13%	1,825	1,751	4%
Unrestricted	936	793	18%	1,306	1,445	-10%	2,242	2,238	0%
<b>Total net position</b>	<u>\$ 9,025</u>	<u>\$ 8,947</u>	1%	<u>\$12,294</u>	<u>\$ 12,132</u>	1%	<u>\$ 21,319</u>	<u>\$ 21,079</u>	1%

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2016, this net investment in capital assets, amounted to \$17.2 million. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net position, \$1.8 million, also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is available to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for both the governmental and business-type activities.

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**Governmental Activities:**

Noncurrent liabilities increased 4,124% (\$81,054) due to the purchase of a phone system capital lease in the amount of \$88,800.

**Business-Type Activities:**

Current assets decreased 31% (about \$1.2 million) resulting from the issuance of a 2014 series Utility and Sales Tax note and the unspent proceeds of the note in a trustee account for construction in the prior year.

**Changes in Net Position**

For the year ended June 30, 2016, on the modified cash basis of accounting, net position of the primary government changed as follows:

**CHANGES IN NET POSITION - Modified Cash Basis (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
<b>Revenues</b>									
Charges for service	\$ 42	\$ 43	-2%	\$ 2,014	\$ 1,963	3%	\$ 2,056	\$ 2,006	2%
Operating grants and contributions	59	52	13%	-	-	-	59	52	13%
Capital grants, debt proceeds and contributions	140	1,280	-89%	-	-	-	140	1,280	-89%
Taxes	1,359	1,340	1%	-	-	-	1,359	1,340	1%
Intergovernmental revenue	55	55	0%	-	-	-	55	55	0%
Investment income	8	7	14%	4	5	-20%	12	12	0%
Miscellaneous	89	146	-39%	7	17	-59%	96	163	-41%
<b>Total revenues</b>	<b>1,752</b>	<b>2,923</b>	<b>-40%</b>	<b>2,025</b>	<b>1,985</b>	<b>2%</b>	<b>3,777</b>	<b>4,908</b>	<b>-23%</b>
<b>Expenses</b>									
General government	331	287	15%	-	-	-	331	287	15%
Public safety	775	809	-4%	-	-	-	775	809	-4%
Streets	376	388	-3%	-	-	-	376	388	-3%
Cemetery	37	50	-26%	-	-	-	37	50	-26%
Culture and Recreation	122	118	3%	-	-	-	122	118	3%
Economic development	-	-	-	83	128	-35%	83	128	-35%
Water	-	-	-	901	791	14%	901	791	14%
Sewer	-	-	-	662	586	13%	662	586	13%
Sanitation	-	-	-	250	201	24%	250	201	24%
<b>Total expenses</b>	<b>1,641</b>	<b>1,652</b>	<b>-1%</b>	<b>1,896</b>	<b>1,706</b>	<b>11%</b>	<b>3,537</b>	<b>3,358</b>	<b>5%</b>
Excess (deficiency) before transfers and special item	111	1,271	-91%	129	279	-54%	240	1,550	-85%
Transfers	(33)	(170)	-81%	33	170	-81%	-	-	-
<b>Change in net position</b>	<b>78</b>	<b>1,101</b>	<b>-93%</b>	<b>162</b>	<b>449</b>	<b>-64%</b>	<b>240</b>	<b>1,550</b>	<b>-85%</b>
<b>Beginning net position</b>	<b>8,947</b>	<b>7,846</b>	<b>14%</b>	<b>12,132</b>	<b>11,683</b>	<b>4%</b>	<b>21,079</b>	<b>19,529</b>	<b>8%</b>
<b>Ending net position</b>	<b>\$ 9,025</b>	<b>\$ 8,947</b>	<b>1%</b>	<b>\$ 12,294</b>	<b>\$ 12,132</b>	<b>1%</b>	<b>\$ 21,319</b>	<b>\$ 21,079</b>	<b>1%</b>

**Governmental Activities**

The City's governmental activities had an increase in net position of \$77,896, on the modified cash basis of accounting.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2016	2015		2016	2015	
	General government	\$ 331	\$ 287	15%	(\$184)	\$697
Public safety	775	809	-4%	(736)	(783)	-6%
Streets	376	388	-3%	(345)	(53)	551%
Cemetery	37	50	-26%	(18)	(32)	-44%
Culture and Recreation	122	118	3%	(117)	(104)	13%
<b>Total</b>	<b>\$ 1,641</b>	<b>\$ 1,652</b>	<b>-1%</b>	<b>(\$1,400)</b>	<b>(\$275)</b>	<b>409%</b>

**Business-type Activities**

The business-type activities, on the modified cash basis of accounting, had an increase in net position of approximately \$161,929. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2016 were sufficient to cover expenses.

	2016	2015		2016	2015	
Water	\$ 901	\$ 791	14%	\$ 36	\$ 111	-68%
Wastewater	662	586	13%	19	109	-83%
Sanitation	250	201	24%	35	103	-66%
Economic Development	83	128	-35%	28	(66)	-142%
<b>Total</b>	<b>\$ 1,896</b>	<b>\$ 1,706</b>	<b>11%</b>	<b>\$ 118</b>	<b>\$ 257</b>	<b>-54%</b>

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2016 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$2.2 million or a 16% increase. The OUA and OEDA enterprise funds reported, on a modified cash basis of accounting, combined net position of \$12.3 million or a 1.3% increase from 2015.

**Other fund highlights include:**

- For the year ended June 30, 2016, the General Fund's total fund balance increased by \$41,621 or 10.7%.
- Proprietary-type enterprise funds net position restriction included \$567,302 for debt service.

**Budgetary Highlights**

For the year ended June 30, 2016, the General Fund reported actual budgetary basis revenues over final estimates by \$612,548 or a 42% positive variance which was due mainly to miscellaneous revenues and transfers in exceeding final estimates. General Fund actual expenditures were under final appropriations by \$147,216 or a 6.8% positive variance.

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2016, the City had \$21.5 million invested in capital assets (net of depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net increase of approximately \$662,000 over last year.

	<b>Capital Assets</b> (In Thousands) (Net of accumulated depreciation)					
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Activities</b>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 445	\$ 445	\$ 1,738	\$ 1,738	\$ 2,183	\$ 2,183
Buildings	444	540	5,331	5,447	5,775	5,987
Imp. other than buildings	1,137	1,184	2,743	2,806	3,880	3,990
Machinery, furniture and equipment	445	393	274	200	719	593
Infrastructure	4,402	3,274	-	-	4,402	3,274
Utility property	-	-	4,115	3,535	4,115	3,535
Construction in progress	76	1,236	415	106	491	1,342
<b>Totals</b>	<b>\$ 6,949</b>	<b>\$ 7,072</b>	<b>\$ 14,616</b>	<b>\$ 13,832</b>	<b>\$ 21,565</b>	<b>\$ 20,904</b>

This year's more significant capital asset additions included:

FAA Airport Grant Project	\$1,372,695
Water and wastewater improvements	\$675,810
Sanitation truck	\$136,371

See Note 3 to the financial statements for more detail information on the City's capital assets and changes therein.

**Long- Term Debt**

At year-end, the City had \$5.0 million in long-term debt outstanding which represents a \$465,000 or 8.5% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

	<b>Long-Term Debt</b> (In Thousands)						<b>Total</b> <b>Percentage</b> <b>Change</b>
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>		
	<b>Activities</b>		<b>Activities</b>		<b>Activities</b>		
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2015-2016</u>
Notes payable	\$ -	\$ -	\$ 4,787	\$ 5,457	\$ 4,787	\$ 5,457	-12.3%
Capital leases	119	13	99	-	218	13	100.0%
<b>Totals</b>	<b>\$ 119</b>	<b>\$ 13</b>	<b>\$ 4,886</b>	<b>\$ 5,457</b>	<b>\$ 5,005</b>	<b>\$ 5,470</b>	<b>-8.5%</b>

## **ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

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

- The FY 2017 budget is consistent to prior years for operational expenses.
- The Muscogee Creek Nation is about 50% complete on the new hospital with completion to be in late 2017 or early 2018.
- The Muscogee Creek Nation has also begun construction on a community center and should be completed in 2017.

### **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 502 W. Broadway, Okemah, Oklahoma 74859-2400 or telephone at 918-623-1050.

**CITY OF OKEMAH, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF OKEMAH, OKLAHOMA**  
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**Statement of Net Position (Modified Cash Basis)– June 30, 2016**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,011,548	\$ 2,183,604	\$ 3,195,152
Investments	1,180,039	480,210	1,660,249
Notes receivable	-	2,300	2,300
Internal Balances	3,026	(3,026)	-
Capital Assets:			
Land and construction in progress	520,483	2,152,724	2,673,207
Other capital assets, net of depreciation	6,428,915	12,463,532	18,892,447
Total Assets	<u>9,144,011</u>	<u>17,279,344</u>	<u>26,423,355</u>
<b>LIABILITIES</b>			
Meter deposit liability	-	99,664	99,664
Due to other governments	90	-	90
Long-term liabilities			
Due within one year	35,097	599,599	634,696
Due in more than one year	83,488	4,286,274	4,369,762
Total liabilities	<u>118,675</u>	<u>4,985,537</u>	<u>5,104,212</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,830,813	10,420,573	17,251,386
Restricted for:			
Debt Service	-	567,302	567,302
Capital projects	1,087,737	-	1,087,737
Streets	13,911	-	13,911
Cemetery	156,956	-	156,956
Unrestricted	935,919	1,305,932	2,241,851
Total net position	<u>\$ 9,025,336</u>	<u>\$ 12,293,807</u>	<u>\$ 21,319,143</u>

See accompanying notes to the basic financial statements.

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**Statement of Activities (Modified Cash Basis) –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, Debt Proceeds and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental Activities							
General Government	\$ 331,368	\$ 8,400	\$ -	\$ 138,850	\$ (184,118)	\$ -	\$ (184,118)
Public Safety	775,037	10,578	28,159	-	(736,300)	-	(736,300)
Streets	375,582	-	30,114	955	(344,513)	-	(344,513)
Cemetery	37,073	19,525	-	-	(17,548)	-	(17,548)
Culture and Recreation	121,437	3,100	935	-	(117,402)	-	(117,402)
Interest on Long-term debt	329	-	-	-	(329)	-	(329)
Total governmental activities	<u>1,640,826</u>	<u>41,603</u>	<u>59,208</u>	<u>139,805</u>	<u>(1,400,210)</u>	<u>-</u>	<u>(1,400,210)</u>
Business-type activities:							
Water	900,972	936,687	-	-	-	35,715	35,715
Wastewater	661,694	680,660	-	-	-	18,966	18,966
Sanitation	249,680	284,887	-	-	-	35,207	35,207
Economic Development	83,447	111,750	-	-	-	28,303	28,303
Total business-type activities	<u>1,895,793</u>	<u>2,013,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,191</u>	<u>118,191</u>
Total primary government	<u>3,536,619</u>	<u>2,055,587</u>	<u>59,208</u>	<u>139,805</u>	<u>(1,400,210)</u>	<u>118,191</u>	<u>(1,282,019)</u>
<b>General revenues:</b>							
Taxes:							
Sales and use taxes					\$ 1,283,455	\$ -	\$ 1,283,455
Franchise taxes and public service taxes					75,996	-	75,996
Intergovernmental revenue not restricted to specific programs					55,137	-	55,137
Unrestricted investment earnings					7,818	4,100	11,918
Miscellaneous					88,634	6,704	95,338
Transfers					(32,934)	32,934	-
Total general revenues and transfers					<u>1,478,106</u>	<u>43,738</u>	<u>1,521,844</u>
Change in net position					77,896	161,929	239,825
Net position - beginning					8,947,440	12,131,878	21,079,318
Net position - ending					<u>\$ 9,025,336</u>	<u>\$ 12,293,807</u>	<u>\$ 21,319,143</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS**

**CITY OF OKEMAH, OKLAHOMA**  
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**Governmental Funds Balance Sheet (Modified Cash Basis)- June 30, 2016**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 103,685	\$ 805,227	\$ 102,636	\$ 1,011,548
Investments	327,106	706,733	146,200	1,180,039
Due from other funds	3,026	-	3,000	6,026
Total assets	<u>433,817</u>	<u>1,511,960</u>	<u>251,836</u>	<u>2,197,613</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ 3,000	\$ -	\$ -	\$ 3,000
Payable to other governments	90	-	-	90
Total liabilities	<u>3,090</u>	<u>-</u>	<u>-</u>	<u>3,090</u>
Fund balances:				
Restricted	-	1,087,737	170,867	1,258,604
Assigned	227,005	424,223	80,969	732,197
Unassigned	203,722	-	-	203,722
Total fund balances	<u>430,727</u>	<u>1,511,960</u>	<u>251,836</u>	<u>2,194,523</u>
Total liabilities and fund balances	<u>\$ 433,817</u>	<u>\$ 1,511,960</u>	<u>\$ 251,836</u>	<u>\$ 2,197,613</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA**  
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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances**  
**(Modified Cash Basis) – Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,359,451	\$ -	\$ -	\$ 1,359,451
Intergovernmental	83,296	139,805	31,049	254,150
Charges for services	17,732	-	5,216	22,948
Fees and fines	10,318	-	222	10,540
Licenses and permits	8,115	-	-	8,115
Investment earnings	3,303	3,918	597	7,818
Miscellaneous	69,683	94,732	1,693	166,108
Total revenues	<u>1,551,898</u>	<u>238,455</u>	<u>38,777</u>	<u>1,829,130</u>
<b>EXPENDITURES</b>				
Current:				
General government	190,093	-	-	190,093
Public Safety:				
Police	349,593	-	-	349,593
Fire	45,385	-	3,342	48,727
Police Dispatcher	175,805	-	-	175,805
Civil Defense	39,722	-	-	39,722
Police - COPS Grant	29,220	-	-	29,220
Animal Control	50,876	-	-	50,876
Code Enforcement	2,258	-	-	2,258
Cemetery	34,319	-	-	34,319
Streets	113,368	-	40,136	153,504
Culture and recreation:				
Library	55,371	-	18,134	73,505
Park and recreation	4,099	-	-	4,099
Swimming pool	18,627	-	-	18,627
Capital Outlay	-	413,479	9,226	422,705
Debt Service:				
Principal	6,211	16,547	-	22,758
Interest and other charges	2,669	329	-	2,998
Total Expenditures	<u>1,117,616</u>	<u>430,355</u>	<u>70,838</u>	<u>1,618,809</u>
Excess (deficiency) of revenues over expenditures	<u>434,282</u>	<u>(191,900)</u>	<u>(32,061)</u>	<u>210,321</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	-	128,016	-	128,016
Transfers in	496,686	356,385	3,342	856,413
Transfers out	(889,347)	-	-	(889,347)
Total other financing sources and uses	<u>(392,661)</u>	<u>484,401</u>	<u>3,342</u>	<u>95,082</u>
Net change in fund balances	41,621	292,501	(28,719)	305,403
Fund balances - beginning	389,106	1,219,459	280,555	1,889,120
Fund balances - ending	<u>\$ 430,727</u>	<u>\$ 1,511,960</u>	<u>\$ 251,836</u>	<u>\$ 2,194,523</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA**  
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**Reconciliation of Governmental Funds and Government-Wide Financial Statements- (Modified Cash Basis):**

Total fund balance, governmental funds	\$	2,194,523
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.		
		6,949,398
Some liabilities, (Capital Leases ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		
		(118,585)
 Net Position of Governmental Activities	 \$	 <u>9,025,336</u>
 Net change in fund balances - total governmental funds:	 \$	 305,403
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		405,727
Depreciation expense		(450,502)
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		22,758
Proceeds of long-term debt		(128,016)
 Change in net position of governmental activities	 \$	 <u>77,896</u>

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS – PROPRIETARY-TYPE ENTERPRISE FUNDS**

**CITY OF OKEMAH, OKLAHOMA**  
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**Proprietary Funds Statement of Net Position (Modified Cash Basis) - June 30, 2016**

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 810,939	\$ 115,173	\$ 926,112
Investments	364,633	13,603	378,236
Restricted:			
Cash and cash equivalents	1,245,774	11,718	1,257,492
Investments	101,974	-	101,974
Notes receivable	-	2,300	2,300
Total current assets	<u>2,523,320</u>	<u>142,794</u>	<u>2,666,114</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	1,929,007	223,717	2,152,724
Other capital assets, net of accumulated depreciation	<u>10,132,722</u>	<u>2,330,810</u>	<u>12,463,532</u>
Total non-current assets	<u>12,061,729</u>	<u>2,554,527</u>	<u>14,616,256</u>
Total assets	<u><u>14,585,049</u></u>	<u><u>2,697,321</u></u>	<u><u>17,282,370</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other funds	3,026	-	3,026
Meter deposit liability	99,664	-	99,664
Current portion of:			
Capital lease obligation	21,228	-	21,228
Notes payable	<u>436,051</u>	<u>142,320</u>	<u>578,371</u>
Total current liabilities	<u>559,969</u>	<u>142,320</u>	<u>702,289</u>
Non-current liabilities:			
Capital lease obligation	77,968	-	77,968
Notes payable	<u>3,859,242</u>	<u>349,064</u>	<u>4,208,306</u>
Total non-current liabilities	<u>3,937,210</u>	<u>349,064</u>	<u>4,286,274</u>
Total liabilities	<u><u>4,497,179</u></u>	<u><u>491,384</u></u>	<u><u>4,988,563</u></u>
<b>NET POSITION</b>			
Net investment in capital assets	8,357,430	2,063,143	10,420,573
Restricted for debt service	555,584	11,718	567,302
Unrestricted	<u>1,174,856</u>	<u>131,076</u>	<u>1,305,932</u>
Total net position	<u><u>\$ 10,087,870</u></u>	<u><u>\$ 2,205,937</u></u>	<u><u>\$ 12,293,807</u></u>

See accompanying notes to the basic financial statements.

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

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Okemah Utilities Authority</b>	<b>Okemah Economic Development Authority</b>	
<b>REVENUES</b>			
Charges for services:			
Water	\$ 877,415	\$ -	\$ 877,415
Sewer	680,660	-	680,660
Sanitation	284,887	-	284,887
Penalties	20,273	-	20,273
Tap fees	1,650	-	1,650
Rents and leases	9,901	111,750	121,651
Camping fees	19,572	-	19,572
Lake permits	7,876	-	7,876
Total operating revenues	<u>1,902,234</u>	<u>111,750</u>	<u>2,013,984</u>
<b>OPERATING EXPENSES</b>			
Administration	331,904	-	331,904
Water treatment plant	415,393	-	415,393
Distribution and maintenance	84,589	-	84,589
Sewer collection	42,944	-	42,944
Lake	73,287	-	73,287
Wastewater treatment plant	199,815	-	199,815
Sanitation	177,263	-	177,263
Economic development	-	28,450	28,450
Depreciation	375,326	44,287	419,613
Total Operating Expenses	<u>1,700,521</u>	<u>72,737</u>	<u>1,773,258</u>
Operating income	<u>201,713</u>	<u>39,013</u>	<u>240,726</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	3,906	194	4,100
Interest expense	(111,825)	(10,710)	(122,535)
Miscellaneous revenue	4,947	1,757	6,704
Total non-operating revenue (expenses)	<u>(102,972)</u>	<u>(8,759)</u>	<u>(111,731)</u>
Income before transfers	98,741	30,254	128,995
Transfers in	354,403	177,201	531,604
Transfers out	(498,670)	-	(498,670)
Change in net position	(45,526)	207,455	161,929
Total net position - beginning	10,133,396	1,998,482	12,131,878
Total net position - ending	<u>\$ 10,087,870</u>	<u>\$ 2,205,937</u>	<u>\$ 12,293,807</u>

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2016**

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,907,181	\$ 113,507	\$ 2,020,688
Payments to suppliers	(851,503)	(28,450)	(879,953)
Payments to employees	(473,692)	-	(473,692)
Receipts of customer meter deposits	23,636	-	23,636
Refunds of customer meter deposits	(22,254)	-	(22,254)
Interfund receipts/payments	2,988	-	2,988
<b>Net cash provided by operating activities</b>	<u>586,356</u>	<u>85,057</u>	<u>671,413</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	354,403	177,201	531,604
Transfers to other funds	(498,670)	-	(498,670)
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(144,267)</u>	<u>177,201</u>	<u>32,934</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(1,202,946)	-	(1,202,946)
Proceeds from debt	111,371	-	111,371
Principal paid on debt	(442,482)	(239,903)	(682,385)
Interest and fiscal agent fees paid on debt	(111,825)	(10,710)	(122,535)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(1,645,882)</u>	<u>(250,613)</u>	<u>(1,896,495)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(3,072)	(34)	(3,106)
Interest and dividends	3,906	194	4,100
<b>Net cash provided by investing activities</b>	<u>834</u>	<u>160</u>	<u>994</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,202,959)	11,805	(1,191,154)
<b>Balances - beginning of year, restated</b>	<u>3,259,672</u>	<u>115,086</u>	<u>3,374,758</u>
<b>Balances - end of year</b>	<u>\$ 2,056,713</u>	<u>\$ 126,891</u>	<u>\$ 2,183,604</u>
<b>Reconciliation to Statement of Net Position:</b>			
Cash and cash equivalents	\$ 810,939	\$ 115,173	\$ 926,112
Restricted cash and cash equivalents - current	1,245,774	11,718	1,257,492
Total cash and cash equivalents, end of year	<u>\$ 2,056,713</u>	<u>\$ 126,891</u>	<u>\$ 2,183,604</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 201,713	\$ 39,013	\$ 240,726
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	375,326	44,287	419,613
Miscellaneous revenue	4,947	1,757	6,704
Change in assets and liabilities:			
Due to other funds	2,988	-	2,988
Deposits subject to refund	1,382	-	1,382
<b>Net cash provided by operating activities</b>	<u>\$ 586,356</u>	<u>\$ 85,057</u>	<u>\$ 671,413</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 three separate legal entities reported as the primary government. The two public trust Authorities listed below are classified as blended component unit enterprise funds because (1) the City Council serves as trustees of the Authorities; (2) all debt obligations of the Authority must be approved by 2/3rds vote of the City Council; and (3) the Authorities are managed by City management.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities.
- **The Okemah Utilities Authority** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary that operates the water, sewer, and sanitation services of the City. The OUA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary to provide economic development opportunities, in or near the City. The OEDA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.

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.

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

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

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

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- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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

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

- General government: License and permits, and airport capital grants
- Public safety: Fine revenue, EMPG operating grants
- Streets and highways: Gas excise and commercial vehicle taxes and OEDA capital grant
- Cemetery: Cemetery lot sales and interments
- Culture and recreation: Swimming pool fees, library fines, and library operating grants
- Economic development: rents and leases

*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*

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

*Capital Projects Funds*

Capital projects 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

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.

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- Capital Improvement Fund – (Capital Project Fund) accounts for funds designated for capital outlay and debt service on capital related debt. One cent sales tax is being transferred to this fund for capital improvements as required by voter-restriction.

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

**Special Revenue Funds:**

- Rural Fire Fund - accounts for rural fire run fees and grants restricted for fire operations.
- Library Fund - accounts for all library revenue retained for library use only.
- Street and Alley Fund - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.

**Capital Project Fund:**

- Cemetery Perpetual 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. Only current financial assets and liabilities arising from cash transactions are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

*Proprietary Funds:*

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

*Okemah Utilities Authority Enterprise Fund-further split into separate enterprise accounts for internal reporting purposes as follows:*

- Okemah Utilities Authority Gross Revenue Account – accounts for the operation of the water, sewer, and sanitation activities.
- Okemah Capital Reserve Account – accounts for money set aside by council as a savings tool.
- Okemah Bond Account – accounts for the transfer of one cent sales tax restricted for debt service on OUA debt.

*Okemah Economic Development Authority Enterprise Fund:*

- Okemah Economic Development Authority Fund – accounts for activities related to promoting economic development.

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. Capital Assets and Depreciation**

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund type operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2000, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2000 are recorded at cost.

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 40-50 years
- Improvements other than buildings 10-25 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 10-50 years
- Infrastructure 5-50 years

**E. Long-Term Debt**

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

## **F. 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 12.

## **G. Fund Balances and Net Position**

### *Fund Balances:*

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints place on the use of resources either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law 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 unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position is displayed in three components:

- a. *Net investment in capital assets*- Consists of capital assets including restricted capital assets, net of accumulated depreciation and 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.
- 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 are available.

**H. 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.

**I. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

**2. Deposits and Investments**

For the year ended June 30, 2016, the City recognized \$11,599 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

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

Type	Credit Rating	Carrying Value
<b>Deposits:</b>		
Petty cash		942
Demand deposits		2,427,368
Time deposits - certificates of deposit		1,660,249
<b>Investments:</b>		
Cavanal Hill US Treasury Fund	AAAm	766,842
<b>Total deposits and investments</b>		<b>\$ 4,855,401</b>
<b>Reconciliation to Statement of Net Position:</b>		
Cash and cash equivalents		\$ 3,195,152
Investments		1,660,249
		<b>\$ 4,855,401</b>

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*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 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 deposits were insured and the City was not exposed to Custody Credit Risk.

*Investment Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. All time deposits will mature within the next 12 months.

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 trusts.

As of June 30, 2016, the City's investments consisted of \$766,842 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AAAM as rated by Standard and Poor's.

*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 Investments* – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for capital improvements, debt service, debt reserve, or utility deposit purposes. The restricted assets as of June 30, 2016 are as follows:

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	Current	
	Cash and cash equivalents	Investments
	Utility Deposits	\$ -
Taxable revenue note debt	11,718	-
OWRB debt service	529,760	-
Series 2014 Principal Account	18,337	-
Series 2014 Interest Account	7,487	-
Series 2014 Construction Account	690,190	-
Total	\$ 1,257,492	\$ 101,974

### 3. Capital Assets and Depreciation

#### *Capital Assets:*

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. 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:

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 444,708	\$ -	\$ -	\$ 444,708
Construction in progress	1,235,769	212,701	1,372,695	75,775
Total capital assets not being depreciated	1,680,477	212,701	1,372,695	520,483
Other capital assets:				
Buildings	1,719,203	3,869	543,700	1,179,372
Improvements	1,710,995	-	-	1,710,995
Infrastructure	7,214,608	1,381,920	-	8,596,528
Machinery, furniture and equipment	1,911,147	179,932	-	2,091,079
Total other capital assets at historical cost	12,555,953	1,565,721	543,700	13,577,974
Less accumulated depreciation for:				
Buildings	1,178,965	22,872	466,226	735,611
Improvements	527,245	46,525	-	573,770
Infrastructure	3,940,619	253,356	-	4,193,975
Machinery, furniture and equipment	1,517,954	127,749	-	1,645,703
Total accumulated depreciation	7,164,783	450,502	466,226	7,149,059
Other capital assets, net	5,391,170	1,115,219	77,474	6,428,915
Governmental activities capital assets, net	\$ 7,071,647	\$ 1,327,920	\$ 1,450,169	\$ 6,949,398
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	106,318	962,191	653,785	414,724
Total capital assets not being depreciated	1,844,318	962,191	653,785	2,152,724
Other capital assets:				
Buildings	8,474,337	-	-	8,474,337
Improvements	2,994,423	-	-	2,994,423
Machinery, furniture and equipment	880,163	178,284	-	1,058,447
Utility property	8,252,715	716,256	-	8,968,971
Total other capital assets at historical cost	20,601,638	894,540	-	21,496,178
Less accumulated depreciation for:				
Buildings	3,026,983	116,720	-	3,143,703
Improvements	188,348	62,586	-	250,934
Machinery, furniture and equipment	680,220	104,204	-	784,424
Utility Property Improvements	4,717,482	136,103	-	4,853,585
Total accumulated depreciation	8,613,033	419,613	-	9,032,646
Other capital assets, net	11,988,605	474,927	-	12,463,532
Business-type activities capital assets, net	\$ 13,832,923	\$ 1,437,118	\$ 653,785	\$ 14,616,256

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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:

Governmental Activities:		Business-Type Activities:	
General government	130,792	Water	158,196
Public safety	76,660	Sewer	196,384
Highways and streets	220,038	Sanitation	20,746
Cemetery	2,320	Economic development	44,287
Culture and recreation	20,692		
	<u>\$ 450,502</u>		<u>\$ 419,613</u>

#### 4. Capital Lease Receivable

The Okemah Economic Development Authority (OEDA) and Sertco Industries entered into a building lease on October 14, 2010 for a period of twenty years. The monthly lease payments are \$2,083 but may be waived if Sertco fills a certain number of permanent positions within a specified time period. Sertco may exercise the right to purchase the property at any time during the lease for the unamortized portion of a \$500,000 CDBG grant used to construct and purchase the property. When the CDBG grant is closed, the lease will begin. The CDBG grant was closed during the June 30, 2016 fiscal year. OEDA has recorded the completed building as an asset.

The Okemah Economic Development Authority (OEDA) along with Okfuskee County Industrial Authority as tenants in common and Platinum Core and Tube, Inc. entered into a building lease on May 1, 2015 for a period of sixty months. The monthly lease payments are \$13,000. The monthly lease payments will be reduced \$5,000 if the tenant employs at least 14 full time employees. For fiscal year 2016, OEDA received \$8,000 each month in lease payments. Platinum may exercise the right to purchase the property for \$1,200,000 at any time during the lease.

#### 5. Long-Term Debt and Debt Service Requirements

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

Type of Debt	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
<b>Governmental Activities:</b>					
Capital lease payable	\$ 13,327	\$ 128,016	\$ 22,758	\$ 118,585	\$ 35,097
Total Governmental Activities	<u>\$ 13,327</u>	<u>\$ 128,016</u>	<u>\$ 22,758</u>	<u>\$ 118,585</u>	<u>\$ 35,097</u>
<b>Business-Type Activities:</b>					
Notes payable	\$ 5,456,887	-	\$ 670,210	\$ 4,786,677	\$ 578,371
Capital lease payable	-	111,371	12,175	99,196	21,228
Total Business-Type Activities	<u>\$ 5,456,887</u>	<u>\$ 111,371</u>	<u>\$ 682,385</u>	<u>\$ 4,885,873</u>	<u>\$ 599,599</u>
Total Long-Term Debt	<u>\$ 5,470,214</u>	<u>\$ 239,387</u>	<u>\$ 705,143</u>	<u>\$ 5,004,458</u>	<u>\$ 634,696</u>
<b>Reconciliation to Statement of Net Position:</b>					
<b>Governmental Activities:</b>					
Due within one year				\$ 35,097	
Due in more than one year				83,488	
Total Governmental Activities Long-term liabilities				<u>\$ 118,585</u>	
<b>Business-Type Activities:</b>					
Due within one year				\$ 599,599	
Due in more than one year				4,286,274	
Total Business-Type Activities Long-term liabilities				<u>\$ 4,885,873</u>	

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*Governmental activities* long-term debt payable from the Capital Improvement Fund includes:

*Capital Lease Payable:*

\$39,216 lease obligation for purchase of public safety vehicle, payable in monthly installments of \$1,684 with an annual interest rate of 3.00%, final payment due April 2018.	\$	35,996
\$88,800 lease obligation for purchase of phone system, payable in monthly installments of \$1,776 with an annual interest rate of 7.44%, final payment due December 2020.		82,589
Total Capital Leases Payable	\$	<u>118,585</u>
Current portion	\$	35,097
Noncurrent portion		83,488
Total Capital Leases Payable	\$	<u>118,585</u>

*Business-type activities* long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

*Okemah Utilities Authority:*

*Notes Payable:*

1998 Amended Construction Clean Water SRF Promissory Note payable to Oklahoma Water Resources Board, original amount of \$3,300,000, dated June 8, 1998, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, interest rate at 1.32% with final payment due March 15, 2019.	\$	663,588
Oklahoma Department of Commerce note dated April 30, 1998, by Okemah Utilities Authority, authorized amount of \$175,000, payable in monthly installments of \$729, including principal with a 0% interest rate, with final payment due March 30, 2018.		15,312
2014 Utility System and Sales Tax Revenue Note, original amount of \$1,820,000, dated September 1, 2014, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax, interest rate at 2.45%, with final payment due October 1, 2022.		1,655,000
2011 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$2,565,000 dated June 24, 2011, secured by and payable from utility revenues and pledged sales tax, interest rate of 2.72%, with final payment due March 15, 2032.		1,961,393
Total Notes Payable	\$	<u>4,295,293</u>
Current portion		436,051
Noncurrent portion		3,859,242
Total Notes Payable	\$	<u>4,295,293</u>

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*Capital Lease Payable:*

\$111,371 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$2,015 with an annual interest rate of 3.25%, final payment due November 2020	\$	99,196
Total Capital Leases Payable	\$	<u>99,196</u>
Current portion	\$	21,228
Noncurrent portion		<u>77,968</u>
Total Capital Leases Payable	\$	<u>99,196</u>

*Okemah Economic Development Authority:*

Long-term debt commitments payable from net revenues generated by rental revenues and sales tax pledged to OEDA, and their outstanding balances at June 30, 2016, includes the following:

*Notes Payable:*

Oklahoma Department of Commerce note dated November 2, 1999, by Okemah Economic Development Authority, authorized amount of \$400,000, payable in monthly installments of \$833, including principal with a 0% interest rate, with final payment due July 1, 2020 secured by and payable from rental agreements between the OEDA and Quantum Industries.

289,211

2013 Taxable Revenue Note payable to Bank of Oklahoma, original amount of \$645,000, dated August 1, 2013, by Okemah Economic Development Authority, secured by pledged sales tax, interest rate at 3.4%, due in monthly installments of \$11,718, with final payment due September 1, 2018.

202,173

Total Notes Payable	\$	<u>491,384</u>
Current portion		142,320
Noncurrent portion		<u>349,064</u>
Total Notes Payable	\$	<u>491,384</u>

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

<u>Year Ending June 30,</u>	Governmental Activities		Business-Type Activities			
	Capital Leases Payable		Notes Payable		Capital Lease Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 35,097	\$ 6,428	\$ 578,371	\$ 108,328	\$ 21,228	\$ 2,952
2018	33,527	4,629	529,390	95,391	21,939	2,241
2019	18,216	3,096	468,774	84,218	22,673	1,507
2020	19,615	1,697	477,406	74,583	23,429	751
2021	12,130	302	729,741	62,597	9,927	82
2022-2026	-	-	1,165,251	176,003	-	-
2027-2031	-	-	688,385	73,965	-	-
2032	-	-	149,359	3,111	-	-
Totals	<u>\$ 118,585</u>	<u>\$ 16,152</u>	<u>\$ 4,786,677</u>	<u>\$ 678,196</u>	<u>\$ 99,196</u>	<u>\$ 7,533</u>

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**6. Net Position and Fund Balances**

Net position is displayed in three components:

- a. *Net investment in capital assets*- Consists of capital assets including restricted capital assets, net of accumulated depreciation and 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.
- 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.
- c. *Unrestricted net position* - All other net position that do not meet the definition of “restricted” or “net investment of 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 are available.

**Fund Balance:**

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Capital Improvement		
Fund Balances:				
Restricted for:				
Capital projects	\$ -	1,087,737	\$ -	\$ 1,087,737
Cemetery capital	-	-	156,956	156,956
Street and alley operations and capital	-	-	13,911	13,911
Sub-total Restricted	-	1,087,737	170,867	1,258,604
Assigned to:				
Capital projects	-	424,223	-	424,223
Library operations	-	-	57,085	57,085
Cemetery capital and operations	-	-	17,746	17,746
Street and alley operations and capital	-	-	6,138	6,138
Use of fund balance for subsequent budget	227,005	-	-	227,005
Sub-total Assigned	227,005	424,223	80,969	732,197
Unassigned:	203,722	-	-	203,722
<b>TOTAL FUND BALANCES</b>	<b>\$ 430,727</b>	<b>\$ 1,511,960</b>	<b>\$ 251,836</b>	<b>\$ 2,194,523</b>

## **7. Sales Tax Revenue**

Sales tax revenue represents a 3.5 cent local tax on each dollar of taxable sales within the City. 1 cent is voter-restricted for debt service on OUA debt (per ordinance 99-02-01), 1 cent is voter-restricted for capital improvements and/or job growth if needed (per ordinance 99-02-01), and ½ cent voter-restricted for economic development (per ordinance 99-03-01). Ordinance 99-03-01 is the only ordinance with a termination date of December 31, 2019. 3 ½ cents of the sales tax is received and recorded in the General Fund, with 2 ½ cents transferred to the appropriate funds as noted above.

### **Pledge of Future Revenues**

Sales Tax Pledge- The City has pledged 2.5 cents (or 71.4%) of future sales tax revenues to repay \$8,330,000 of Amended 1998 and 2011 Series Oklahoma Water Resources Board Notes Payable and 2013 and 2014 Taxable Revenue Notes Payable. Proceeds from the bonds and notes provided financing for the utility system and industrial park capital assets. The bonds are payable through 2019, 2032, 2018 and 2022, respectively. The total principal and interest payable for the remainder of the life of these notes is \$5,160,350. Total pledged sales tax for the year was \$886,005. Debt service payments of \$772,066 for the current fiscal year were 87.1% of the pledged sales taxes.

Utility Net Revenue Pledge- The City has also pledged future water and sewer net revenues to repay \$7,685,000 of Amended 1998 and 2011 Series Oklahoma Water Resources Board Notes Payable and 2014 Utility System and Sales Tax Revenue Note. Proceeds from the bonds and notes provided financing for the utility system capital assets. The bonds are payable through 2019, 2032 and 2022, respectively. The total principal and interest payable for the remainder of the life of these notes is \$4,948,928. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$531,450 which was 128.4% of pledged net utility revenues of \$414,049. Additional debt service payments paid with sales tax in previous note.

## **8. 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.

## **9. Internal and Interfund Balances and Transfers**

The City's policy is to eliminate interfund transfers and balances in the statements 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:

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<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OUA Enterprise Fund	\$ 354,403	Sales tax transfer
General Fund	Capital Improvement Fund	354,401	Sales tax transfer
General Fund	OEDA Enterprise Fund	177,201	Sales tax transfer
General Fund	Rural Fire Fund	3,342	Operating
OUA Enterprise Fund	Capital Improvement Fund	1,984	Capital assets
OUA Enterprise Fund	General Fund	50,000	Operating
OUA Enterprise Fund	General Fund	446,686	Return of sales tax
Total		<u>\$ 1,388,017</u>	

**Reconciliation to Fund Financial Statements and Government-Wide Statement of Activities:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Government-Wide Net Transfers</u>
Governmental Funds	\$ 856,413	\$ (889,347)	\$ (32,934)
Proprietary Funds	531,604	(498,670)	32,934
	<u>\$ 1,388,017</u>	<u>\$ (1,388,017)</u>	<u>-</u>

*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 Balance</u>
General Fund	Cemetery Perpetual Fund	3,000	Court fines
OUA Enterprise Fund	General Fund	3,026	Payroll liabilities
Total		<u>\$ 6,026</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 6,026	\$ (3,000)	\$ 3,026
Proprietary Funds	-	(3,026)	(3,026)
Total	<u>\$ 6,026</u>	<u>\$ (6,026)</u>	<u>\$ -</u>

**10. 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.

## **11. Pension Plan Participation**

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

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multiple-employer defined benefit plan
3. Oklahoma Municipal Retirement Fund Defined Contribution Plan (OMRF-DCP) – an agent multiple-employer defined contribution plan

### *Firefighter Pension System:*

*Plan Summary Information.* The City of Okemah, 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.

*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	\$1,020	\$1,020
2015	\$660	\$660
2016	\$960	\$960

### *OMRF Defined Benefit Plan:*

The City contributes to the City of Okemah Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Firefighter Pension System. Administration of the City’s individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan of Oklahoma City acts as administrator and securities custodian.

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Eligibility Factors, Contribution Methods and Benefit Provisions

<b>Provision</b>	<b>OMRF Plan</b>
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	6.31% of covered payroll
-Employee Rate	3.00% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement with 7 years of service -Marital death benefit with 7 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.5% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 7 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

2. Actuarial Assumptions

<u>Date of Last Actuarial Valuation</u>	<u>July 1, 2015</u>
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by Age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	1994 Group Annuity Morality
g. Asset Valuation Method	Actuarial method

For the year ended June 30, 2016, the City's employer contribution to the plan was \$61,148 which was 7.25% of covered payroll--more than the actuarially required contribution. The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2014	\$45,953	\$51,546
2015	\$56,112	\$64,013
2016	\$53,220	\$61,148

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.

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*OMRF Defined Contribution Plan:*

The City has also provided a defined contribution plan and trust known as the City of Okemah Plan and Trust (the “Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by Bank One of Oklahoma City. The defined contribution plan is available to the City Manager. Benefits depend solely on amounts contributed to the plan plus investment earnings. The City Manager is eligible to participate upon employment, and is required to make contributions to the plan at 3.00%. Under the thrift option, the employee may contribute to the plan at varying rates. The City’s contributions, if any are made, (and interest allocated to the employee’s account) are vested at a rate of 100% upon participation. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2016, the City contributions were \$1,634 to the plan.

**12. Commitments and Contingencies**

*Compensated Absences:*

As a result of the City’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation 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 and OUA Enterprise Fund – accrued compensated absences \$76,156

*Outstanding Construction Contracts:*

The City had the following outstanding construction contract commitments at June 30, 2016:

<u>Contractor/Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
Tetra Tech	\$528,875	\$119,867

*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.

The litigation on the contract between the Okfuskee County Rural Water District 3 and the Okemah Utilities Authority is now complete. Judgment was awarded for the Rural Water District against the OUA in the amount of \$200,000. This judgment has been paid and a release of judgment has been filed in the case.

The in suite filed on July 9, 2012, by Ofuskee County Rural Water District No. 3 against the Okemah Utilities Authority, and all of the Trustees thereof individually and in their official capacities as Trustees,

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seeking a temporary, permanent and mandatory injunction, recovery of overpayments, and attorney fees is still pending. A temporary injunction was issued against the OUA setting a rate for water for the Rural Water District until the companion litigation, as described above, was settled. Since the companion litigation is complete, the OUA will prepare an amendment to the current contract with Rural Water District No. 3 and seek the District Court's approval and declaratory judgment that the formula for determining the water rate for RWD No. 3 is in compliance with state law, and if not, what is required to bring it into compliance. At this time, it does not appear that RWD No. 3 is asking for any monetary judgment in this suit.

*Federal and State Award Programs:*

The City of Okemah 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 resolved findings from a recent monitoring visit from the Oklahoma Department of Commerce.

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**OTHER SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedule – General Fund (Modified Cash Basis) – Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance</b>	\$ 340,815	\$ 340,815	\$ 389,106	\$ 48,291
<b>Resources (Inflows):</b>				
Taxes	1,305,700	1,340,500	1,359,451	18,951
Intergovernmental	88,449	34,454	83,296	48,842
Charges for services	17,782	19,432	17,732	(1,700)
Fines and forfeitures	14,500	35,000	10,318	(24,682)
Licenses and permits	3,550	4,900	8,115	3,215
Investment income	1,275	1,750	3,303	1,553
Miscellaneous	37,850	-	69,683	69,683
Transfers in	334,571	-	496,686	496,686
<b>Total resources (Inflows)</b>	1,803,677	1,436,036	2,048,584	612,548
<b>Amounts available for appropriation</b>	2,144,492	1,776,851	2,437,690	660,839
<b>Charges to Appropriations (Outflows):</b>				
General government	206,045	228,282	198,973	29,309
Police	333,602	334,497	349,593	(15,096)
Fire	79,417	81,917	45,385	36,532
Police Dispatcher	175,336	176,661	175,805	856
Streets	117,335	166,912	113,368	53,544
Animal Control	44,484	45,007	50,876	(5,869)
Cemetery	65,691	65,709	34,319	31,390
Parks and Recreation	4,954	4,654	4,099	555
Library	52,300	52,299	55,371	(3,072)
Code Enforcement	42,980	45,468	2,258	43,210
Civil Defense	59,565	59,647	39,722	19,925
Police - Cops in School	36,387	33,692	29,220	4,472
Swimming Pool	20,105	23,007	18,627	4,380
Transfers Out	836,427	836,427	889,347	(52,920)
<b>Total Charges to Appropriations</b>	2,074,628	2,154,179	2,006,963	147,216
<b>Ending Budgetary Fund Balance</b>	\$ 69,864	\$ (377,328)	\$ 430,727	\$ 808,055

**Footnotes to Budgetary Comparison Schedule:**

1. The budgetary comparison schedule is reported on the modified cash basis of accounting.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

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<b>Total Resources (Inflows) Per Budgetary Comparison Schedule</b>	\$ 2,048,584
Adjusted Total Resources	<u>2,048,584</u>
<b>Total Resources (Inflows) Per Statement of Revenues, Expenditures and Changes in Fund Balance:</b>	
Total Revenues	1,551,898
Transfer In	<u>496,686</u>
<b>Total Resources (Inflows) Per Statement of Revenues, Expenditures</b>	<u><u>2,048,584</u></u>
<b>Charges to Appropriations (Outflows) Per Budgetary Comparison Schedule:</b>	<u>2,006,963</u>
Adjusted Total Charges to Appropriations	<u>2,006,963</u>
<b>Total Expenditures and Transfers Per Statement of Revenues, Expenditures</b>	
Total Expenditures	1,117,616
Transfers Out	<u>889,347</u>
	<u><u>\$ 2,006,963</u></u>

3. Expenditures exceeded appropriations in the following departments:

- Police                 \$15,096
- Animal Control     5,869
- Library               3,072
- Transfers Out       52,920

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

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street &amp; Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 25,928	\$ 20,049	\$ 56,659	\$ 102,636
Investments	-	31,157	-	115,043	146,200
Due from other funds	-	-	-	3,000	3,000
Total assets	<u>-</u>	<u>57,085</u>	<u>20,049</u>	<u>174,702</u>	<u>251,836</u>
<b>FUND BALANCES:</b>					
Restricted	-	-	13,911	156,956	170,867
Assigned	-	57,085	6,138	17,746	80,969
Total fund balances	<u>-</u>	<u>57,085</u>	<u>20,049</u>	<u>174,702</u>	<u>251,836</u>
Total fund balances	<u>\$ -</u>	<u>\$ 57,085</u>	<u>\$ 20,049</u>	<u>\$ 174,702</u>	<u>\$ 251,836</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2016**

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street &amp; Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ 935	\$ 30,114	\$ -	\$ 31,049
Charges for services	-	335	-	4,881	5,216
Fines and forfeitures	-	222	-	-	222
Investment earnings	-	47	57	493	597
Miscellaneous	-	1,693	-	-	1,693
Total revenues	<u>-</u>	<u>3,232</u>	<u>30,171</u>	<u>5,374</u>	<u>38,777</u>
<b>EXPENDITURES</b>					
Current:					
Fire	3,342	-	-	-	3,342
Streets	-	-	40,136	-	40,136
Library	-	18,134	-	-	18,134
Capital Outlay	-	-	9,226	-	9,226
Total Expenditures	<u>3,342</u>	<u>18,134</u>	<u>49,362</u>	<u>-</u>	<u>70,838</u>
Excess (deficiency) of revenues over expenditures	<u>(3,342)</u>	<u>(14,902)</u>	<u>(19,191)</u>	<u>5,374</u>	<u>(32,061)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	3,342	-	-	-	3,342
Total other financing sources and uses	<u>3,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,342</u>
Net change in fund balances	-	(14,902)	(19,191)	5,374	(28,719)
Fund balances - beginning	-	71,987	39,240	169,328	280,555
Fund balances - ending	<u>\$ -</u>	<u>\$ 57,085</u>	<u>\$ 20,049</u>	<u>\$ 174,702</u>	<u>\$ 251,836</u>

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**Schedule of Federal Awards Expended – Year Ended June 30, 2016**

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
<b>FEDERAL AWARDS:</b>				
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Oklahoma Department of Emergency Management				
Emergency Performance Grant	97.042	EMPG 15	10,000	7,500
Emergency Performance Grant	97.042	EMPG 16	10,000	7,500
Disaster Recovery	97.036	PA-4222 PW686(749)	11,386	11,386
Disaster Recovery	97.036	PA-4222 PW	310,775	26,306
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 342,161</b>	<b>\$ 52,692</b>

**Footnotes to Federal Awards Schedules:**

- The Schedule of Expenditures of Federal Awards is prepared on a basis consistent with the measurement of awards expended as defined in Uniform Guidance. This may differ at times from the modified cash basis by accruing certain grant expenditures.

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

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
<b>STATE AWARDS:</b>				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid	N/A	N/A	\$ 7,483	\$ 7,483
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	4,290	4,290
<b>TOTAL STATE AWARDS</b>			<b>\$ 11,773</b>	<b>\$ 11,773</b>

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**Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2016**

	<b>OWRB 1998 and 2011 <u>SERIES NOTES</u></b>	<b>REVENUE NOTE <u>2014 SERIES</u></b>
<b>GROSS REVENUE AVAILABLE:</b>		
Charges for services (water and sewer revenues)	\$ 1,579,998	\$ 1,579,998
Investment income	3,906	3,906
Sales tax appropriated and transferred from the City General Fund	<u>354,400</u>	<u>354,400</u>
Total Gross Revenue Available	<u>1,938,304</u>	<u>1,938,304</u>
 <b>OPERATING EXPENSES:</b>		
Total Operating Expenses	<u>1,074,645</u>	<u>1,074,645</u>
Net Revenue Available for Debt Service	<u>\$ 863,659</u>	<u>\$ 863,659</u>
 <b>Debt Service Requirements:</b>		
125% of maximum annual debt service for OWRB Notes and 2014 Revenue Note	<u>678,889</u>	
100% of annual debt service for OWRB Notes		378,881
125% of annual 2014 Revenue Note debt service		<u>187,343</u>
		<u>566,224</u>
Excess (Deficient) Coverage	<u>\$ 184,770</u>	<u>\$ 297,436</u>

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ANNUAL FINANCIAL REPORT  
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**INTERNAL CONTROL AND COMPLIANCE INFORMATION**



**INDEPENDENT AUDITORS' 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**

Honorable Mayor and City Council  
City of Okemah, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City"), 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 November 18, 2016. Our report includes an explanatory paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis and budgetary comparison information.

**Internal Control Over Financial Reporting**

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

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

(Continued)

**INDEPENDENT AUDITORS' 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*, CONTINUED**

**Internal Control Over Financial Reporting, Continued**

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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency, described in the accompanying schedule of findings and responses as Finding 16-1.

**Compliance and Other Matters**

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

**City's Response to Findings**

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

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Shawnee, Oklahoma  
November 18, 2016

**CITY OF OKEMAH, OKLAHOMA**

**SCHEDULE OF FINDINGS AND RESPONSES**

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*Year Ended June 30, 2015*

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**SIGNIFICANT DEFICIENCIES**

**16-1. Segregation of Duties**

*Criteria:* Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

*Condition:* The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

*Cause:* The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

*Effect:* Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

*Recommendation:* Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

*Management's Response:* Management has hired an additional person and is in the process of training this employee to help with the segregation of duties. In addition, management has implemented additional review procedures for collection of payments. A separate individual reviews the daily utility report that shows all activity (payments, voids, changes) that were posted to a customer account in conjunction with the daily payments received reports to ensure payments were posted properly and any changes made to a customer account were valid.

**CITY OF OKEMAH, OKLAHOMA**

**FOLLOW UP ON PRIOR AUDIT FINDINGS**

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*Year Ended June 30, 2016*

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**SIGNIFICANT DEFICIENCIES**

**15-1. Segregation of Duties**

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*Effect:* Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

*Recommendation:* Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

*Management's Response:* City management has hired an additional person and is in the process of training this employee to help with the segregation of duties.

*2016 Follow-Up:* This situation was noted during the year ended June 30, 2016.