

CITY OF OKEMAH, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

**THE CITY OF OKEMAH,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2017

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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, 2017, 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, 2017, 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 10 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 2, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Finley + Cook, PLLC

Shawnee, Oklahoma
November 2, 2017

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MANAGEMENT DISCUSSION AND ANALYSIS

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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, 2017. 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 \$185,061, and the assets of the City exceed its liabilities at June 30, 2017, by \$21.5 million (net position). Of this amount, \$2.0 million (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2017, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$2.0 million.
- At the end of fiscal year 2017, unassigned fund balance on a modified cash basis for the General Fund was \$341,745 or 21.6% 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

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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.

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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. For example, enterprise fund capital assets are capitalized and depreciated, while principal payments on long-term debt 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 30-47 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 \$21.5 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.) |
|----------------------------------|----------------------------|-----------------|------------------|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | | 2017 | 2016 | | 2017 | 2016 | |
| Current assets | \$ 2,033 | \$ 2,195 | -7% | \$ 1,629 | \$ 2,663 | -39% | \$ 3,662 | \$ 4,858 | -25% |
| Capital assets, net | 7,367 | 6,949 | 6% | 14,876 | 14,616 | 2% | 22,243 | 21,565 | 3% |
| Total assets | 9,400 | 9,144 | 3% | 16,505 | 17,279 | -4% | 25,905 | 26,423 | -2% |
| Current liabilities | 33 | 35 | -6% | 583 | 699 | -17% | 616 | 734 | -16% |
| Non-current liabilities | 50 | 84 | -41% | 3,735 | 4,286 | -13% | 3,785 | 4,370 | -13% |
| Total liabilities | 83 | 119 | -30% | 4,318 | 4,985 | -13% | 4,401 | 5,104 | -14% |
| Net position | | | | | | | | | |
| Net investment in capital assets | 7,283 | 6,831 | 7% | 10,755 | 10,421 | 3% | 18,038 | 17,252 | 5% |
| Restricted | 1,089 | 1,258 | -13% | 396 | 567 | -30% | 1,485 | 1,825 | -19% |
| Unrestricted | 945 | 936 | 1% | 1,036 | 1,306 | -21% | 1,981 | 2,242 | -12% |
| Total net position | \$ 9,317 | \$ 9,025 | 3% | \$ 12,187 | \$ 12,294 | -1% | \$ 21,504 | \$ 21,319 | 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 2017, this net investment in capital assets, amounted to \$18.0 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, \$1.5 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 decreased 41% (\$35,097) due to capital lease payments made.

Business-Type Activities:

Current assets decreased 38.8% (about \$1.0 million) resulting primarily from the use of 2014 series Utility and Sales Tax note construction accounts monies.

Changes in Net Position

For the year ended June 30, 2017, 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.) |
|---|------------------------------------|-----------------|--------------------------|-------------------------------------|------------------|--------------------------|------------------|------------------|--------------------------|
| | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | |
| Revenues | | | | | | | | | |
| Charges for service | \$ 40 | \$ 42 | -5% | \$ 1,982 | \$ 2,014 | -2% | \$ 2,022 | \$ 2,056 | -2% |
| Operating grants and contributions | 63 | 59 | 7% | - | - | - | 63 | 59 | 7% |
| Capital grants, debt proceeds and contributions | 429 | 140 | 206% | 15 | - | - | 444 | 140 | 217% |
| Taxes | 1,355 | 1,359 | 0% | - | - | - | 1,355 | 1,359 | 0% |
| Intergovernmental revenue | 57 | 55 | 4% | - | - | - | 57 | 55 | 4% |
| Investment income | 9 | 8 | 13% | 3 | 4 | -25% | 12 | 12 | 0% |
| Miscellaneous | 111 | 89 | 25% | 3 | 7 | -57% | 114 | 96 | 19% |
| Total revenues | <u>2,064</u> | <u>1,752</u> | 18% | <u>2,003</u> | <u>2,025</u> | -1% | <u>4,067</u> | <u>3,777</u> | 8% |
| Expenses | | | | | | | | | |
| General government | 370 | 331 | 12% | - | - | - | 370 | 331 | 12% |
| Public safety | 942 | 775 | 22% | - | - | - | 942 | 775 | 22% |
| Streets | 432 | 376 | 15% | - | - | - | 432 | 376 | 15% |
| Cemetery | 41 | 37 | 11% | - | - | - | 41 | 37 | 11% |
| Culture and Recreation | 136 | 122 | 11% | - | - | - | 136 | 122 | 11% |
| Economic development | - | - | - | 135 | 83 | 63% | 135 | 83 | 63% |
| Interest on long-term debt | 1 | - | - | - | - | - | 1 | - | 100% |
| Water | - | - | - | 906 | 901 | 1% | 906 | 901 | 1% |
| Sewer | - | - | - | 647 | 662 | -2% | 647 | 662 | -2% |
| Sanitation | - | - | - | 272 | 250 | 9% | 272 | 250 | 9% |
| Total expenses | <u>1,922</u> | <u>1,641</u> | 17% | <u>1,960</u> | <u>1,896</u> | 3% | <u>3,882</u> | <u>3,537</u> | 10% |
| Excess (deficiency) before transfers and special item | 142 | 111 | 28% | 43 | 129 | -67% | 185 | 240 | -23% |
| Transfers | <u>150</u> | <u>(33)</u> | -555% | <u>(150)</u> | <u>33</u> | -555% | <u>-</u> | <u>-</u> | - |
| Change in net position | <u>292</u> | <u>78</u> | 274% | <u>(107)</u> | <u>162</u> | -166% | <u>185</u> | <u>240</u> | -23% |
| Beginning net position | <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% |
| Ending net position | <u>\$ 9,317</u> | <u>\$ 9,025</u> | 3% | <u>\$ 12,187</u> | <u>\$ 12,294</u> | -1% | <u>\$ 21,504</u> | <u>\$ 21,319</u> | 1% |

Governmental Activities

The City's governmental activities had an increase in net position of \$291,367, 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.) |
|----------------------------|--------------------------------------|-----------------|--------------------------|--|------------------|--------------------------|
| | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | |
| General government | \$ 370 | \$ 331 | 12% | (\$131) | (\$184) | -29% |
| Public safety | 942 | 775 | 22% | (905) | (736) | 23% |
| Streets | 432 | 376 | 15% | (207) | (345) | -40% |
| Cemetery | 41 | 37 | 11% | (26) | (18) | 44% |
| Culture and Recreation | 136 | 122 | 11% | (120) | (117) | 3% |
| Interest on long-term debt | 1 | - | 0% | (1) | - | 0% |
| Total | <u>\$ 1,922</u> | <u>\$ 1,641</u> | 17% | <u>(\$1,390)</u> | <u>(\$1,400)</u> | -1% |

Business-type Activities

The business-type activities, on the modified cash basis of accounting, had a decrease in net position of approximately \$106,306. In reviewing the departmental net (expense)/revenue, water and wastewater utility activity charges for services in 2017 were sufficient to cover expenses.

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

| | Total Expense of Services | | % Inc. Dec. | Net Revenue (Expense) of Services | | % Inc. Dec. |
|----------------------|--------------------------------------|-----------------|------------------------|--|---------------|------------------------|
| | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | |
| Water | \$ 906 | \$ 901 | 1% | \$ 89 | \$ 36 | 147% |
| Wastewater | 647 | 662 | -2% | 21 | 19 | 11% |
| Sanitation | 272 | 250 | 9% | (2) | 35 | -106% |
| Economic Development | 135 | 83 | 63% | (71) | 28 | -354% |
| Total | <u>\$ 1,960</u> | <u>\$ 1,896</u> | 3% | <u>\$ 37</u> | <u>\$ 118</u> | -69% |

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2017 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$2.0 million or a 7.3% decrease. The OUA and OEDA enterprise funds reported, on a modified cash basis of accounting, combined net position of \$12.2 million or a 1% decrease from 2016.

Other fund highlights include:

- For the year ended June 30, 2017, the General Fund's total fund balance increased by \$11,018 or 2.6%.
- Proprietary-type enterprise funds restricted net position included \$395,863 for debt service.

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Budgetary Highlights

For the year ended June 30, 2017, the General Fund reported actual budgetary basis revenues over final estimates by \$630,128 or a 39% positive variance which was due mainly to miscellaneous revenues and transfers in exceeding final estimates. General Fund actual expenditures were over final appropriations by \$115,727 or a 5.5% negative variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had \$22.2 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 \$677,000 over last year.

| Capital Assets (In Thousands) (Net of accumulated depreciation) | | | | | | |
|---|----------------------------|------------------------|-----------------------------|-------------------------|-------------------------|-------------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 445 | \$ 445 | \$ 1,738 | \$ 1,738 | \$ 2,183 | \$ 2,183 |
| Buildings | 749 | 444 | 5,214 | 5,331 | 5,963 | 5,775 |
| Imp. other than buildings | 1,335 | 1,137 | 2,705 | 2,743 | 4,040 | 3,880 |
| Machinery, furniture and equipment | 335 | 445 | 241 | 274 | 576 | 719 |
| Infrastructure | 4,503 | 4,402 | - | - | 4,503 | 4,402 |
| Utility property | - | - | 4,473 | 4,115 | 4,473 | 4,115 |
| Construction in progress | - | 76 | 505 | 415 | 505 | 491 |
| Totals | <u><u>\$ 7,367</u></u> | <u><u>\$ 6,949</u></u> | <u><u>\$ 14,876</u></u> | <u><u>\$ 14,616</u></u> | <u><u>\$ 22,243</u></u> | <u><u>\$ 21,565</u></u> |

This year's more significant capital asset additions included:

| | |
|------------------------------|-----------|
| FAA Airport Grant Project | \$239,843 |
| Water tower improvements | \$525,068 |
| Fire Station improvements | \$325,992 |
| Street & bridge improvements | \$352,567 |

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

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Long- Term Debt

At year-end, the City had \$4.3 million in long-term debt outstanding which represents a \$706,000 or 14.1% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

| | Long-Term Debt (In Thousands) | | | | | | Total Percentage Change |
|----------------|----------------------------------|--------|-----------------------------|----------|----------|----------|-------------------------------|
| | Governmental Activities | | Business-Type Activities | | Total | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | |
| | | | | | | | |
| Notes payable | \$ - | \$ - | \$ 4,138 | \$ 4,787 | \$ 4,138 | \$ 4,787 | -13.6% |
| Capital leases | 83 | 119 | 78 | 99 | 161 | 218 | -26.1% |
| Totals | \$ 83 | \$ 119 | \$ 4,216 | \$ 4,886 | \$ 4,299 | \$ 5,005 | -14.1% |

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2018 budget is consistent to prior years for operational expenses.

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
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Statement of Net Position (Modified Cash Basis)– June 30, 2017

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 727,405 | \$ 1,274,144 | \$ 2,001,549 |
| Investments | 1,180,055 | 480,856 | 1,660,911 |
| Internal Balances | 126,083 | (126,083) | - |
| Capital Assets: | | | |
| Land and construction in progress | 444,708 | 2,243,371 | 2,688,079 |
| Other capital assets, net of depreciation | 6,922,051 | 12,632,955 | 19,555,006 |
| Total Assets | <u>9,400,302</u> | <u>16,505,243</u> | <u>25,905,545</u> |
| LIABILITIES | | | |
| Meter deposit liability | - | 101,365 | 101,365 |
| Due to other governments | 111 | - | 111 |
| Long-term liabilities | | | |
| Due within one year | 33,527 | 481,513 | 515,040 |
| Due in more than one year | 49,961 | 3,734,864 | 3,784,825 |
| Total liabilities | <u>83,599</u> | <u>4,317,742</u> | <u>4,401,341</u> |
| NET POSITION | | | |
| Net investment in capital assets | 7,283,271 | 10,755,030 | 18,038,301 |
| Restricted for: | | | |
| Debt Service | - | 395,863 | 395,863 |
| Capital projects | 929,627 | - | 929,627 |
| Cemetery | 158,832 | - | 158,832 |
| Unrestricted | 944,973 | 1,036,608 | 1,981,581 |
| Total net position | <u>\$ 9,316,703</u> | <u>\$ 12,187,501</u> | <u>\$ 21,504,204</u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Statement of Activities (Modified Cash Basis) –Year Ended June 30, 2017

| 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 |
| Primary government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 369,531 | \$ 6,103 | \$ - | \$ 232,516 | \$ (130,912) | \$ - | \$ (130,912) |
| Public Safety | 942,190 | 10,999 | 26,404 | - | (904,787) | - | (904,787) |
| Streets | 432,265 | - | 27,987 | 196,840 | (207,438) | - | (207,438) |
| Cemetery | 41,262 | 15,526 | - | - | (25,736) | - | (25,736) |
| Culture and Recreation | 136,114 | 7,367 | 8,069 | - | (120,678) | - | (120,678) |
| Interest on Long-term debt | 827 | - | - | - | (827) | - | (827) |
| Total governmental activities | <u>1,922,189</u> | <u>39,995</u> | <u>62,460</u> | <u>429,356</u> | <u>(1,390,378)</u> | <u>-</u> | <u>(1,390,378)</u> |
| Business-type activities: | | | | | | | |
| Water | 905,905 | 979,945 | - | 14,625 | - | 88,665 | 88,665 |
| Wastewater | 647,177 | 667,680 | - | - | - | 20,503 | 20,503 |
| Sanitation | 271,926 | 270,198 | - | - | - | (1,728) | (1,728) |
| Economic Development | 134,695 | 64,000 | - | - | - | (70,695) | (70,695) |
| Total business-type activities | <u>1,959,703</u> | <u>1,981,823</u> | <u>-</u> | <u>14,625</u> | <u>-</u> | <u>36,745</u> | <u>36,745</u> |
| Total primary government | <u>3,881,892</u> | <u>2,021,818</u> | <u>62,460</u> | <u>443,981</u> | <u>(1,390,378)</u> | <u>36,745</u> | <u>(1,353,633)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Sales and use taxes | | | | | \$ 1,277,174 | \$ - | \$ 1,277,174 |
| Franchise taxes and public service taxes | | | | | 78,059 | - | 78,059 |
| Intergovernmental revenue not restricted to specific programs | | | | | 57,343 | - | 57,343 |
| Unrestricted investment earnings | | | | | 8,727 | 3,669 | 12,396 |
| Miscellaneous | | | | | 110,713 | 3,009 | 113,722 |
| Transfers | | | | | 149,729 | (149,729) | - |
| Total general revenues and transfers | | | | | <u>1,681,745</u> | <u>(143,051)</u> | <u>1,538,694</u> |
| Change in net position | | | | | 291,367 | (106,306) | 185,061 |
| Net position - beginning | | | | | 9,025,336 | 12,293,807 | 21,319,143 |
| Net position - ending | | | | | <u>\$ 9,316,703</u> | <u>\$ 12,187,501</u> | <u>\$ 21,504,204</u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2017

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Governmental Funds Balance Sheet (Modified Cash Basis)- June 30, 2017

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 82,219 | \$ 579,389 | \$ 65,797 | \$ 727,405 |
| Investments | 327,106 | 706,733 | 146,216 | 1,180,055 |
| Due from other funds | 76,279 | 78,733 | 14,819 | 169,831 |
| Total assets | <u>485,604</u> | <u>1,364,855</u> | <u>226,832</u> | <u>2,077,291</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Due to other funds | \$ 43,748 | \$ - | \$ - | \$ 43,748 |
| Payable to other governments | 111 | - | - | 111 |
| Total liabilities | <u>43,859</u> | <u>-</u> | <u>-</u> | <u>43,859</u> |
| Fund balances: | | | | |
| Restricted | - | 929,627 | 158,832 | 1,088,459 |
| Assigned | 100,000 | 435,228 | 68,000 | 603,228 |
| Unassigned | 341,745 | - | - | 341,745 |
| Total fund balances | <u>441,745</u> | <u>1,364,855</u> | <u>226,832</u> | <u>2,033,432</u> |
| Total liabilities and fund balances | <u>\$ 485,604</u> | <u>\$ 1,364,855</u> | <u>\$ 226,832</u> | <u>\$ 2,077,291</u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2017

| | General Fund | Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---|---|
| REVENUES | | | | |
| Taxes | \$ 1,355,233 | \$ - | \$ - | \$ 1,355,233 |
| Intergovernmental | 83,747 | 429,356 | 36,056 | 549,159 |
| Charges for services | 19,325 | - | 4,198 | 23,523 |
| Fees and fines | 10,265 | - | 329 | 10,594 |
| Licenses and permits | 5,878 | - | - | 5,878 |
| Investment earnings | 4,018 | 4,105 | 604 | 8,727 |
| Miscellaneous | 103,219 | 6,900 | 594 | 110,713 |
| Total revenues | <u>1,581,685</u> | <u>440,361</u> | <u>41,781</u> | <u>2,063,827</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 210,435 | - | - | 210,435 |
| Public Safety: | | | | |
| Police | 391,743 | - | - | 391,743 |
| Fire | 55,937 | - | 5,003 | 60,940 |
| Police Dispatcher | 205,803 | - | - | 205,803 |
| Civil Defense | 67,915 | - | - | 67,915 |
| Police - COPS Grant | 24,922 | - | - | 24,922 |
| Animal Control | 56,326 | - | - | 56,326 |
| Code Enforcement | 35,217 | - | - | 35,217 |
| Cemetery | 39,526 | - | - | 39,526 |
| Streets | 163,574 | - | 43,745 | 207,319 |
| Culture and recreation: | | | | |
| Library | 64,930 | - | 23,040 | 87,970 |
| Park and recreation | 3,202 | - | - | 3,202 |
| Swimming pool | 21,416 | - | - | 21,416 |
| Capital Outlay | - | 915,174 | - | 915,174 |
| Debt Service: | | | | |
| Principal | 15,711 | 19,386 | - | 35,097 |
| Interest and other charges | 5,601 | 827 | - | 6,428 |
| Total Expenditures | <u>1,362,258</u> | <u>935,387</u> | <u>71,788</u> | <u>2,369,433</u> |
| Excess (deficiency) of revenues over expenditures | <u>219,427</u> | <u>(495,026)</u> | <u>(30,007)</u> | <u>(305,606)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 666,396 | 347,921 | 5,003 | 1,019,320 |
| Transfers out | (874,805) | - | - | (874,805) |
| Total other financing sources and uses | <u>(208,409)</u> | <u>347,921</u> | <u>5,003</u> | <u>144,515</u> |
| Net change in fund balances | 11,018 | (147,105) | (25,004) | (161,091) |
| Fund balances - beginning | 430,727 | 1,511,960 | 251,836 | 2,194,523 |
| Fund balances - ending | <u>\$ 441,745</u> | <u>\$ 1,364,855</u> | <u>\$ 226,832</u> | <u>\$ 2,033,432</u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Reconciliation of Governmental Funds and Government-Wide Financial Statements- (Modified Cash Basis):

| | |
|--|----------------------------|
| Total fund balance, governmental funds | \$ 2,033,432 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. | |
| | 7,366,759 |
| 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. | |
| | (83,488) |
| Net Position of Governmental Activities | <u><u>\$ 9,316,703</u></u> |
| Net change in fund balances - total governmental funds: | \$ (161,091) |
| 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 | 886,061 |
| Depreciation expense | (468,700) |
| 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 | 35,097 |
| Change in net position of governmental activities | <u><u>\$ 291,367</u></u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

BASIC FINANCIAL STATEMENTS – PROPRIETARY-TYPE ENTERPRISE FUNDS

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Proprietary Funds Statement of Net Position (Modified Cash Basis) - June 30, 2017

| | Enterprise Funds | | |
|---|---------------------------------------|--|-----------------------------|
| | Okemah Utilities Authority | Okemah Economic Development Authority | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 719,817 | \$ 63,383 | \$ 783,200 |
| Investments | 364,633 | 13,637 | 378,270 |
| Restricted: | | | |
| Cash and cash equivalents | 490,944 | - | 490,944 |
| Investments | 102,586 | - | 102,586 |
| Total current assets | <u>1,677,980</u> | <u>77,020</u> | <u>1,755,000</u> |
| Non-current assets: | | | |
| Capital Assets: | | | |
| Land and construction in progress | 2,025,371 | 218,000 | 2,243,371 |
| Other capital assets, net of accumulated depreciation | 10,341,073 | 2,291,882 | 12,632,955 |
| Total non-current assets | <u>12,366,444</u> | <u>2,509,882</u> | <u>14,876,326</u> |
| Total assets | <u><u>14,044,424</u></u> | <u><u>2,586,902</u></u> | <u><u>16,631,326</u></u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Due to other funds | 126,083 | - | 126,083 |
| Meter deposit liability | 101,365 | - | 101,365 |
| Current portion of: | | | |
| Capital lease obligation | 21,972 | - | 21,972 |
| Notes payable | 449,545 | 9,996 | 459,541 |
| Total current liabilities | <u>698,965</u> | <u>9,996</u> | <u>708,961</u> |
| Non-current liabilities: | | | |
| Capital lease obligation | 55,948 | - | 55,948 |
| Notes payable | 3,409,697 | 269,219 | 3,678,916 |
| Total non-current liabilities | <u>3,465,645</u> | <u>269,219</u> | <u>3,734,864</u> |
| Total liabilities | <u><u>4,164,610</u></u> | <u><u>279,215</u></u> | <u><u>4,443,825</u></u> |
| NET POSITION | | | |
| Net investment in capital assets | 8,524,363 | 2,230,667 | 10,755,030 |
| Restricted for debt service | 395,863 | - | 395,863 |
| Unrestricted | 959,588 | 77,020 | 1,036,608 |
| Total net position | <u><u>\$ 9,879,814</u></u> | <u><u>\$ 2,307,687</u></u> | <u><u>\$ 12,187,501</u></u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) - Year Ended June 30, 2017

| | Enterprise Funds | | Total |
|--|-----------------------------------|--|----------------------|
| | Okemah Utilities Authority | Okemah Economic Development Authority | |
| REVENUES | | | |
| Charges for services: | | | |
| Water | \$ 917,018 | \$ - | \$ 917,018 |
| Sewer | 667,680 | - | 667,680 |
| Sanitation | 270,198 | - | 270,198 |
| Penalties | 21,229 | - | 21,229 |
| Tap fees | 2,817 | - | 2,817 |
| Rents and leases | 14,572 | 64,000 | 78,572 |
| Camping fees | 16,762 | - | 16,762 |
| Lake permits | 7,547 | - | 7,547 |
| Miscellaneous | 15,344 | - | 15,344 |
| Total operating revenues | <u>1,933,167</u> | <u>64,000</u> | <u>1,997,167</u> |
| OPERATING EXPENSES | | | |
| Administration | 293,588 | - | 293,588 |
| Water treatment plant | 399,905 | - | 399,905 |
| Distribution and maintenance | 88,878 | - | 88,878 |
| Sewer collection | 52,762 | - | 52,762 |
| Lake | 82,696 | - | 82,696 |
| Wastewater treatment plant | 206,664 | - | 206,664 |
| Sanitation | 189,476 | - | 189,476 |
| Economic development | - | 86,071 | 86,071 |
| Depreciation | 405,779 | 44,645 | 450,424 |
| Total Operating Expenses | <u>1,719,748</u> | <u>130,716</u> | <u>1,850,464</u> |
| Operating income (loss) | <u>213,419</u> | <u>(66,716)</u> | <u>146,703</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Investment income | 3,446 | 223 | 3,669 |
| Interest expense | (105,260) | (3,979) | (109,239) |
| Miscellaneous revenue | 2,290 | - | 2,290 |
| Total non-operating revenue (expenses) | <u>(99,524)</u> | <u>(3,756)</u> | <u>(103,280)</u> |
| Income (loss) before transfers | 113,895 | (70,472) | 43,423 |
| Transfers in | 347,921 | 173,960 | 521,881 |
| Transfers out | (669,872) | (1,738) | (671,610) |
| Change in net position | (208,056) | 101,750 | (106,306) |
| Total net position - beginning | 10,087,870 | 2,205,937 | 12,293,807 |
| Total net position - ending | <u>\$ 9,879,814</u> | <u>\$ 2,307,687</u> | <u>\$ 12,187,501</u> |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2017

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2017

| | Enterprise Funds | | |
|--|-----------------------------------|--|---------------------|
| | Okemah Utilities Authority | Okemah Economic Development Authority | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,935,457 | \$ 64,000 | \$ 1,999,457 |
| Payments to suppliers | (656,837) | (86,071) | (742,908) |
| Payments to employees | (657,132) | - | (657,132) |
| Receipts of customer meter deposits | 24,275 | - | 24,275 |
| Refunds of customer meter deposits | (22,574) | - | (22,574) |
| Interfund receipts/payments | 123,057 | - | 123,057 |
| Net cash provided by (used in) operating activities | 746,246 | (22,071) | 724,175 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | 347,921 | 173,960 | 521,881 |
| Transfers to other funds | (669,872) | (1,738) | (671,610) |
| Disbursements made on notes receivable | - | 2,300 | 2,300 |
| Net cash provided by (used in) noncapital financing activities | (321,951) | 174,522 | (147,429) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchases of capital assets | (710,494) | - | (710,494) |
| Principal paid on debt | (457,327) | (212,169) | (669,496) |
| Interest and fiscal agent fees paid on debt | (105,260) | (3,979) | (109,239) |
| Net cash provided by (used in) capital and related financing activities | (1,273,081) | (216,148) | (1,489,229) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase (sale) of investments | (612) | (34) | (646) |
| Interest and dividends | 3,446 | 223 | 3,669 |
| Net cash provided by investing activities | 2,834 | 189 | 3,023 |
| Net increase (decrease) in cash and cash equivalents | (845,952) | (63,508) | (909,460) |
| Balances - beginning of year | 2,056,713 | 126,891 | 2,183,604 |
| Balances - end of year | \$ 1,210,761 | \$ 63,383 | \$ 1,274,144 |
| Reconciliation to Statement of Net Position: | | | |
| Cash and cash equivalents | \$ 719,817 | \$ 63,383 | \$ 783,200 |
| Restricted cash and cash equivalents - current | 490,944 | - | 490,944 |
| Total cash and cash equivalents, end of year | \$ 1,210,761 | \$ 63,383 | \$ 1,274,144 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating income | \$ 213,419 | \$ (66,716) | \$ 146,703 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation expense | 405,779 | 44,645 | 450,424 |
| Miscellaneous revenue | 2,290 | - | 2,290 |
| Change in assets and liabilities: | | | |
| Due to other funds | 123,057 | - | 123,057 |
| Deposits subject to refund | 1,701 | - | 1,701 |
| Net cash provided by (used in) operating activities | \$ 746,246 | \$ (22,071) | \$ 724,175 |

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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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:

CITY OF OKEMAH, OKLAHOMA
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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.
- 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.

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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 funds are 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, 2017, the City recognized \$12,396 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, 2017, the primary government held the following deposits and investments:

| <u>Type</u> | <u>Credit Rating</u> | <u>Carrying Value</u> |
|--|--------------------------|----------------------------|
| Deposits: | | |
| Petty cash | | 1,397 |
| Demand deposits | | 1,867,759 |
| Time deposits - certificates of deposit | | 1,660,911 |
| Investments: | | |
| Cavanal Hill Government Securities Money Market Fund | AAAm | 132,393 |
| Total deposits and investments | | <u><u>\$ 3,662,460</u></u> |
| Reconciliation to Statement of Net Position: | | |
| Cash and cash equivalents | | \$ 2,001,549 |
| Investments | | <u>1,660,911</u> |
| | | <u><u>\$ 3,662,460</u></u> |

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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, 2017, 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, 2017, 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, 2017, the City's investments consisted of \$132,393 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, 2017, 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, 2017 are as follows:

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| | Current | |
|----------------------------------|---------------------------|-------------------|
| | Cash and cash equivalents | Investments |
| Utility Deposits | \$ - | \$ 102,586 |
| OWRB debt service | 358,551 | - |
| Series 2014 Principal Account | 27,509 | - |
| Series 2014 Interest Account | 9,803 | - |
| Series 2014 Construction Account | 95,081 | - |
| Total | <u>\$ 490,944</u> | <u>\$ 102,586</u> |

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, 2017, capital assets balances changed as follows:

| | Balance at July 1, 2016 | Additions | Disposals | Balance at June 30, 2017 |
|---|----------------------------|---------------------|-------------------|-----------------------------|
| <i>Governmental activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 444,708 | \$ - | \$ - | \$ 444,708 |
| Construction in progress | 75,775 | 850,764 | 926,539 | - |
| Total capital assets not being depreciated | <u>520,483</u> | <u>850,764</u> | <u>926,539</u> | <u>444,708</u> |
| Other capital assets: | | | | |
| Buildings | 1,179,372 | 325,992 | - | 1,505,364 |
| Improvements | 1,710,995 | 247,980 | - | 1,958,975 |
| Infrastructure | 8,596,528 | 369,412 | - | 8,965,940 |
| Machinery, furniture and equipment | 2,091,079 | 18,452 | - | 2,109,531 |
| Total other capital assets at historical cost | <u>13,577,974</u> | <u>961,836</u> | <u>-</u> | <u>14,539,810</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 735,611 | 21,122 | - | 756,733 |
| Improvements | 573,770 | 50,425 | - | 624,195 |
| Infrastructure | 4,193,975 | 268,503 | - | 4,462,478 |
| Machinery, furniture and equipment | 1,645,703 | 128,650 | - | 1,774,353 |
| Total accumulated depreciation | <u>7,149,059</u> | <u>468,700</u> | <u>-</u> | <u>7,617,759</u> |
| Other capital assets, net | <u>6,428,915</u> | <u>493,136</u> | <u>-</u> | <u>6,922,051</u> |
| Governmental activities capital assets, net | <u>\$ 6,949,398</u> | <u>\$ 1,343,900</u> | <u>\$ 926,539</u> | <u>\$ 7,366,759</u> |
| <i>Business-type activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,738,000 | \$ - | \$ - | \$ 1,738,000 |
| Construction in progress | 414,724 | 590,216 | 499,569 | 505,371 |
| Total capital assets not being depreciated | <u>2,152,724</u> | <u>590,216</u> | <u>499,569</u> | <u>2,243,371</u> |
| Other capital assets: | | | | |
| Buildings | 8,474,337 | - | - | 8,474,337 |
| Improvements | 2,994,423 | 25,217 | - | 3,019,640 |
| Machinery, furniture and equipment | 1,058,447 | 41,114 | - | 1,099,561 |
| Utility property | 8,968,971 | 553,516 | - | 9,522,487 |
| Total other capital assets at historical cost | <u>21,496,178</u> | <u>619,847</u> | <u>-</u> | <u>22,116,025</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,143,703 | 116,720 | - | 3,260,423 |
| Improvements | 250,934 | 64,244 | - | 315,178 |
| Machinery, furniture and equipment | 784,424 | 74,004 | - | 858,428 |
| Utility Property Improvements | 4,853,585 | 195,456 | - | 5,049,041 |
| Total accumulated depreciation | <u>9,032,646</u> | <u>450,424</u> | <u>-</u> | <u>9,483,070</u> |
| Other capital assets, net | <u>12,463,532</u> | <u>169,423</u> | <u>-</u> | <u>12,632,955</u> |
| Business-type activities capital assets, net | <u>\$ 14,616,256</u> | <u>\$ 759,639</u> | <u>\$ 499,569</u> | <u>\$ 14,876,326</u> |

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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 | 143,564 | Water | 183,676 |
| Public safety | 87,852 | Sewer | 196,986 |
| Highways and streets | 214,686 | Sanitation | 25,117 |
| Cemetery | 517 | Economic development | 44,645 |
| Culture and recreation | 22,081 | | |
| | <u>\$ 468,700</u> | | <u>\$ 450,424</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, 2017 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. In December 2016, OEDA and Okfuskee County Industrial Authority agreed to loan an additional \$4,000 reduction in the monthly lease payments for the six month period (December 2016 through May 2017). For fiscal year 2016, OEDA received \$8,000 each month in lease payments, with the exception of the months of December 2016 through May 2017, for which OEDA received \$4,000 each month. 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, 2017, the City reporting entity's long-term debt changed as follows:

| Type of Debt | Balance July 01, 2016 | Additions | Deductions | Balance June 30, 2017 | Due Within One Year |
|--|--------------------------|-------------|-------------------|--------------------------|------------------------|
| Governmental Activities: | | | | | |
| Capital lease payable | \$ 118,585 | \$ - | \$ 35,097 | \$ 83,488 | \$ 33,527 |
| Total Governmental Activities | <u>\$ 118,585</u> | <u>\$ -</u> | <u>\$ 35,097</u> | <u>\$ 83,488</u> | <u>\$ 33,527</u> |
| Business-Type Activities: | | | | | |
| Notes payable | \$ 4,786,677 | \$ - | \$ 648,220 | \$ 4,138,457 | \$ 459,541 |
| Capital lease payable | 99,196 | - | 21,276 | 77,920 | 21,972 |
| Total Business-Type Activities | <u>\$ 4,885,873</u> | <u>\$ -</u> | <u>\$ 669,496</u> | <u>\$ 4,216,377</u> | <u>\$ 481,513</u> |
| Total Long-Term Debt | <u>\$ 5,004,458</u> | <u>\$ -</u> | <u>\$ 704,593</u> | <u>\$ 4,299,865</u> | <u>\$ 515,040</u> |
| Reconciliation to Statement of Net Position: | | | | | |
| Governmental Activities: | | | | | |
| Due within one year | | | | \$ 33,527 | |
| Due in more than one year | | | | 49,961 | |
| Total Governmental Activities Long-term liabilities | | | | <u>\$ 83,488</u> | |
| Business-Type Activities: | | | | | |
| Due within one year | | | | \$ 481,513 | |
| Due in more than one year | | | | 3,734,864 | |
| Total Business-Type Activities Long-term liabilities | | | | <u>\$ 4,216,377</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. | \$ 16,610 |
| \$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. | 66,878 |
| Total Capital Leases Payable | <u>\$ 83,488</u> |
| Current portion | \$ 33,527 |
| Noncurrent portion | 49,961 |
| Total Capital Leases Payable | <u>\$ 83,488</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. | \$ 445,336 |
| 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. | 6,562 |
| 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. | 1,545,000 |
| 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. | 1,862,344 |
| Total Notes Payable | <u>\$ 3,859,242</u> |
| Current portion | 449,545 |
| Noncurrent portion | 3,409,697 |
| Total Notes Payable | <u>\$ 3,859,242</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 | \$ | 77,920 |
| Total Capital Leases Payable | \$ | <u>77,920</u> |
| Current portion | \$ | 21,972 |
| Noncurrent portion | | 55,948 |
| Total Capital Leases Payable | \$ | <u>77,920</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, 2017, 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.

279,215

| | | |
|---------------------|----|----------------|
| Total Notes Payable | \$ | <u>279,215</u> |
| Current portion | | 9,996 |
| Noncurrent portion | | 269,219 |
| Total Notes Payable | \$ | <u>279,215</u> |

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

| <u>Year Ending June 30,</u> | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | | |
|-----------------------------|--------------------------------|-----------------|---------------------------------|-------------------|------------------------------|-----------------|
| | <u>Capital Leases Payable</u> | | <u>Notes Payable</u> | | <u>Capital Lease Payable</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 33,527 | \$ 4,629 | \$ 459,541 | \$ 93,016 | \$ 21,972 | \$ 2,208 |
| 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 | 9,846 | 115 |
| 2022 | - | - | 488,583 | 50,463 | - | - |
| 2023-2027 | - | - | 806,919 | 147,759 | - | - |
| 2028-2032 | - | - | 707,493 | 54,857 | - | - |
| Totals | <u>\$ 83,488</u> | <u>\$ 9,724</u> | <u>\$ 4,138,457</u> | <u>\$ 567,493</u> | <u>\$ 77,920</u> | <u>\$ 4,581</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 does 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:

| | General Fund | Major Capital Project Fund Capital Improvement | Other Governmental Funds | TOTAL |
|---|-------------------|---|--------------------------|---------------------|
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Capital projects | \$ - | 929,627 | \$ - | \$ 929,627 |
| Cemetery capital | - | - | 158,832 | 158,832 |
| Sub-total Restricted | - | 929,627 | 158,832 | 1,088,459 |
| Assigned to: | | | | |
| Capital projects | - | 435,228 | - | 435,228 |
| Library operations | - | - | 43,512 | 43,512 |
| Cemetery capital and operations | - | - | 20,197 | 20,197 |
| Street and alley operations and capital | - | - | 4,291 | 4,291 |
| Use of fund balance for subsequent budget | 100,000 | - | - | 100,000 |
| Sub-total Assigned | 100,000 | 435,228 | 68,000 | 603,228 |
| Unassigned: | 341,745 | - | - | 341,745 |
| TOTAL FUND BALANCES | \$ 441,745 | \$ 1,364,855 | \$ 226,832 | \$ 2,033,432 |

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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 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, and 2022, respectively. The total principal and interest payable for the remainder of the life of these notes is \$4,699,388. Total pledged sales tax for the year was \$869,802. Debt service payments of \$735,310 for the current fiscal year were 84.5% 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 \$4,699,388. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$529,158 which was 92.8% of pledged net utility revenues of \$570,393. 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.

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Transfers:

Internal transfers between funds and activities for the year ended June 30, 2017 were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> | <u>Purpose of Transfer</u> |
|---------------------------------------|--------------------------|---------------------|----------------------------|
| General Fund | OUA Enterprise Fund | \$ 347,921 | Sales tax transfer |
| General Fund | Capital Improvement Fund | 347,921 | Sales tax transfer |
| General Fund | OEDA Enterprise Fund | 173,960 | Sales tax transfer |
| General Fund | Rural Fire Fund | 5,003 | Operating |
| OUA Enterprise Fund | General Fund | 313,000 | Operating |
| OUA Enterprise Fund | General Fund | 263,396 | Return of sales tax |
| OUA Enterprise Fund | General Fund | 90,000 | Operating |
| Transfer of assets from Business-Type | | 5,214 | Transfer of assets |
| Total | | <u>\$ 1,546,415</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 | \$ 1,019,320 | \$ (874,805) | \$ 144,515 |
| Proprietary Funds | 521,881 | (671,610) | (149,729) |
| | <u>\$ 1,541,201</u> | <u>\$ (1,546,415)</u> | <u>(5,214)</u> |

| | <u>Governmental</u> | <u>Business-Type</u> |
|---------------------------------------|---------------------|----------------------|
| Net transfers | \$ 144,515 | \$ (149,729) |
| Transfer of assets from Business-Type | 5,214 | - |
| | <u>\$ 149,729</u> | <u>\$ (149,729)</u> |

Balances:

Interfund receivable and payables at June 30, 2017 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 | 6,750 | Cemetery revenue |
| General Fund | Library Fund | 8,069 | Revenue posted to wrong fund |
| General Fund | Capital Improvement Fund | 28,929 | Sales tax |
| OUA Enterprise Fund | General Fund | 225 | Revenue posted to wrong fund |
| OUA Enterprise Fund | General Fund | 76,054 | Payroll liabilities |
| OUA Enterprise Fund | Capital Improvement Fund | 49,804 | Sales tax |
| Total | | <u>\$ 169,831</u> | |

Reconciliation to Fund Financial Statements:

| | <u>Due From</u> | <u>Due To</u> | <u>Net Internal Balances</u> |
|--------------------|-------------------|---------------------|------------------------------|
| Governmental Funds | \$ 169,831 | \$ (43,748) | \$ 126,083 |
| Proprietary Funds | - | (126,083) | (126,083) |
| Total | <u>\$ 169,831</u> | <u>\$ (169,831)</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> |
|--------------------|----------------------------------|-------------------------------|
| 2015 | \$660 | \$660 |
| 2016 | \$960 | \$960 |
| 2017 | \$840 | \$840 |

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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.

Eligibility Factors, Contribution Methods and Benefit Provisions

| Provision | OMRF Plan |
|-----------------------------------|--|
| 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 | 5.60% 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, 2016</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 |

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For the year ended June 30, 2017, the City's employer contribution to the plan was \$73,996 which was 7.46% 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> |
|--------------------|------------------------------|---------------------------|
| 2015 | \$56,112 | \$64,013 |
| 2016 | \$53,220 | \$61,148 |
| 2017 | \$55,547 | \$73,996 |

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.

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, 2017, the City contributions were \$1,213 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, 2017, is summarized as follows:

- General Fund and OUA Enterprise Fund – accrued compensated absences \$76,440

Outstanding Construction Contracts:

The City had the following outstanding construction contract commitments at June 30, 2017:

| <u>Contractor/Project</u> | <u>Contract Amount</u> | <u>Remaining Balance</u> |
|---------------------------|------------------------|--------------------------|
| Tetra Tech | \$101,200 | \$27,850 |
| Lippert Brothers | \$149,882 | \$149,882 |
| Luckinbill | \$468,710 | \$46,689 |

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Litigation:

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

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 lawsuit filed on July 9, 2012, by Okfuskee 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, 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, on June 12, 2017, the OUA and the Rural Water District entered into a new Water Purchase Agreement which modifies the rate for water for the Rural Water District in accordance with a formula which complies with the requirements of the Journal Entry of Judgment of the District Court within and for Okfuskee County in Case Number CJ-2006-100. OUA and the Rural Water District will seek the District Court's declaratory judgment approving the formula.

Federal and State Award Programs:

The City of Okemah participates in various federal or state grant/loan programs from year to year. In 2017, 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, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|------------------|-----------------------|---|
| | Original | Final | | |
| Beginning Budgetary Fund Balance | \$ 432,613 | \$ 503,383 | \$ 430,727 | \$ (72,656) |
| Resources (Inflows): | | | | |
| Taxes | 1,139,104 | 1,139,104 | 1,355,233 | 216,129 |
| Intergovernmental | 58,761 | 58,761 | 83,747 | 24,986 |
| Charges for services | 13,005 | 13,005 | 19,325 | 6,320 |
| Fines and forfeitures | - | - | 10,265 | 10,265 |
| Licenses and permits | 3,200 | 3,200 | 5,878 | 2,678 |
| Investment income | 2,042 | 2,042 | 4,018 | 1,976 |
| Miscellaneous | 104,072 | 104,072 | 103,219 | (853) |
| Transfers in | 297,769 | 297,769 | 666,396 | 368,627 |
| Total resources (Inflows) | <u>1,617,953</u> | <u>1,617,953</u> | <u>2,248,081</u> | <u>630,128</u> |
| Amounts available for appropriation | <u>2,050,566</u> | <u>2,121,336</u> | <u>2,678,808</u> | <u>557,472</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 222,600 | 215,600 | 231,747 | (16,147) |
| Police | 363,829 | 399,829 | 391,743 | 8,086 |
| Fire | 67,251 | 68,021 | 55,937 | 12,084 |
| Police Dispatcher | 200,617 | 200,617 | 205,803 | (5,186) |
| Streets | 94,758 | 161,758 | 163,574 | (1,816) |
| Animal Control | 54,231 | 57,231 | 56,326 | 905 |
| Cemetery | 57,551 | 45,551 | 39,526 | 6,025 |
| Parks and Recreation | 4,940 | 4,940 | 3,202 | 1,738 |
| Library | 67,291 | 65,141 | 64,930 | 211 |
| Code Enforcement | 50,455 | 35,455 | 35,217 | 238 |
| Civil Defense | 67,681 | 62,681 | 67,915 | (5,234) |
| Police - Cops in School | 36,387 | 31,786 | 24,922 | 6,864 |
| Swimming Pool | 18,553 | 18,053 | 21,416 | (3,363) |
| Transfers Out | 744,422 | 744,422 | 874,805 | (130,383) |
| Total Charges to Appropriations | <u>2,050,566</u> | <u>2,111,085</u> | <u>2,237,063</u> | <u>(125,978)</u> |
| Ending Budgetary Fund Balance | <u>\$ -</u> | <u>\$ 10,251</u> | <u>\$ 441,745</u> | <u>\$ 431,494</u> |

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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.

| | |
|---|----------------------|
| Total Resources (Inflows) Per Budgetary Comparison Schedule | <u>\$ 2,248,081</u> |
| Adjusted Total Resources | <u>2,248,081</u> |
| Total Resources (Inflows) Per Statement of Revenues, Expenditures and Changes in Fund Balance: | |
| Total Revenues | 1,581,685 |
| Transfer In | <u>666,396</u> |
| Total Resources (Inflows) Per Statement of Revenues, Expenditures | <u>2,248,081</u> |
| Charges to Appropriations (Outflows) Per Budgetary Comparison Schedule: | <u>2,237,063</u> |
| Adjusted Total Charges to Appropriations | <u>2,237,063</u> |
| Total Expenditures and Transfers Per Statement of Revenues, Expenditures | |
| Total Expenditures | 1,362,258 |
| Transfers Out | <u>874,805</u> |
| | <u>\$ 2,237,063</u> |

3. Expenditures exceeded appropriations in the following departments:

| | |
|----------------------|----------|
| • General Government | \$16,147 |
| • Police Dispatcher | 5,186 |
| • Streets | 1,816 |
| • Civil Defense | 5,234 |
| • Swimming Pool | 3,363 |
| • Transfers Out | 130,383 |

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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2017

| | Special Revenue Funds | | | Capital Project Fund | Total Governmental Funds |
|---------------------------|------------------------------|---------------------|--------------------------------|--------------------------------|---------------------------------|
| | Rural Fire Fund | Library Fund | Street & Alley Fund | Cemetery Perpetual Fund | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ - | \$ 4,270 | \$ 4,291 | \$ 57,236 | \$ 65,797 |
| Investments | - | 31,173 | - | 115,043 | 146,216 |
| Due from other funds | - | 8,069 | - | 6,750 | 14,819 |
| Total assets | - | 43,512 | 4,291 | 179,029 | 226,832 |
| FUND BALANCES: | | | | | |
| Restricted | - | - | - | 158,832 | 158,832 |
| Assigned | - | 43,512 | 4,291 | 20,197 | 68,000 |
| Total fund balances | - | 43,512 | 4,291 | 179,029 | 226,832 |
| Total fund balances | \$ - | \$ 43,512 | \$ 4,291 | \$ 179,029 | \$ 226,832 |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2017

| | Special Revenue Funds | | | Capital Project Fund | Total-Other Governmental Funds |
|---|------------------------------|---------------------|--------------------------------|--------------------------------|---------------------------------------|
| | Rural Fire Fund | Library Fund | Street & Alley Fund | Cemetery Perpetual Fund | |
| REVENUES | | | | | |
| Intergovernmental | \$ - | \$ 8,069 | \$ 27,987 | \$ - | \$ 36,056 |
| Charges for services | - | 447 | - | 3,751 | 4,198 |
| Fines and forfeitures | - | 329 | - | - | 329 |
| Investment earnings | - | 28 | - | 576 | 604 |
| Miscellaneous | - | 594 | - | - | 594 |
| Total revenues | - | 9,467 | 27,987 | 4,327 | 41,781 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Fire | 5,003 | - | - | - | 5,003 |
| Streets | - | - | 43,745 | - | 43,745 |
| Library | - | 23,040 | - | - | 23,040 |
| Total Expenditures | 5,003 | 23,040 | 43,745 | - | 71,788 |
| Excess (deficiency) of revenues over expenditures | (5,003) | (13,573) | (15,758) | 4,327 | (30,007) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 5,003 | - | - | - | 5,003 |
| Total other financing sources and uses | 5,003 | - | - | - | 5,003 |
| Net change in fund balances | - | (13,573) | (15,758) | 4,327 | (25,004) |
| Fund balances - beginning | - | 57,085 | 20,049 | 174,702 | 251,836 |
| Fund balances - ending | \$ - | \$ 43,512 | \$ 4,291 | \$ 179,029 | \$ 226,832 |

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Schedule of Federal Awards Expended – Year Ended June 30, 2017

| Federal Grantor/Pass through agency Grantor/Program Title | Federal CFDA Number | Pass Thru Grant # | Award Amount | Contract Expenditures |
|--|---------------------------|----------------------|-------------------|--------------------------|
| FEDERAL AWARDS: | | | | |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u> | | | | |
| Passed through Oklahoma Department of Commerce: Community Development Block Grant | 14.228 | 16270-CDBG | \$ 99,680 | \$ 99,680 |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u> | | | | |
| Oklahoma Department of Emergency Management Disaster Recovery | 97.036 | PA-4222 PW | \$ 310,775 | \$ 228,814 |
| <u>U.S. DEPARTMENT OF INTERIOR:</u> | | | | |
| Wildlife Conservation | 15.605 | Boating Access | \$ 14,625 | \$ 14,625 |
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | | |
| Passed through Oklahoma Aviation Commission: Airport Improvement Program | 20.106 | F-81-17-S | \$ 232,516 | \$ 232,516 |
| TOTAL FEDERAL AWARDS | | | \$ 657,596 | \$ 575,635 |

Footnotes to Federal Awards Schedules:

1. 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, 2017

| State Grantor/Pass through agency Grantor/Program Title | Federal CFDA Number | Pass Thru Grant # | Award Amount | Contract Expenditures |
|--|---------------------------|------------------------|-------------------|--------------------------|
| STATE AWARDS: | | | | |
| <u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u> | | | | |
| State Aid | N/A | N/A | \$ 8,069 | \$ 8,069 |
| Small Library Technology | N/A | N/A | 1,000 | 1,000 |
| | | | <u>\$ 9,069</u> | <u>\$ 9,069</u> |
| <u>OKLAHOMA DEPARTMENT OF COMMERCE:</u> | | | | |
| CDBG 14 | N/A | CDBG 14 | \$ 36,350 | \$ 9,087 |
| <u>CENTRAL OKLAHOMA ECONOMIC DEVELOPMENT DISTRICT:</u> | | | | |
| Rural Economic Action Plan | N/A | 2014-2015 REAP Fund 13 | \$ 100,000 | \$ 100,000 |
| <u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> | | | | |
| Rural Fire Grant | N/A | N/A | \$ 3,817 | \$ 3,817 |
| TOTAL STATE AWARDS | | | \$ 149,236 | \$ 121,973 |

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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2017

| | OWRB 1998 and 2011 SERIES NOTES | REVENUE NOTE 2014 SERIES |
|--|--|---|
| GROSS REVENUE AVAILABLE: | | |
| Charges for services (water and sewer revenues) | \$ 1,608,744 | \$ 1,608,744 |
| Investment income | 3,446 | 3,446 |
| Sales tax appropriated and transferred from the City General Fund | <u>347,921</u> | <u>347,921</u> |
| Total Gross Revenue Available | <u>1,960,111</u> | <u>1,960,111</u> |
| OPERATING EXPENSES: | | |
| Total Operating Expenses | <u>1,041,797</u> | <u>1,041,797</u> |
| Net Revenue Available for Debt Service | <u><u>\$ 918,314</u></u> | <u><u>\$ 918,314</u></u> |
| Debt Service Requirements: | | |
| 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><u>566,224</u></u> |
| Excess (Deficient) Coverage | <u><u>\$ 239,425</u></u> | <u><u>\$ 352,090</u></u> |

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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, 2017, 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 2, 2017. 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 2017-001.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as finding 2017-002.

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.

Finley + Cook, PLLC

Shawnee, Oklahoma
November 2, 2017

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2017

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

SIGNIFICANT DEFICIENCY

2017-001. Segregation of Duties

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.

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

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.

Views of Responsive Officials and Planned Corrective Actions: See attached corrective action plan.

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2017

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
CONTINUED**

2017-002. Budgetary Compliance

Condition: For the year ended June 30, 2017, the City was not in compliance with the Municipal Budget Act of 1979 (the “Act”) due to the fact that expenditures exceeded appropriations at the legal level of control for the General Fund as follows:

| <u>Fund</u> | <u>Department</u> | <u>Expenditures Exceeding Appropriations</u> |
|--------------|--------------------|--|
| General Fund | General government | \$ 16,147 |
| General Fund | Police dispatcher | 5,186 |
| General Fund | Streets | 1,816 |
| General Fund | Civil defense | 5,234 |
| General Fund | Swimming pool | 3,363 |
| General Fund | Transfers out | 130,383 |

Criteria: The Act requires the budget to be monitored and budget amendments made so that actual expenditures do not exceed budgeted amounts.

Cause: Due to changes in administrative staff the budget to actual expenditures were not properly monitored.

Effect: The City was not in compliance with the requirements of the Act.

Recommendation: Procedures should be in place to monitor and avoid such items.

Views of Responsible Officials and Planned Corrective Actions: See attached corrective action plan.

CITY OF OKEMAH, OKLAHOMA

2017 CORRECTIVE ACTION PLAN

Year Ended June 30, 2017

Name of auditee: **City of Okemah**

Name of audit firm: **Finley & Cook, PLLC**

Period covered by the audit: **2016-2017**

CAP prepared by: **Valerie Williams, Finance Director**

A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations

1. Finding 2017-001:

Significant deficiency in internal control over financial reporting—Segregation of Duties.

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.

2. Finding 2017-002:

Findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*—Budgetary Compliance.

As noted in the footnotes to the budgetary comparison schedule, the budgetary comparison schedule is prepared on a budgetary basis, which differs from the modified cash basis of accounting. The differences in the two methods is the primary reason for the variances. In the future, the City will submit any amendments to the budget to the State Auditor and Inspector pursuant to Title 11, Oklahoma Statutes, Section 17-216(c).