

CITY OF PAULS VALLEY

June 30, 2017

TABLE OF CONTENTS

	Page
Independent Auditor's Report	A - 1
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	B - 1
Statement of Activities	B - 2
Governmental Funds Financial Statements:	
Balance Sheet - Governmental Funds	B - 3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	B - 4
Reconciliation of Governmental Fund and Government-Wide Financial Statements - Governmental Funds	B - 5
Proprietary Funds Financial Statements:	
Statement of Net Position - Proprietary Funds	B - 6
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	B - 7
Statement of Cash Flows - Proprietary Funds	B - 8
Notes to the Basic Financial Statements	B - 9
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	C - 1
Budgetary Comparison Schedule - One Cent Fund	C - 2
Notes to Budgetary Comparison Schedules	C - 3
Exhibit 1 - Schedule of Share of Net Pension Liability (Asset) - Police Pension & Retirement System	C - 4
Exhibit 2 - Schedule of City Contributions - Police Pension & Retirement System	C - 4
Exhibit 3 - Schedule of Share of Net Pension Liability - Firefighters Pension & Retirement System	C - 5
Exhibit 4 - Schedule of City Contributions - Firefighters Pension & Retirement System	C - 5
Supplementary Information	
Combining Balance Sheet - Nonmajor Governmental Funds	D - 1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	D - 2
Combining Balance Sheet - General Fund Accounts	D - 3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances General Fund Accounts	D - 4
Schedule of Federal and State Awards	D - 5
Internal Control and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Accompanying Financial Statements Performed in Accordance With Government Auditing Standards	E - 1
Schedule of Findings and Questioned Costs	E - 3
Schedule of Prior Findings and Responses Disposition of Prior Year Findings	E - 4
City's Corrective Action Plan	E - 5



INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2017, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business Type Activities	Qualified
Discretely Presented Component Unit	Unmodified
Governmental Fund – General Fund	Unmodified
Governmental Fund – One Cent Fund	Unmodified
Governmental Fund – Capital Improvement	Unmodified
Aggregate Remaining Fund Information	Unmodified
Enterprise Fund – Pauls Valley Municipal Authority	Qualified
Enterprise Fund – Pauls Valley Hospital Authority	Adverse

Basis for Adverse Opinion on the Pauls Valley Hospital Authority (a major enterprise fund) and Qualified Opinion on the Business-Type Activities

Management has not included the Pauls Valley Hospital Authority in the City's financial statements referred to above. Accounting principles generally accepted in the United States of America require the Pauls Valley Hospital Authority to be presented as a major enterprise fund and financial information as a part of the business-type activities, thus increasing the activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses and changing its net position. Also this financial information it is anticipated would decrease the business-type net position by an undetermined amount. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major enterprise fund entitled Pauls Valley Hospital Authority has not been determined.

Basis for Qualified Opinion on Business-Type Activities and Enterprise Fund-Pauls Valley Municipal Authority

Management has not obtained the information necessary to quantify the debt owed to the Garvin County Rural Water District #4 for the purchase of industrial/commercial customers.. See note 3.B. Contingencies for more information. Accounting principles generally accepted in the United States of America require that all assets and liabilities be valued and recorded. This amount would increase contract payable and capital assets for water infrastructure the net amount would effect net position.

Adverse Opinion

In our opinion because of the significance of the matter described in the "Basis for Adverse Opinion on the Pauls Valley Hospital (a major enterprise fund) and Qualified Opinion on the Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Pauls Valley Hospital Authority of the City of Pauls Valley as of June 30, 2017, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the "Basis for Adverse Opinion on the Pauls Valley Hospital Authority (a major enterprise fund) and Qualified Opinion on the Business-type Activity" paragraph and the "Basis for Qualified Opinion on Business-Type Activities and Enterprise Fund-Pauls Valley Municipal Authority" the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the enterprise fund-Pauls Valley Municipal Authority of the City of Pauls Valley, Oklahoma, as of June 30, 2017, and the changes in financial position, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund other than the Pauls Valley Hospital Authority, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management regarding the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Pauls Valley has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate economic or history context. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary Information

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

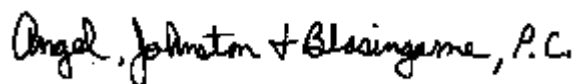
The combining and individual nonmajor fund financial statements, the combining general fund statements, and the schedule of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic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

Pauls Valley Hospital Authority Going Concern

As noted in the paragraph "Basis for Adverse Opinion on the Pauls Valley Hospital Authority and Qualified Opinion on the Business-Type Activities" the Pauls Valley Hospital Authority financial information is not included in the City's financial statements. In addition as described in note 3. B. the Hospital filed a voluntary petition for debt restructuring under Chapter 9 of the Federal Bankruptcy Code and was confirmed on February 2, 2016. Despite this confirmation the financial conditions continue to be difficult and these conditions continue to raise substantial doubt about the Hospital's ability to continue as a going concern.

Other Reporting Required by *Government Audit Standards*

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pauls Valley's internal control over financial reporting and compliance.



Chickasha, Oklahoma
February 20, 2018

CITY OF PAULS VALLEY, OKLAHOMA

Statement of Net Position

June 30, 2017

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Pauls Valley Airport Auth.
	Activities	Activities		
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 6,474,635	\$ 370,478	\$ 6,845,113	\$ 166,543
Investments	-	353,026	353,026	-
Receivables, net	847,073	582,443	1,429,516	15,779
Prepaid Expenses	9,110	9,110	18,220	-
Inventory	18,556	-	18,556	34,657
Advance to Component Unit	26,500	-	26,500	-
Due from Component Unit-PVHA	-	100,000	100,000	-
Capital Assets:				
Land, Intangibles & Construction in Progress	2,467,596	1,491,824	3,959,420	94,942
Other Capital Assets, net	18,339,077	20,733,177	39,072,254	5,682,310
<i>Total Assets</i>	<u>28,182,547</u>	<u>23,640,058</u>	<u>51,822,605</u>	<u>5,994,231</u>
<u>Deferred Outflows of Resources</u>				
Deferred Amounts Related to Pensions	816,097	-	816,097	-
<i>Total Deferred Outflows of Resources</i>	<u>816,097</u>	<u>-</u>	<u>816,097</u>	<u>-</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	59,075	310,843	369,918	14,188
Accrued Expenses	154,244	44,946	199,190	2,787
Accrued Interest Payable	51,458	61,317	112,775	-
Due to Depositors	-	141,333	141,333	-
Landfill Closure and Postclosure Liability	-	199,519	199,519	-
Advance from Primary Government	-	-	-	26,500
Deferred Revenue	206,911	-	206,911	-
AT&T 911 Fee Advances	19,243	-	19,243	-
Capital Leases, Current Portion	125,243	150,168	275,411	-
Contract Payable, Current Portion	-	92,325	92,325	-
Notes Payable, Current Portion	444,320	474,000	918,320	-
Compensated Absences	243,109	95,432	338,541	-
Noncurrent Liabilities:				
Net Pension Liability	2,194,845	-	2,194,845	-
Capital Leases/Contract/Notes Payable	7,596,909	7,271,341	14,868,250	-
<i>Total Liabilities</i>	<u>11,095,357</u>	<u>8,841,224</u>	<u>19,936,581</u>	<u>43,475</u>
<u>Deferred Inflows of Resources</u>				
Deferred Amounts Related to Pensions	37,517	-	37,517	-
<i>Total Deferred Outflows of Resources</i>	<u>37,517</u>	<u>-</u>	<u>37,517</u>	<u>-</u>
<u>Net Position</u>				
Net Investment in Capital Assets	12,640,200	14,510,615	27,150,815	5,777,252
Restricted by:				
Statutory Requirements	5,262,467	-	5,262,467	-
Other Contracts	664,428	-	664,428	173,504
Permanent Endowment - non spendable	50,000	-	50,000	-
Unrestricted	(751,325)	288,219	(463,106)	-
<i>Total Net Position</i>	<u>\$ 17,865,770</u>	<u>\$ 14,798,834</u>	<u>\$ 32,664,604</u>	<u>\$ 5,950,756</u>

See accompanying notes to basis financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Activities
For the Year Ending June 30, 2017

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit Pauls Valley Airport Authority
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 882,064	\$ 47,305	\$ -	\$ -	\$ (834,759)	\$ -	\$ (834,759)	\$ -
Public Safety	2,577,763	143,722	30,766	-	(2,403,275)	-	(2,403,275)	-
Culture, Parks and Recreation	2,692,958	939,884	101,504	95,000	(1,556,570)	-	(1,556,570)	-
Streets	778,954	-	-	-	(778,954)	-	(778,954)	-
Cemetery	203,583	54,139	-	400	(149,044)	-	(149,044)	-
Airport (payments for Airport Auth)	75,156	-	-	3,651	(71,505)	-	(71,505)	-
Ambulance Contract	102,161	-	-	-	(102,161)	-	(102,161)	-
Economic Development/Tourism	517,547	125,726	-	-	(391,821)	-	(391,821)	-
Bond Issuance Costs	-	-	-	-	-	-	-	-
Interest on Long-term Debt	269,156	-	-	-	(269,156)	-	(269,156)	-
<i>Total Governmental Activities</i>	<u>8,099,342</u>	<u>1,310,776</u>	<u>132,270</u>	<u>99,051</u>	<u>(6,557,245)</u>	<u>-</u>	<u>(6,557,245)</u>	<u>-</u>
Business-Type Activities:								
Water	1,338,701	1,318,560	-	152,378	-	132,237	132,237	-
Sewer	524,921	476,939	-	172,505	-	124,523	124,523	-
Sanitation	1,125,029	1,460,650	-	-	-	335,621	335,621	-
Water Distribution	157,066	-	-	-	-	(157,066)	(157,066)	-
Hospital	-	-	-	-	-	-	-	-
Lake	105,065	47,591	-	-	-	(57,474)	(57,474)	-
Administration	785,117	-	-	-	-	(785,117)	(785,117)	-
<i>Total Business-Type Activities</i>	<u>4,035,899</u>	<u>3,303,740</u>	<u>-</u>	<u>324,883</u>	<u>-</u>	<u>(407,276)</u>	<u>(407,276)</u>	<u>-</u>
<i>Total Primary Government</i>	<u>12,135,241</u>	<u>4,614,516</u>	<u>132,270</u>	<u>423,934</u>	<u>(6,557,245)</u>	<u>(407,276)</u>	<u>(6,964,521)</u>	
Component Unit:								
Airport Authority	665,169	261,593	-	-	-	-	-	(403,576)
<i>Total Component Unit</i>	<u>665,169</u>	<u>261,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(403,576)</u>
General Revenues:								
Taxes:								
Sales and Use Taxes					6,127,456	-	6,127,456	-
Franchise Taxes					333,128	-	333,128	-
Hotel/Motel Taxes					278,593	-	278,593	-
E-911 Taxes					20,481	-	20,481	-
Advalorem Taxes					342,538	-	342,538	-
Intergovernmental Revenue					397,218	-	397,218	-
Investment Income					16,231	4,388	20,619	5
Miscellaneous					58,380	25,289	83,669	30,991
Payments from Primary Government					(21,600)	-	(21,600)	21,600
Payments to/for Hospital Authority					(705,063)	(255,997)	(961,060)	-
Transfers - Internal Activity					(384,243)	384,243	-	-
<i>Total General Revenues and Transfers</i>					<u>6,463,119</u>	<u>157,923</u>	<u>6,621,042</u>	<u>52,596</u>
<i>Change in Net Position</i>					(94,126)	(249,353)	(343,479)	(350,980)
<i>Net Position - Beginning</i>					17,959,896	15,048,187	33,008,083	6,301,736
<i>Net Position - Ending</i>					<u>\$ 17,865,770</u>	<u>\$ 14,798,834</u>	<u>\$ 32,664,604</u>	<u>\$ 5,950,756</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>	<u>One Cent Fund</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 774,346	\$ 2,018,601	\$ -	\$ 1,070,264	\$ 3,863,211
Restricted cash and cash equivalents	190,715	38,804	2,381,905	-	2,611,424
Receivables:					
Interest	-	217	-	-	217
Accounts	47,861	-	-	2,959	50,820
Taxes	596,254	169,540	-	30,242	796,036
Prepaid expenses	9,110	-	-	-	9,110
Inventory	-	-	-	18,556	18,556
Advance to component unit	26,500	-	-	-	26,500
<i>Total Assets</i>	<u>1,644,786</u>	<u>2,227,162</u>	<u>2,381,905</u>	<u>1,122,021</u>	<u>7,375,874</u>
Liabilities					
Accounts payable	51,808	-	-	7,267	59,075
Accrued liabilities	149,830	-	-	4,414	154,244
AT&T 911 fee advances	-	-	-	19,243	19,243
<i>Total Liabilities</i>	<u>201,638</u>	<u>-</u>	<u>-</u>	<u>30,924</u>	<u>232,562</u>
Deferred Inflow of Resources					
Grant Revenues	-	-	-	206,911	206,911
Police fines unavailable	18,348	-	-	-	18,348
<i>Total Deferred Inflow of Resources</i>	<u>18,348</u>	<u>-</u>	<u>-</u>	<u>206,911</u>	<u>225,259</u>
Fund Balances					
Nonspendable	35,610	-	-	68,556	104,166
Restricted	797,385	2,079,850	2,381,905	667,755	5,926,895
Committed	-	-	-	-	-
Assigned	38,455	-	-	147,875	186,330
Unassigned	553,350	147,312	-	-	700,662
<i>Total Fund Balances</i>	<u>1,424,800</u>	<u>2,227,162</u>	<u>2,381,905</u>	<u>884,186</u>	<u>6,918,053</u>
<i>Total Liabilities, Deferred Inflow of Resources and Fund Balances</i>	<u>\$ 1,644,786</u>	<u>\$ 2,227,162</u>	<u>\$ 2,381,905</u>	<u>\$ 1,122,021</u>	<u>\$ 7,375,874</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2017

	<u>General</u>	<u>One Cent Fund</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Non-major Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 5,180,634	\$ 1,279,951	\$ -	\$ 641,612	\$ 7,102,197
Intergovernmental	406,413	-	-	10,650	417,063
Charges for services	1,053,280	-	-	117,843	1,171,123
Fines and forfeitures	146,648	-	-	-	146,648
Licenses and permits	27,161	-	-	-	27,161
Investment income	2,300	3,860	9,239	832	16,231
Miscellaneous	152,907	-	-	118,865	271,772
<i>Total Revenues</i>	<u>6,969,343</u>	<u>1,283,811</u>	<u>9,239</u>	<u>889,802</u>	<u>9,152,195</u>
Expenditures					
Current:					
Administration	647,026	-	-	-	647,026
Police	1,281,762	-	-	8,191	1,289,953
Fire	871,441	-	-	-	871,441
Emergency 911	-	-	-	-	-
Special Ambulance Service	-	-	-	158,682	158,682
Streets	492,347	-	-	-	492,347
Shop	101,607	-	-	-	101,607
Park	146,298	-	-	-	146,298
Cemetery	177,451	-	-	-	177,451
Golf	333,661	-	-	-	333,661
Library	139,317	-	-	239,772	379,089
Senior center	79,566	-	-	-	79,566
Airport	22,656	-	-	-	22,656
Aquatic	436,543	-	-	-	436,543
Recreation	705,586	-	-	-	705,586
Animal control	126,539	-	-	-	126,539
Economic development/Tourism	-	-	-	537,064	537,064
Capital outlay	688,545	360,603	1,547,764	103,673	2,700,585
Debt service					
Principal	648,014	-	-	-	648,014
Interest	273,245	-	-	-	273,245
<i>Total Expenditures</i>	<u>7,171,604</u>	<u>360,603</u>	<u>1,547,764</u>	<u>1,047,382</u>	<u>10,127,353</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(202,261)</u>	<u>923,208</u>	<u>(1,538,525)</u>	<u>(157,580)</u>	<u>(975,158)</u>
Other Financing Sources (Uses)					
Proceeds from leases/loans	285,353	-	-	-	285,353
Transfers in	1,942,559	-	-	39,304	1,981,863
Transfers out	(2,045,066)	(944,384)	-	(96)	(2,989,546)
Payments to/for Hospital Authority	(81,563)	-	-	-	(81,563)
Transfers to component units	(21,600)	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>79,683</u>	<u>(944,384)</u>	<u>-</u>	<u>39,208</u>	<u>(825,493)</u>
Net Change in Fund Balances	(122,578)	(21,176)	(1,538,525)	(118,372)	(1,800,651)
Fund Balances - Beginning	<u>1,547,378</u>	<u>2,248,338</u>	<u>3,920,430</u>	<u>1,002,558</u>	<u>8,718,704</u>
Fund Balances - Ending	<u>\$ 1,424,800</u>	<u>\$ 2,227,162</u>	<u>\$ 2,381,905</u>	<u>\$ 884,186</u>	<u>\$ 6,918,053</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds
June 30, 2017

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$ 6,918,053
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:	20,806,673
Certain non-current assets are not available to pay current fund liabilities and, therefore, are deferred in the funds:	
Police fines receivable, net of allowance for doubtful accounts	18,348
Pension related deferred outflows	816,097
Long-term liabilities are not due and payable from current period and, therefore are not reported in the funds:	
Long term debt obligations	(8,166,473)
Accrued interest on long term debt	(51,457)
Accrued compensated absences	(243,109)
Net pension liability	(2,194,845)
Pension related deferred inflows	(37,517)
Net assets of governmental activities	\$ <u>17,865,770</u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ (1,800,651)
Amounts reported for governmental activities on the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized in governmental funds	2,841,305
Depreciation expense	(1,392,376)
Loss on disposal of asset	(27,809)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	(8,264)
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Long term debt payments	648,014
Debt acquired on capital asset transferred to general fund	(40,175)
Lease proceeds	(285,353)
Change in accrued interest	4,089
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in accrued compensated absences	(48,308)
The costs of pension benefits earned, net change in deferred inflows and deferred outflows is reported as an element of pension expenses:	
Net change in pension expenses	15,402
Change in net assets of governmental activities	\$ <u>(94,126)</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA

Statement of Net Position

Proprietary Funds

June 30, 2017

	Pauls Valley Municipal Authority	Non-Major Enterprise Fund Sanitation Capital Improvement	Total Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 301,425	\$ 22,030	\$ 323,455
Restricted cash and cash equivalents	47,023	-	47,023
Investments	107,830	-	107,830
Due from component unit - PVHA	100,000	-	100,000
Accrued interest receivable	263	-	263
Accounts receivable, net	325,905	-	325,905
Grants receivable	256,275	-	256,275
Prepaid expenses	9,110	-	9,110
<i>Total Current Assets</i>	<u>1,147,830</u>	<u>22,030</u>	<u>1,169,860</u>
Noncurrent Assets:			
Restricted investments	245,196	-	245,196
Land and construction in progress	1,491,824	-	1,491,824
Other capital assets, net of accumulated depreciation	20,733,177	-	20,733,177
<i>Total Noncurrent Assets</i>	<u>22,470,198</u>	<u>-</u>	<u>22,470,198</u>
<i>Total Assets</i>	<u>23,618,028</u>	<u>22,030</u>	<u>23,640,058</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	310,842	-	310,842
Accrued liabilities	44,946	-	44,946
Accrued interest payable	61,317	-	61,317
Due to depositors	141,333	-	141,333
Landfill closure and post closure liability	199,519	-	199,519
Capital lease obligations payable	150,168	-	150,168
Contract payable	92,325	-	92,325
Notes payable	474,000	-	474,000
Accrued compensated absences	95,432	-	95,432
<i>Total Current Liabilities</i>	<u>1,569,883</u>	<u>-</u>	<u>1,569,883</u>
Noncurrent Liabilities:			
Capital lease obligations payable	502,553	-	502,553
Contract payable	181,123	-	181,123
Notes payable	6,587,665	-	6,587,665
<i>Total Noncurrent Liabilities</i>	<u>7,271,341</u>	<u>-</u>	<u>7,271,341</u>
<i>Total Liabilities</i>	<u>8,841,223</u>	<u>-</u>	<u>8,841,223</u>
<u>Net Position</u>			
Invested in capital assets, net of related debt	14,510,615	-	14,510,615
Restricted	-	-	-
Unrestricted	266,189	22,030	288,219
<i>Total Net Position</i>	<u>\$ 14,776,804</u>	<u>\$ 22,030</u>	<u>\$ 14,798,834</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ending June 30, 2017

	Pauls Valley Municipal Authority	Non-Major Enterprise Fund Sanitation Capital Improvement	Total Proprietary Funds
Operating Revenues			
Charges for Services:			
Water revenue	\$ 1,297,357	\$ -	\$ 1,297,357
Sewer revenue	469,270	-	469,270
Sanitation revenue	1,429,457	7,832	1,437,289
Penalties	52,234	-	52,234
Lake revenue	47,591	-	47,591
<i>Total Operating Revenues</i>	<u>3,295,908</u>	<u>7,832</u>	<u>3,303,740</u>
Operating Expenses			
Water operations	575,579	-	575,579
Sewer operations	357,364	-	357,364
Sanitation operations	950,061	-	950,061
Administration	732,048	-	732,048
Water Distribution	157,065	-	157,065
Lake operations	85,850	-	85,850
Depreciation expense	989,657	-	989,657
<i>Total Operating Expenses</i>	<u>3,847,626</u>	<u>-</u>	<u>3,847,626</u>
 <i>Operating Income (Loss)</i>	 <u>(551,717)</u>	 <u>7,832</u>	 <u>(543,885)</u>
Nonoperating Revenues (Expenses)			
Investment income	4,378	11	4,389
Interest expense and fiscal charges	(188,273)	-	(188,273)
Bond Closing Costs	(49,250)	-	(49,250)
Grants	324,883	-	324,883
Payments to/for Hospital Authority	(255,997)	-	(255,997)
Miscellaneous revenue	74,539	-	74,539
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(89,721)</u>	<u>11</u>	<u>(89,710)</u>
 Net Income (Loss) Before Contributions and Transfers	 (641,438)	 7,843	 (633,595)
Capital contributions	-	-	-
Contribution expense	60		60
Transfers in	1,382,262	-	1,382,262
Transfers out	(998,079)	-	(998,079)
 <i>Change in Net Position</i>	 (257,195)	 7,843	 (249,352)
 <i>Net Position - Beginning</i>	 <u>15,034,000</u>	 <u>14,187</u>	 <u>15,048,187</u>
 <i>Net Position - Ending</i>	 <u>\$ 14,776,804</u>	 <u>\$ 22,030</u>	 <u>\$ 14,798,834</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA
Statement of Cash Flows
Proprietary Funds
For the Year Ending June 30, 2017

	Pauls Valley Municipal Authority	Non-Major Enterprise Fund Sanitation Capital Improvement	Total Proprietary Funds
Cash Flows From Operating Activities			
Receipts from customers	\$ 3,161,957	\$ 7,832	\$ 3,169,789
Payments to suppliers	(1,477,640)	-	(1,477,640)
Payments for employees	(1,293,503)	-	(1,293,503)
Other receipts (payments)	3,233	-	3,233
<i>Net Cash Provided by Operating Activities</i>	<u>394,047</u>	<u>7,832</u>	<u>401,879</u>
Cash Flows From Noncapital Financing Activities			
Miscellaneous revenues	74,689	-	74,689
Hospital Subsidy	(255,997)	-	(255,997)
Due from other funds	(100,000)	-	(100,000)
Transfers from other funds	1,342,087	-	1,342,087
Transfers to other funds	(957,905)	-	(957,905)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>102,874</u>	<u>-</u>	<u>102,874</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from grants	-	-	-
Purchase of capital assets	(1,346,947)	-	(1,346,947)
Proceeds from issuances	871,665	-	871,665
Proceeds from debt	510,038	-	510,038
Principal paid on long-term debt	(496,032)	-	(496,032)
Interest & fiscal charges paid on long-term debt	(212,760)	-	(212,760)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(674,036)</u>	<u>-</u>	<u>(674,036)</u>
Cash Flows From Investing Activities			
Interest received	4,872	11	4,883
Collection on notes and other receivables	-	-	-
Decrease (increase) in investments	364,678	-	364,678
<i>Net Cash Provided by Investing Activities</i>	<u>369,550</u>	<u>11</u>	<u>369,561</u>
<i>Net Increase in Cash and Cash Equivalents</i>	192,435	7,843	200,278
<i>Balance - Beginning of the Year</i>	<u>156,013</u>	<u>14,187</u>	<u>170,200</u>
<i>Balance - End of the Year</i>	<u>348,448</u>	<u>22,030</u>	<u>370,478</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	301,425	22,030	323,455
Restricted cash and cash equivalents	<u>47,023</u>	<u>-</u>	<u>47,023</u>
<i>Total cash and cash equivalents</i>	<u>348,448</u>	<u>22,030</u>	<u>370,478</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(551,717)	7,832	(543,885)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	989,657	-	989,657
Changes in assets and liabilities:			
Receivables	(25,084)	-	(25,084)
Prepaid expenses and inventory	23,751	-	23,751
Accounts payable and accrued expenses	63,074	-	63,074
Due to depositors	3,233	-	3,233
Contract Payable	(108,867)	-	(108,867)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 394,047</u>	<u>\$ 7,832</u>	<u>\$ 401,879</u>

See accompanying notes to basic financial statements

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Note 1 - Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The City of Pauls Valley's (the City) financial reporting entity includes the primary government (City of Pauls Valley), its blended and discretely presented component units.

The City of Pauls Valley – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of Pauls Valley is an incorporated municipality with a population of approximately 6,150 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

Blended Component Unit:

Pauls Valley Municipal Authority – that operates the water, wastewater, and sewer activities of the City (PVMA).

Pauls Valley 522 District - it is authorized to assess three mills of ad valorem tax to be used to provide ambulance service to the City of Pauls Valley. The District contracts with the Pauls Valley Hospital Authority to provide this service. The Special Ambulance Fund reports the District's activities.

Omitted Blended Component Unit:

Pauls Valley Hospital Authority – that operates the City hospital activities (PVHA).

Discretely Presented Component Units:

Pauls Valley Airport Authority – that operates the City airport activities (PVAA).

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

The PVMA, the EMS 522 District and the PVHA are required to be included as blended component units due to the financial control and shared board members with the City of Pauls Valley.

The PVAA has a separate board that manages the airport operations. However, due to the relationship described above it is discretely presented.

The Hospital audited financial statements were not available. Therefore, they are not included in the financial statements.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Inactive Component Unit:

Pauls Valley Urban Renewal Authority – that operated to identify dilapidated and/or abandoned structures and encourage the owners to rehabilitate the structures or purchase the structures using imminent domain. The Urban and Renewal Authority is financially inactive.

1.B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, fees, licenses and permits, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements - Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1.C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various fund statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

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

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

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

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

The City reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes the Rose Garden Fund, Wacker Park Fund, and Beautification Fund.
- One Cent Fund – account for one cent sales tax that is 50% for street replacement, 25% for parks and 25% for general government.

Capital Projects Fund:

- Capital Improvement Fund – accounts for capital projects revenues, financing and capital expenditures

Aggregated Non-Major Governmental Funds:

Special Revenue Funds:

- Police Special Fund – accounts for a portion of court fine revenue and miscellaneous donations to be expended for police related expenditures.
- Cemetery Beautification Fund – accounts for miscellaneous donations and monument setting fees to be expended for the beautification of cemeteries.
- Senior Citizens Fund – accounts for revenues, grants and expenditures of the senior citizens' program.
- 911 Account Fund – accounts for E-911 revenues legally restricted for E-911 services.
- Marianne Ewert Bequest Fund – accounts for the permanently restricted endowment fund and the investment income restricted for park improvements.
- Nora Sparks Warren Library Trust Fund – accounts for investment income and donations for library expenditures.
- Tourism/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for the promotion of tourism.
- Special Ambulance Fund – accounts for the 522 District's property taxes collected for the purpose of operating an ambulance service. The service is contracted for through the hospital.

Capital Projects Funds:

- PV Airport Projects Fund – accounts for grant revenues and expenditures related to airport improvement projects.
- TIF Fund – accounts for revenues of ad valorem tax increments generated in the increment district boundaries to be expended for expenses of the Pauls Valley Economic Development Project Plan.
- Cemetery Care Fund – accounts for 25% of all cemetery revenues of which 12.5% is legally restricted for cemetery capital improvements.

Proprietary Funds

Major Enterprise Fund:

- Pauls Valley Municipal Authority – operates the water, sewer, and sanitation services of the City (blended component unit).

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Non-Major Enterprise Fund:

- Sanitation Capital Improvement Fund – accounts for a \$.25 fee assessed and collected from sanitation customers to be expended on capital improvements of the City's sanitation service.

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

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

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

1.D. Assets, Liabilities and Fund Equity

Cash and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component units, are reported at fair market value.

Inventories – The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase. The Mercantile reported in the Tourism Fund, opened during the current fiscal year, has goods for sale inventory that is recorded at cost using the first-in/first-out method. The Pauls Valley Airport Authority has fuel inventory that is recorded at cost using the first-in/first-out method.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These costs are allocated to expense as used or consumed or with the passage of the applicable time period.

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

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenue such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Billed and unbilled utility accounts receivable comprise the majority of the receivables. All such receivables are shown net of an allowance for uncollectible accounts.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits, debt service and construction proceeds.

Capital Assets - The accounting for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide statements, capital assets are accounted for as capital assets. Capital assets consist of land, intangible, construction in progress, building, improvements, machinery and equipment, and infrastructure. Recorded assets are reported at actual or estimated historical cost. A capitalization threshold of \$3,500 is used to report capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Prior to July 1, 2001, governmental activities' infrastructure assets were not capitalized. These assets have not been valued or recorded as capital assets. Only infrastructure additions subsequent to July 1, 2001, have been included in the balances of capital assets.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The depreciable capital assets of the primary government and the Pauls Valley Airport Authority are depreciated on a straight-line basis over useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 50 years
- Improvements other than buildings 20-30 years
- Machinery, furniture and equipment 5-24 years
- Utility property and improvements 15-50 years
- General Infrastructure 15-50 years

In the fund financial statements, capital assets used in the governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the governmental-wide statements.

Capital lease acquired assets are depreciated in the same manner as other capital assets.

Due to Depositors - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time in varying amounts according to policies and contracts. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

Governmental funds report only the matured compensated absences payable to currently terminating employees.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the governmental funds long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Deferred Outflow/Inflow of Resources – In addition to assets and liabilities, the statement of net position reports a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition on net position that applies to a future period which will not be recognized as an inflow of resources until that time.

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net position and 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 attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted* – Consists of net assets 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* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 assets are available.

In the governmental fund financial statements fund equity is classified as fund balance. The fund balance is further classified as follows:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws and 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, (i.e. 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.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

- 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 that the order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Negative amounts shall not be reported for restricted, committed, or assigned funds.

1.E. Sales Tax Revenue

Sales Tax - The City presently levies a four and one half-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. By enabling legislation 3.25% is available for general government, .50% is restricted for street replacement and maintenance, .25% is restricted for park and recreation facilities and programs and .50% is for the hospital. Three and one-half cents is recorded in the General Fund and the remaining one-cent is recorded in the One Cent Sales Tax Fund. The restricted portion of the sales tax is tracked through the One Cent Sales Tax Fund and the half cent is transferred to the PVHA for debt service. The City is also required by contract to transfer one cent of its General Fund three-cent sales tax to the PVMA for debt retirement of the 2016 OWRB note and a lease-purchase agreement with Pauls Valley National Bank.

1.F. Tax Incremental Financing (TIF)

TIF is a method of obtaining financing using future gains in taxes to finance current improvements which will create the conditions for those gains. When a public project is carried out, the increase in the value of surrounding real estate, and perhaps new investment, generates increased property tax revenues dedicated to finance debt issued to pay for the project. The City uses TIF to stimulate economic development. The TIF Fund is used to account for the ad valorem tax received from Garvin County for payment of project costs until the expiration of the TIF district on December 31, 2022.

1.G. Use of Estimates

In preparing the City of Pauls Valley's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.H. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering good and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures and expenses in the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character: Current (further classified by function), debt service and capital outlay.

Proprietary Fund – By operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

1.I. 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.

1.J. Property Tax Revenue

Property Tax - Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters. At present time the City levies no property tax to fund annual debt service requirements. However, Pauls Valley has organized an EMS District and it levies 3.00 mills for property taxes to fund the annual operations.

The property tax levy request is submitted to the county excise board for approval. The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1; the county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

Note 2 – Detailed Notes on all Funds

2.A. Deposits and Investments Risk

At June 30, 2017, the primary government reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Credit Rating</u>	<u>Carrying Value</u> <u>Primary Government</u>	<u>Carrying Value</u> <u>Component Unit</u>
Deposits:			
Demand deposits		\$ 3,808,692	\$166,543
Time deposits		567,589	-
Money market mutual funds:			
Caval Hill U.S. Treasury	AAA-m	210,436	-
First United Money Market Funds		2,611,423	-
Total Deposits		<u>\$ 7,198,139</u>	<u>\$ 166,543</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents		6,845,113	\$ 166,543
Investments		353,026	-
Total Cash and Investments		<u>\$ 7,198,139</u>	<u>\$ 166,543</u>

Custodial Credit Risk - Deposits – Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does have a written deposit policy for custodial credit risk that requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2017 The City of Pauls Valley accounts were fully collateralized.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Investment Credit Risk – The City does have a written investment policy that limits its investment choices according to the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest 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 deposits 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. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Investment Interest Rate Risk – The City does have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase. All certificates of deposit have maturities of one year or less.

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

2.B. Restricted Assets

Amounts reported as restricted assets in the proprietary fund Statement of Net Position and the governmental funds Balance Sheet are comprised of amounts due to depositors related to utility deposits and debt and construction funds related to bonds. The restricted assets as of June 30, 2017 were as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
FUB - Debt and Construction -Gov. Funds	\$ 2,611,424	\$ -
BOK – Debt and Construction – Proprietary	-	210,436
Utility Deposits-Proprietary	<u>47,023</u>	<u>34,760</u>
Total Restricted Assets	<u>\$ 2,658,447</u>	<u>\$ 245,196</u>

2.C. Receivables

Accounts receivable consist of customer utilities services provided, both billed and unbilled, due at year-end, reported net of allowance for uncollectible amounts, in the enterprise fund and taxes and police fines in the governmental funds. Interest receivable on investments is also recorded. Receivables as of June 30, 2017, including the applicable allowances for uncollectible accounts are as follows:

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements For the Year Ended June 30, 2017

	Governmental	Business-Type		Presented CU
<u>Receivables:</u>	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>PVAA</u>
Interest	\$ 217	\$ 263	\$ 480	\$ -
Police Fines	408,825	-	408,825	-
Grants	-	256,275		
Accounts	15,040	294,964	310,004	16,987
Unbilled Accounts	-	46,672	46,672	
Taxes	796,036	-	796,036	
Gross Receivables	1,220,118	598,174	1,818,292	16,987
Less: Allowance for Uncollectibles	(373,045)	(15,731)	(388,776)	(1,208)
Net Total Receivables	\$ 847,073	\$ 582,443	\$ 1,429,516	\$ 15,779

2.D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

<u>Primary Government</u>	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/17</u>
Government Activities:				
Capital assets, not being depreciated:				
Intangibles	\$ 50,000			\$ 50,000
Land	721,981			721,981
Construction in Progress	1,422,742	1,952,145	(1,679,272)	1,695,615
Total capital assets, not being depreciated	2,194,723	1,952,145	(1,679,272)	2,467,596
Capital assets, being depreciated:				
Buildings	17,060,823			17,060,823
Improvements	4,943,415	93,542		5,036,957
Machinery, furniture and equipment	5,717,722	703,003	(274,876)	6,145,849
Infrastructure	1,130,017	1,731,773		2,861,790
Total capital assets, being depreciated	28,851,977	2,528,318	(274,876)	31,105,419
Less accumulated depreciation for:				
Buildings	4,194,423	712,764		4,907,187
Improvements	2,519,276	305,135		2,824,411
Machinery, furniture and equipment	4,828,161	347,921	(287,181)	4,888,901
Infrastructure	119,287	26,556		145,843
Total accumulated depreciation	11,661,147	1,392,376	(287,181)	12,766,342
Total capital assets, being depreciated, net	17,190,830	1,135,942	12,305	18,339,077
Governmental activities capital assets, net	\$ 19,385,553	\$ 3,088,087	\$ (1,666,967)	\$ 20,806,673

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

<u>Business-Type Activities</u>	<u>Balance 06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/17</u>
Capital assets, not being depreciated:				
Land	\$ 344,526	\$ 822,415	\$ -	\$ 1,166,941
Construction in Progress	-	324,883	-	324,883
Total capital assets, not being depreciated	<u>344,526</u>	<u>1,147,298</u>	<u>-</u>	<u>1,491,824</u>
Capital assets, being depreciated:				
Buildings	285,516	-		285,516
Improvements	14,261,976			14,261,976
Machinery, furniture and equipment	3,150,016	524,532	(215,661)	3,458,887
Utility property	34,316,449	10,628		34,327,077
Total capital assets, being depreciated	<u>52,013,957</u>	<u>535,160</u>	<u>(215,661)</u>	<u>52,333,456</u>
Less accumulated depreciation for:				
Buildings	153,395	10,656		164,051
Improvements	3,000,292	292,936		3,293,228
Machinery, furniture and equipment	2,559,415	220,159	(175,396)	2,604,178
Utility Property	25,072,916	465,907		25,538,823
Total accumulated depreciation	<u>30,786,018</u>	<u>989,658</u>	<u>(175,396)</u>	<u>31,600,280</u>
Total capital assets, being depreciated, net	<u>21,227,939</u>	<u>(454,498)</u>	<u>(40,265)</u>	<u>20,733,176</u>
Business-type activities capital assets, net	<u>\$ 21,572,465</u>	<u>\$ 692,800</u>	<u>\$ (40,265)</u>	<u>\$ 22,225,000</u>

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Discretely Presented Component Unit

	<u>06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/17</u>
Pauls Valley Airport Authority:				
Capital assets, not being depreciated:				
Land	\$ 94,942	\$ -	\$ -	\$ 94,942
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>94,942</u>	<u>-</u>	<u>-</u>	<u>\$ 94,942</u>
Capital assets, being depreciated:				
Buildings	668,326	77,459		745,785
Improvements	5,355,454	21,555		5,377,009
Machinery, furniture and equipment	362,458			362,458
Infrastructure	<u>3,213,021</u>			<u>3,213,021</u>
Total capital assets, being depreciated	<u>9,599,259</u>	<u>99,014</u>	<u>-</u>	<u>9,698,273</u>
Less accumulated depreciation for:				
Buildings	475,889	50,110		525,999
Improvements	2,780,456	189,439		2,969,895
Machinery, furniture and equipment	272,786	23,421		296,207
Infrastructure	<u>58,464</u>	<u>165,398</u>		<u>223,862</u>
Total accumulated depreciation	<u>3,587,595</u>	<u>428,368</u>	<u>-</u>	<u>4,015,963</u>
Total capital assets, being depreciated, net	<u>6,011,664</u>	<u>(329,354)</u>	<u>-</u>	<u>5,682,310</u>
Governmental activities capital assets, net	<u>\$ 6,106,606</u>	<u>\$ (329,354)</u>	<u>\$ -</u>	<u>\$ 5,777,252</u>

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

Governmental Activities:

General Government	\$ 131,912
Public Safety	218,418
Culture, Parks and Recreation	781,151
Streets	236,725
Cemetery	<u>24,170</u>

Total depreciation expense - governmental activities \$1,392,376

Business-Type Activities:

Water	\$ 598,463
Sewer	167,258
Sanitation	158,132
Administration	18,970
Lake	<u>46,834</u>

Total depreciation expense - business-type activities \$ 989,657

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

2.E. Long-Term Debt

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance <u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/17</u>	Due Within <u>One Year</u>
Governmental Activities:					
Capital Lease Obligations	\$ 534,232	\$ 325,528	\$ 214,019	\$ 645,741	125,243
Note Payable	7,954,727	-	433,996	7,520,731	444,320
Compensated Absences	<u>196,666</u>	<u>46,443</u>	<u>-</u>	<u>243,109</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 8,685,625</u>	<u>\$ 371,971</u>	<u>\$ 648,015</u>	<u>\$ 8,409,581</u>	<u>\$ 569,563</u>
Business-Type Activities PVMA:					
Capital Lease Obligations	\$ 338,890	\$ 469,863	\$ 156,032	\$ 652,721	\$ 150,168
Notes Payable	6,530,000	871,665	340,000	7,061,665	474,000
Contract Payable	362,000	-	88,552	273,448	92,325
Compensated Absences	<u>89,645</u>	<u>5,787</u>	<u>-</u>	<u>95,432</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 7,320,535</u>	<u>\$ 1,347,315</u>	<u>\$ 584,584</u>	<u>\$ 8,083,266</u>	<u>\$ 716,493</u>

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2017, the long-term debt payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$365,155 lease obligation with PNC Equipment Finance for a 2016 Pierce Pumper Truck payable in annual installments of \$58,985.78, final payment due December 8, 2022 with interest at 3.11%. 317,745

\$111,174 lease obligation with NEC for phone equipment payable in monthly installments of \$2,227.69 final payment due February 2021 with interest at 6.6%. The use and lease is shared with FVMA. 86,859

\$285,353 lease obligation with First United Bank for a fleet of vehicles payable in monthly installments of \$5,195.31, final payment due August, 2021 with interest at 3.50% . The use and lease is shared with FVMA. 241,137

Total Capital Lease Obligations \$ 645,741

Current portion 125,243

Non-current portion 520,498

Total Capital Lease Obligations \$ 645,741

Notes Payable:

\$3,200,000 notes payable to First United Bank, payable in monthly installments, final payment due October 2032 with interest at 3.85% (Pool Construction) 2,660,732

\$5,470,000 notes payable to Branch Banking & Trust Co., secured by pledged sales tax, payable in semi-annual installments, final payment due March 2030 with interest at 2.67% (Street Improvements) 4,860,000

Total Notes Payable \$ 7,520,732

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

Current portion	444,320
Non-current portion	<u>7,076,412</u>
Total Notes Payable	<u>\$ 7,520,732</u>

Business-Type Activities – As of June 30, 2017, long-term debt payable from proprietary fund resources consisted of the following:

PVMA Long-term Debt:

Capital Lease Obligations:

\$33,509 lease obligation with Caterpillar Financial for a Caterpillar Mini Excavator, payable in monthly installments of \$977, final payment due October 2017 with interest at 3.20%	2,922
\$193,494 lease obligation with Caterpillar Financial for a Caterpillar 930K, payable in monthly installments of \$2,745, final payment due May 2020 with interest at 2.65%	131,726
\$87,357 lease obligation with Caterpillar Financial for a Caterpillar 2016 Track Type Tractor, payable in monthly installments of \$1,341.48, final payment due March 2019 with interest at 2.95%.	70,242
\$30,825 lease obligation with NEC for phone equipment payable in monthly installments of \$556.93 final payment due February 2021 with interest at 6.6%. The use and lease is shared with FVMA.	21,715
\$162,699 lease obligation with First United Bank for a trash truck payable in annual installments of \$36,444.00, final payment due September, 2020 with interest at 3.9%.	132,600
\$347,339 lease obligation with First United Bank for a fleet of vehicles payable in monthly installments of \$6,324.23, final payment due August, 2021 with interest at 3.50% . The use and lease is shared with FVMA.	<u>293,516</u>
Total Capital Lease Obligations	<u>\$ 652,721</u>

Current portion	150,168
Non-current portion	<u>502,553</u>
Total Capital Lease Obligations	<u>\$ 652,721</u>

Notes Payable:

\$5,420,000 Pauls Valley Municipal Authority System and Sales Tax Revenue Note, Series 2016A, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2028 with interest at 2.5%.	5,140,000
\$1,110,000 Pauls Valley Municipal Authority System and Sales Tax Revenue Note, Series 2016B, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2028 with interest at 4.2%.	1,055,000

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

\$871,665 Pauls Valley Municipal Authority System and Sales Tax Revenue Note, Series 2016C, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due March, 2029 with interest at 1.99%.

866,665

Total Notes Payable

\$ 7,061,665

Current portion

474,000

Non-current portion

6,587,665

Total Notes Payable

\$ 7,061,665

Contract Payable:

\$1,491,248 face amount, noninterest bearing contract payable to Garvin County RWD#4 for certain water infrastructure, payable monthly as a reduction of the sellers account receivable utility account, final payment due March 2021 with imputed interest at 4.18%, (less unamortized discount based on imputed interest rate - \$30,547), See also contingent liability note.

\$ 273,448

Current portion

92,325

Non-current portion

181,123

Total Contract Payable

\$ 273,448

The capital assets acquired through capital leases are as follows:

Date	Capital Asset	Amount	Accumulated Depreciation
Machinery and Equipment:			
11/15/2015	Phone System	\$ 111,115	\$ 15,502
10/25/2016	2016 Pierce Pumper	371,225	49,497
8/19/2016	2016 Chevy 1500	29,870	4,978
8/19/2016	2016 Chevy 1500	19,970	3,328
8/19/2016	2016 Chevy 1500	19,970	3,328
8/19/2016	2016 Chevy 3500	34,161	5,693
8/19/2016	2016 Chevy 1500	27,388	4,565
8/19/2016	2016 Chevy 2500	27,132	4,522
8/19/2016	2016 Chevy 3500	44,724	7,454
8/19/2016	2016 Chevy 2500	29,839	4,973
8/19/2016	2016 Chevy 2500	27,132	4,522
8/19/2016	2016 Chevy 2500	27,132	4,522
10/14/2014	Mini Excavator	33,509	17,871
5/12/2015	Wheel Loader	141,020,	58,758
11/15/15	Phone System	30,885	6,982
2/29/16	Track/Loader Tractor	117,653	31,374
8/19/2016	2016 Chevy 2500	29,710	4,952
8/19/2016	2016 Chevy 3500	42,147	7,025
8/19/2016	2016 Chevy 3500	44,724	7,454
8/19/2016	2016 Chevy 3500	43,556	7,259
8/19/2016	2016 Chevy 3500	38,928	6,488
8/19/2016	2016 Chevy 1500	21,940	3,657
8/19/2016	2016 Chevy 3500	43,556	7,259
8/19/2016	2016 Chevy 2500	29,609	4,935

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

8/19/2016	2016 Chevy 2500	27,132	4,522
8/19/2016	2016 Chevy 2500	30,603	5,101
9/22/2016	Internt'l Garbage Truck	<u>162,699</u>	<u>24,405</u>
		<u>\$1,607,329</u>	<u>\$ 310,925</u>

Annual debt service requirements to maturity are as follows:

Governmental Activities:

Year Ending June-30	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2018	125,243	22,828	444,320	229,263
2019	130,228	17,834	459,459	215,647
2020	135,433	11,978	474,554	201,808
2021	131,903	7,248	490,348	187,002
2022	65,761	3,615	506,125	171,947
2023-2027	57,173	1,812	2,760,426	617,620
2028-2032	-	-	2,308,448	181,214
2033-2035	-	-	77,050	633
	<u>\$ 645,741</u>	<u>\$ 65,315</u>	<u>\$7,520,732</u>	<u>\$1,805,134</u>

BusinessType Activities

PVMA:

Year Ending June-30	Capital Lease Obligations		Notes Payable		Contracts Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	150,168	20,811	474,000	182,827	92,325	9,675
2019	193,851	15,260	488,000	169,720	96,259	5,741
2020	182,675	8,814	500,000	156,233	84,864	1,663
2021	113,435	3,355	515,000	142,383	-	-
2022	12,592	56	527,000	128,111	-	-
2023-2027	-	-	2,868,000	411,644	-	-
2028-2032	-	-	1,689,665	54,944	-	-
	<u>\$652,721</u>	<u>48,296</u>	<u>\$7,061,665</u>	<u>\$1,245,862</u>	<u>\$273,448</u>	<u>\$ 17,079</u>

Interest and Administration expenses were charged to functions as follows in the Statement of Activities:

Business Type Activities

Water	164,658
Sewer	299
Sanitation	16,836
Lake	245
Administration	<u>6,235</u>
	<u>188,273</u>

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Utility Revenues Pledged

The City has pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay a \$6,530,000 Utility System and Sales Tax Revenue Notes Series 2016A and 2016B and a \$875,000 Series 2016C Clean Water Promissory Note. Proceeds from debt were used to refinance promissory note to OWRB-Series 2008 DWSRF Bond and to finance the acquisition of land. The notes are payable from water, sewer, and sanitation customer net revenues and future sales tax revenue (discussed below) and are payable through 2030, respectively. The total principal and interest payable for the remainder of the life of the notes are \$8,307,527. Total customer net revenues for the current year were \$3,248,317. The required debt service payments on the OWRB-Series 2016 were \$477,978 for the current fiscal year and were 14.71% of the net water, sewer and sanitation utility revenues.

Sales Tax Revenues Pledged

The City had pledged one half of one cent sales tax revenues to repay \$10.325 million in a promissory note to OWRB issued January 2008. Proceeds from the note provided financing for water system improvements. This note was refinanced in June, 2016 with Series 2016A, 2016B and 2016C for \$7,405,000. The note is payable from future sales tax revenue and net utility revenue (discussed above). The total principal and interest remaining to be paid on the note is \$8,307,527, payable through March 2030. Pledged sales tax received in the current year was \$646,131. Debt Service payments of \$477,978 for the current fiscal year were 74% of pledged sales taxes.

The City has pledged one half of one cent sales tax to repay the \$5.47 million Sales Tax Revenue Note Series 2015 for street improvements. The principal and interest on this note through March, 2030 is \$5,784,821. Pledged sales tax received in the current year was \$639,975. Debt Service payments of \$445,970 for the current fiscal year were 70% of pledged sales taxes.

The City has pledged one quarter of one cent sales tax to repay \$3.2 million Sales Tax Revenue Note Series 2012 restricted for parks and recreation. The principal and interest on this note through October 2032 is \$3,541,045. Pledged sales tax received in the current year was \$319,988. Debt Service payments of \$230,891 for the current fiscal year were 72% of pledged sales taxes

Debt Service Coverage Requirement

The OWRB debt agreements require that Net Revenue Available for Debt Service must equal 125% of maximum annual debt service. Actual coverage was as follows:

	<u>OWRB Series 2016</u>
Net Revenue Available for Debt Service:	
Operating Revenues	\$ 3,295,908
Miscellaneous Revenue	74,539
Less Lake Revenue	(47,591)
Total Operating Revenue	3,322,856
Operating Expenses	3,847,626
Less Lake Expenses	(85,850)
Less Lake Administration Expenses	(10,570)
Less Depreciation/Amortization	(989,657)
Total Operating Expenses	2,761,549
1/2 Sales Tax Transfer (Sr. 2008)	646,131
Net Revenues Available for Debt Service	<u>\$ 1,207,438</u>

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Debt Service Requirements:

Annual debt service payments - OWRB 2016	477,978
Total Debt Service Requirement	<u>477,978</u>
Coverage	<u>253%</u>
Coverage Requirement	<u>125%</u>

2.F. Landfill Closure and Post Closure Requirements

A \$199,519 accrued liability has been recognized in Pauls Valley Municipal Authority to represent the total estimated amount owed by the Authority for closure and post closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 27.50% of the estimated capacity of the landfill. It is estimated that an additional \$725,398 will be recognized as closure and post closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in April 2087. The estimated remaining landfill life is 71 years. Currently, the City is in compliance with DEQ assurances.

2.G. Interfund Receivables, Payables, and Transfers

The City's policy is to eliminate interfund receivables and payables between funds in the Statement of Net Position to avoid the grossing up of balances. Only the residual balances due between governmental and business-type activities are reported as internal balances and then offset in the total column. The City does not eliminate receivables and payables between component units.

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
PVHA	PVMA	\$100,000	Debt payment
Total		<u>\$100,000</u>	

Transfers between funds and legal entities are comprised of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
One Cent Sales Tax Fund	General Fund	\$ 208,482	Operating subsidy
One Cent Sales Tax Fund	General Fund	655,898	Debt Activity
One Cent Sales Tax Fund	General Fund	80,004	Per grant agreement
General Fund	Police Special Fund	4,560	To fund capital purchases
General Fund	PVMA	1,292,262	Sales tax transfer
General Fund	PVMA	90,000	To fund capital purchases
General Fund	911 Account Fund	34,744	Operating subsidy
PVMA	General Fund	851,756	Operating subsidy
PVMA	General Fund	146,324	Debt Activity
General Fund	PVAA	21,600	Operating subsidy
PV Airport Projects Fund	PVAA	<u>1,340,548</u>	To transfer capital assets
		<u>\$4,726,178</u>	
PVMA	PVHA	255,997	Operating subsidy
General Fund	PVHA	81,563	Operating subsidy
General Fund	PVHA	<u>623,500</u>	Debt Activity
		<u>\$ 961,060</u>	

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 998,079	\$ (2,108,925)	\$ (1,110,846)
Enterprise Funds	1,422,437	(1,294,191)	128,246
Total	<u>\$ 2,420,516</u>	<u>\$ (3,403,116)</u>	<u>\$ (982,600)</u>

The remaining difference in Net Transfers is component units transfers of \$982,660 composed of \$961,060 to PVHA and \$21,600 to the PVAA. Also recorded in Enterprise Fund statements is the net transfer of capital asset value and corresponding debt – net transfer \$60.

Reconciliation to Statement of Activities – governmental and business-type activities:

Net Transfers Governmental	\$ 1,110,846
Net value of capital asset	\$ 60
Payments to Component Unit	(21,600)
Payment for the benefit of PVHA	(705,063)
Net Transfers-Enterprise Activity	<u>\$ 384,243</u>

Reconciliation to Statement of Activities – primary government and component units:

Transfers from general fund to component unit-PVAA management fee	\$ 21,600
Transfers from governmental fund to PVAA component unit Capital Outlay	961,060
Payments from primary government	<u>\$ 982,660</u>

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

2.H. Fund Equity/Net Position

Governmental Fund Balances – Fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54 is as follows:

	<u>General Fund</u>	<u>Cent Tax Fund</u>	<u>Capital Project Fund</u>	<u>Governmental Funds</u>	<u>Total</u>
<i>Fund Balance:</i>					
Nonspendable:					
Perm. Endow-Parks	-	-	-	50,000	50,000
Prepaid expenses	9,110	-	-	-	9,110
Inventory	-	-	-	18,556	18,556
Long-term receivable	26,500	-	-	-	26,500
Restricted for:					
Cemetery	-	-	-	23,195	23,195
Senior Citizens	-	-	-	176	176
Ambulance	-	-	-	371	371
Library	-	-	-	46,564	46,564
TIF District	-	-	-	228,361	228,361
Debt service		38,804	-	-	38,804
Parks and Recreation	606,670	51,875	-	-	658,545
Streets	190,715	1,989,172	2,381,905	-	4,561,792
Tourism/Econ Dev	-	-	-	366,632	366,632
Airport	-	-	-	2,456	2,456
Community Center	-	-	-	-	-
Assigned to:					
Police	-	-	-	47,779	47,779
Parks and Recreation	38,455	-	-	119	38,574
Tourism/Econ Dev	-	-	-	-	-
Library	-	-	-	58,414	58,414
911	-	-	-	2,618	2,618
Cemetery	-	-	-	38,945	38,945
Other Purposes	-	-	-	-	-
Unassigned	<u>553,350</u>	<u>147,312</u>	<u>-</u>	<u>-</u>	<u>700,662</u>
					-
Total Fund Balance	<u><u>1,424,800</u></u>	<u><u>2,227,163</u></u>	<u><u>2,381,905</u></u>	<u><u>884,186</u></u>	<u><u>6,918,054</u></u>

Note 3 - Other Notes

3.A. Risk Management

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

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Airport General Liability – Covered through purchase of commercial insurance.
- Workers' Compensation – Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

- Employee's Group Medical – Covered through purchase of commercial insurance.

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

3.B. Contingencies

Federal and State Award Programs - The City of Pauls Valley participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Litigation - The City is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an advalorem tax over a three-year period by a City Sinking Fund for the payment of any court-assessed judgement rendered against the City. This provision is not applicable to authorities or public trusts. 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.

Commitments-Construction – At June 30, 2017, the City had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Phase II – Street Project	\$1,344,318	\$ 86,473	General Fund

Contingent Liability – The City of Pauls Valley has a contract with Garvin County Rural Water District No. 4 for the purchase of certain water infrastructure. See Note 2.E. Contract Payable for consideration for sale of infrastructure. Additional consideration for industrial/commercial customers has not been determined as of June 30, 2017. This amount when determined shall be added to the contract payable and capital assets for water infrastructure.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Below is the debt incurred by the City on behalf of the hospital (hospital financial data has been excluded from these financial statements) –

	Balance <u>6/30/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/17</u>	Due Within <u>One Year</u>
Business-TypeActivities PVHA:					
Notes Payable	\$ 9,399,612	\$ -0-	\$ 532,713	\$ 8,866,899	\$ 392,704

This debt is issued in the name of the PVMA and is secured by sales tax of the City. All of these funds were used capital improvements and support for the hospital. See note below about the PVHA as a going concern. Despite the status of the hospital the City will be responsible for this debt.

\$3,150,000 notes payable to First United Bank, secured by Sales Tax revenues, payable in monthly installments, final payment due June 2033 with interest at 4.25%. 2,783,679

\$1,025,000 sales tax note payable to Pauls Valley National Bank, secured by sales tax revenues, payable in monthly installments, final payment due June 2033 with interest at 4.25%. 898,961

\$5,155,000 2014A sales tax revenue note to First United Bank, secured by sales tax revenues, payable in monthly installments, final payment due June 2034 with initial interest of 2.078% 5,151,959

\$991,000 2014B sales tax revenue note payable to First United Bank, secured by sales tax revenues, payable in monthly installments, final payment due July 2017 with initial interest of 3.45% 32,300

Total hospital notes payable \$ 8,866,899

Current Portion 392,704

Non-current portion 8,474,195

Total \$ 8,866,899

Year Ending June-30	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	392,704	370,786
2019	397,139	354,149
2020	413,256	337,170
2021	431,373	318,898
2022	449,554	300,137
2023-2027	2,547,131	1,190,681
2028-2032	3,129,601	588,076
2033-2034	1,106,141	43,151
	<u>\$8,866,899</u>	<u>\$3,503,048</u>

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Going Concern - Pauls Valley Hospital Authority – The Hospital is a component unit of the City of Pauls Valley. But as of the release of the City's audited financial statements the hospital audit had not been completed. Therefore, the City has elected to omit the financial information of the Hospital.

During the current fiscal year the PVMA and the City has supplemented the operations of the hospital through operational payments and debt payments in the amount of \$961,060. The citizens have approved additional sales tax to liquidate the hospital related debt.

As a result of sustained annual operating losses caused by declining patient service revenue and increased debt obligations, on March 1, 2013, the Hospital filed a voluntary petition for bankruptcy protection from creditors under Chapter 9 of the Federal Bankruptcy Code.

Upon filing the petition, an automatic stay commenced, that prohibited Hospital creditors from taking action against the Hospital, its property, and its officers and inhabitants if the action seeks to enforce a claim against the Hospital for pre-petition debts.

The Hospital prepared a Plan of Adjustment (the Plan) for approval by the Bankruptcy Court. The Plan was confirmed February 2, 2016 and specifies how the pre-petition debts of the Hospital will be discharged, including various unpaid amounts associated with the failure to pay certain taxes. The Plan provides that such tax obligations will be paid over five years without interest, consistent with the requirements of the Federal Bankruptcy Code. The Plan also includes provisions for settlement of secured claims, administrative claims, and unsecured claims. Per the Plan, payment for all such claims will commence in 2016.

Accounting standard for governmental entities for Chapter 9 bankruptcy require an adjustment to liabilities discharged through a confirmed Plan when all conditions existing prior to the Plan becoming binding are resolved. Any resulting gains resulting from the re-measurement of liabilities are to be recorded as extraordinary items. As a result, liabilities will be re-measured in the financial statements for the year ending June 30, 2016. The gain resulting from the re-measurement of liabilities was \$5,933,570.

The June 30, 2014 and June 30, 2015 financial statements were issued September 9, 2016 and are available at City Hall.

The Hospital has remained open since the confirming of the bankruptcy petition. However, the Hospital is facing significant financial difficulties. These difficulties raise substantial doubt about the Hospital's ability to continue to as a going concern.

Copies of the Plan and all exhibits referred to therein are on file and available for review at the Office of the Clerk of the United States Bankruptcy Court, Western District of Oklahoma. Copies of the Plan may also be found via Court's website <https://ecf.okwb.uscourts.gov/> or upon written request to counsel for Pauls Valley Hospital Authority in its Chapter 9 bankruptcy case via email at ckutmas@mmmsk.com or facsimile at (918)430-3770.

3.C. Pension Plans

The City of Pauls Valley participates in four retirement plans:

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

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Oklahoma Firefighter's Pension – Statewide Cost Sharing Plan

Plan Description – The City of Pauls Valley, as the employer, participates in the Firefighter's Pension and Retirement Plan – a statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OPFRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OPFRS. OPFRS issues a publicly available financial report can be obtained at www.ok.gov/fprs.

Summary of significant accounting policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Firefighters Pension & Retirement System (OPFRS) and additions to/deductions from OPFRS's fiduciary net position have been determined on the same basis as they are reported by OPFRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

Contributions – The contribution requirements of the plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$63,674 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to OPFRS in an amount during the calendar year and this is reported both as a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$141,812. The on-behalf payments did not meet the criteria of a special funding situation.

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,876,459 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2016. Based upon this information the City's proportion was .153592%.

For the year ended June 30, 2017, the City recognized pension expense of \$204,528. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,303	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	234,354	-
Changes in Proportion and differences between City contributions and proportionate share of contributions	74,398	-
City contributions during measurement date		1,753
City contributions subsequent to the measurement date	63,674	-
Total	\$ 422,729	\$ 1,753

The \$63,674 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ 52,888
2018	52,888
2019	112,660
2020	93,796
2021	36,424
2022	8,643
	\$ 357,301

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2016 using the following actuarial assumptions, applied to all prior periods included in the measurement:

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

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

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

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.18%
Domestic equity	47%	8.70%
International equity	15%	10.87%
Real Estate	10%	7.23%
Other assets	8%	6.24%

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset)	\$ 2,375,438	\$ 1,876,456	\$ 1,458,103

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

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

Oklahoma Policemen Pension – Statewide Cost Sharing Plan

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

Summary of significant accounting policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Police Pension & Retirement System (OPPRS) and additions to/deductions from OPPRS's fiduciary net position have been determined on the same basis as they are reported by OPPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits provided – OPPRS provides retirement, disability and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. Contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service, may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

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

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

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

Contributions – The contribution requirements of the plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$80,551. The State of Oklahoma also made on-behalf contributions to OPPRS in an amount during the calendar year and this is reported both as a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$74,668. The on-behalf payments did not meet the criteria of a special funding situation.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$318,386 for its proportionate share of the net pension liability. The net pension liability was measure as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July1, 2016. The City’s proportion of the net pension asset was based on the City’s contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2013 Based upon this information the City’s proportion was .2078998%.

For the year ended June 30, 2017, the City recognized pension expense of \$115,331. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,021	\$ 35,764
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	305,915	-
Changes in Proportion and differences between City contributions and proportionate share of contributions	5,881	-
City contributions during measurement date	-	-
City contributions subsequent to the measurement date	<u>80,551</u>	<u>-</u>
Total	\$ <u><u>393,368</u></u>	\$ <u><u>35,764</u></u>

The \$80,551 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	\$ 45,638
2018	45,638
2019	108,253
2020	76,673
2021	<u>851</u>
	\$ <u><u>277,053</u></u>

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2016 using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
	Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with generational improvement using Scale AA.
	Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	3.27%
Domestic equity	5.16%
International equity	8.61%
Real Estate	4.97%
Private Equity	8.32%
Other assets	2.42%

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

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

CITY OF PAULS VALLEY, OKLAHOMA

Notes To the Basic Financial Statements

For the Year Ended June 30, 2017

return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset)	\$ 835,341	\$ 318,386	\$ (118,104)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS.

Oklahoma Municipal Retirement Fund – Defined Contribution Plans

Municipal Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund 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 OMRF and plan assets are supervised by OMRF. The defined contribution plan is available to all full-time employees not participating in another plan. Employees are eligible to participate three months from the date of employment. Employees are required to contribute at least 1% but no more than 5% of compensation. Employer contributions shall equal 100% of the total mandatory contributions by employees. City contributions for each employee begin vesting after two years of service and are fully vested after six years. If an employee terminates before becoming fully vested, the employer's contributions are forfeited and may be used to reduce the City's current period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

Schedule of Retirement Contributions – Defined Contribution Plan

Fiscal Year	Employer Contribution	Employee Contribution
6/30/15	\$ 63,726	\$ 63,694
6/30/16	\$ 71,176	\$ 78,233
6/30/17	\$ 55,766	\$ 84,478

City Manager Retirement Plan - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The city manager is required to contribute to the Plan 3.5% of compensation. The City Council determines the City's contribution rate each year. However, the maximum contribution amount from employee and employer is limited to \$46,000. City contributions for the city manager begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

CITY OF PAULS VALLEY, OKLAHOMA
Notes To the Basic Financial Statements
For the Year Ended June 30, 2017

Schedule of Retirement Contributions – Defined Contribution Plan

<u>Fiscal Year</u>		<u>Employer Contribution</u>		<u>Employee Contribution</u>
6/30/15	\$	9,097	\$	3,781
6/30/16	\$	9,171	\$	3,812
6/30/17	\$	10,114	\$	3,994

CITY OF PAULS VALLEY, OKLAHOMA
Budgetary Comparison Schedule
General Fund
For the Year Ending June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance	\$ -	\$ 300,000	\$ 1,511,170	\$ (1,211,170)
Revenue				
Taxes	4,958,136	4,768,136	4,521,959	246,177
Intergovernmental	181,000	201,000	189,264	11,736
Charges for Services	846,500	970,500	1,067,776	(97,276)
Fines and Forfeitures	177,000	177,000	146,537	30,464
Licenses and Permits	37,000	37,000	26,086	10,914
Investment Income	2,500	2,500	2,247	253
Miscellaneous	56,000	46,000	57,124	(11,124)
Loan Proceeds	-	-	-	-
Transfers In	1,562,443	2,115,443	1,942,463	172,980
Total Revenues	<u>7,820,579</u>	<u>8,317,579</u>	<u>7,953,455</u>	<u>364,124</u>
Amounts available for appropriations	<u>7,820,579</u>	<u>8,617,579</u>	<u>9,464,625</u>	<u>(847,046)</u>
Expenses				
Transfers	1,489,879	1,499,379	1,443,166	56,213
Administration	655,587	745,587	737,843	7,744
Police	1,252,133	1,262,433	1,261,573	860
Fire	778,500	834,000	824,282	9,718
Street	1,021,879	992,788	984,069	8,719
Shop	107,910	103,810	101,427	2,383
Park	156,500	160,800	153,622	7,178
Cemetery	188,232	204,332	198,058	6,274
Golf	346,915	347,815	345,937	1,878
Library	146,430	146,430	144,351	2,079
Senior Center	65,166	77,666	77,084	582
Airport	45,830	45,830	22,656	23,174
Aquatic	742,959	672,159	665,976	6,183
Recreation	653,185	714,685	703,600	11,085
Animal Control	135,216	131,516	127,940	3,576
Total Expenses	<u>7,786,321</u>	<u>7,939,230</u>	<u>7,791,584</u>	<u>147,646</u>
Ending Budgetary Fund Balance	\$ <u>34,258</u>	\$ <u>678,349</u>	\$ <u>1,673,041</u>	\$ <u>(994,692)</u>

Reconciliation of Budget to GAAP

Loan Proceeds	285,353
Capital outlay from capital lease proceeds	(287,318)
Change in accruals	(359,732)
Fund Balance - GAAP	\$ <u>1,311,344</u>

CITY OF PAULS VALLEY, OKLAHOMA
Budgetary Comparison Schedule
One Cent Fund
For the Year Ending June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Beginning Budgetary Fund Balance	\$ -	\$ 200,000	\$ 2,248,338	\$ (2,048,338)
Revenue				
Taxes	1,369,379	1,369,379	1,292,262	77,117
Investment Income	3,500	3,500	3,860	(360)
Transfer In	-	-	-	-
Total Revenues	<u>1,372,879</u>	<u>1,372,879</u>	<u>1,296,122</u>	<u>76,757</u>
Amounts available for appropriations	<u>1,372,879</u>	<u>1,572,879</u>	<u>3,544,460</u>	<u>(1,971,581)</u>
Expenses				
Transfers out	1,111,544	1,111,544	944,384	167,160
Capital Outlay	257,835	377,835	360,603	17,232
Total Expenses	<u>1,369,379</u>	<u>1,489,379</u>	<u>1,304,987</u>	<u>184,392</u>
Ending Budgetary Fund Balance	\$ <u>3,500</u>	\$ <u>83,500</u>	\$ <u>2,239,473</u>	\$ <u>(2,155,973)</u>
Reconciliation of Budget to GAAP				
Change in Accruals			(12,311)	
Fund Balance - GAAP			<u>\$ 2,227,162</u>	

CITY OF PAULS VALLEY, OKLAHOMA
Notes to Budgetary Comparison Schedules
For the year Ended June 30, 2017

1. The City prepares its budgets for all funds on the cash basis of accounting. For budgetary purposes expenditures are recorded in the period the invoice is received and paid. All unexpended encumbrances lapse at year-end and therefore are not recorded as expenditures for budgetary purposes. The Capital Improvement Fund, even though it is considered a major fund, is a capital project fund and is not required to have a budget vs. actual presented.
2. The appropriated budget is prepared by fund, department and categories (personal services, materials and supplies, other services, capital outlay, debt service and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The city manager submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

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

	General Fund	One Cent Sales Tax Fund
Total revenue-budgetary basis	\$ 7,953,455	\$ 1,296,122
Total expense-budgetary basis	<u>(7,791,584)</u>	<u>(1,304,987)</u>
Change in fund balance-budgetary basis	161,871	(8,865)
Capital lease & outlay	(1,965)	-
Revenue Accruals	37,272	(12,311)
Expenditure Accruals	<u>(397,005)</u>	<u>-</u>
Change in fund balance-GAAP basis	\$ <u><u>(199,825)</u></u>	\$ <u><u>(21,176)</u></u>

CITY OF PAULS VALLEY, OKLAHOMA
Required Supplemental Information
On Pension Plan Funding Progress
For the year Ended June 30, 2017

Exhibit 1

Schedule of the City of Pauls Valley Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Police Pension & Retirement System
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	.2079%	.1941%	.1957%
City's proportionate share of the net pension liability (asset)	\$ 318,386	\$ 7,913	\$ (65,886)
City's covered-employee payroll	\$ 609,785	\$ 548,547	\$ 535,736
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.48%	1.44%	(12.30%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	93.50%	99.82%	101.53%

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

Notes to Schedule:

Only the last 3 fiscal years are presented because 10-year data is not yet available.

Exhibit 2

Schedule of the City Contributions
Oklahoma Police Pension & Retirement System
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 79,705	\$ 71,311	\$ 68,883
Contributions in relation to the statutorily required contribution	79,705	71,311	68,883
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 609,785	\$ 548,547	\$ 535,736
Contributions as a percentage of covered-employee payroll	13.0%	13.0%	13.0%

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

Notes to Schedule:

Only the last 3 fiscal years are presented because 10-year data is not yet available.

CITY OF PAULS VALLEY, OKLAHOMA
Required Supplemental Information
On Pension Plan Funding Progress
For the year Ended June 30, 2017

Exhibit 3

Schedule of the City of Pauls Valley Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	.15359%	.13759%	.1321%
City's proportionate share of the net pension liability (asset)	\$ 1,876,459	\$ 1,460,388	\$ 1,358,550
City's covered-employee payroll	\$ 421,485	\$ 367,786	\$ 343,153
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	445%	367%	396%
Plan fiduciary net position as a percentage of the total pension liability (asset)	64.87%	68.27%	68.12%

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

Notes to Schedule:

Only the last 3 fiscal years are presented because 10-year data is not yet available.

Exhibit 4

Schedule of the City Contributions
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 59,008	\$ 51,490	\$ 46,801
Contributions in relation to the statutorily required contribution	<u>59,008</u>	<u>51,490</u>	<u>46,801</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 421,485	\$ 367,786	\$ 343,153
Contributions as a percentage of covered-employee payroll	14.0%	14.0%	14.0%

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

Notes to Schedule:

Only the last 3 fiscal years are presented because 10-year data is not yet available.

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue								Capital Projects			Total Nonmajor
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Tourism Motel Tax	PV Special Ambulance	NSW Library Trust	PV Airport Project	TIF	Cemetery Care	Governmental Funds
Assets												
Cash and Cash Equivalents	\$ 48,201	\$ 11,844	\$ 176	\$ 20,616	\$ 50,119	346,306	\$ -	\$ 311,889	\$ 2,456	\$ 228,361	\$ 50,296	\$ 1,070,264
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables:												
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Events	-	-	-	-	-	2,959	-	-	-	-	-	2,959
Taxes	-	-	-	1,245	-	28,626	371	-	-	-	-	30,242
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	18,556	-	-	-	-	-	18,556
Due from Other Governments	-	-	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Position	48,201	11,844	176	21,861	50,119	396,447	371	311,889	2,456	228,361	50,296	1,122,021
Liabilities												
Accounts Payable	-	-	-	-	-	7,267	-	-	-	-	-	7,267
Accrued Liabilities	422	-	-	-	-	3,992	-	-	-	-	-	4,414
AT&T 911 Fee Advances	-	-	-	19,243	-	-	-	-	-	-	-	19,243
Deferred Revenue	-	-	-	-	-	-	-	206,911	-	-	-	206,911
Total Liabilities	422	-	-	19,243	-	11,259	-	206,911	-	-	-	237,835
Fund Balances												
Nonspendable	-	-	-	-	50,000	18,556	-	-	-	-	-	68,556
Restricted	-	11,018	176	-	-	366,632	371	46,564	2,456	228,361	12,177	667,755
Committed	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	47,779	826	-	2,618	119	-	-	58,414	-	-	38,119	147,875
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	47,779	11,844	176	2,618	50,119	385,188	371	104,978	2,456	228,361	50,296	884,186
Total Liabilities and Fund Balances	\$ 48,201	\$ 11,844	\$ 176	\$ 21,861	\$ 50,119	396,447	\$ 371	\$ 311,889	\$ 2,456	\$ 228,361	\$ 50,296	\$ 1,122,021

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue							Capital Projects			Total Nonmajor	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Tourism Motel Tax	NSW Library Trust	PV Special Ambulance	PV Airport Project	TIF	Cemetery Care	Governmental Funds
Revenues												
Taxes	\$ -	\$ -	\$ -	\$ 20,481	\$ -	\$ 278,593	\$ -	\$ 102,014	\$ -	\$ 240,524	\$ -	\$ 641,612
Intergovernmental	-	-	-	-	-	-	6,999	-	3,651	-	-	10,650
Charges for Services	-	-	-	-	-	111,119	-	-	-	-	6,724	117,843
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-	-	-
Investment Income	108	5	-	-	106	254	259	-	1	-	99	832
Miscellaneous	29,338	400	636	-	-	-	88,491	-	-	-	-	118,865
Total Revenues	29,446	405	636	20,481	106	389,966	95,749	102,014	3,652	240,524	6,823	889,802
Expenditures												
Current:												
Police	8,191	-	-	-	-	-	-	-	-	-	-	8,191
Emergency 911	-	-	-	-	-	-	-	-	-	-	-	-
Special Ambulance Service	-	-	-	56,521	-	-	-	102,161	-	-	-	158,682
Library	-	-	-	-	-	-	239,772	-	-	-	-	239,772
Senior Citizens	-	-	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-	-	-
Streets	-	-	-	-	-	-	-	-	-	-	-	-
Economic Development	-	-	-	-	-	537,064	-	-	-	-	-	537,064
Airport	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	19,637	-	636	-	-	-	-	-	-	82,075	1,325	103,673
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	27,828	-	636	56,521	-	537,064	239,772	102,161	-	82,075	1,325	1,047,382
Excess (Deficiency) of Revenues over Expenditures	1,618	405	-	(36,040)	106	(147,098)	(144,023)	(147)	3,652	158,449	5,498	(157,580)
Other Financing Sources												
Transfers In	4,560	-	-	34,744	-	-	-	-	-	-	-	39,304
Transfers Out	-	-	-	-	(96)	-	-	-	-	-	-	(96)
Contribution Expense	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Component Unit	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources	4,560	-	-	34,744	(96)	-	-	-	-	-	-	39,208
Net Change in Fund Balances	6,178	405	-	(1,296)	10	(147,098)	(144,023)	(147)	3,652	158,449	5,498	(118,372)
Fund Balances - Beginning	41,601	11,439	176	3,914	50,109	532,286	249,001	518	(1,196)	69,912	44,798	1,002,558
Fund Balances - Ending	\$ 47,779	\$ 11,844	\$ 176	\$ 2,618	\$ 50,119	\$ 385,188	\$ 104,978	\$ 371	\$ 2,456	\$ 228,361	\$ 50,296	\$ 884,186

CITY OF PAULS VALLEY, OKLAHOMA
Combining Balance Sheet
General Fund Accounts
For the Year Ended June 30, 2017

	General Fund Account	Rose Garden Fund Account	Wacker Park Fund Account	Beautification Fund Account	Total General Fund
Assets					
Cash and cash equivalents	\$ 660,891	\$ 4,928	\$ 107,133	\$ 1,394	\$ 774,346
Restricted cash and cash equivalents	190,715	-			190,715
Accounts receivable, net	47,861	-			47,861
Taxes receivable	596,254	-			596,254
Due from other funds	-	-			-
Prepaid expenses	9,110	-			9,110
Advance to component unit	26,500	-			26,500
<i>Total Assets</i>	<u>1,531,331</u>	<u>4,928</u>	<u>107,133</u>	<u>1,394</u>	<u>1,644,786</u>
Liabilities					
Accounts payable	51,808	-			51,808
Accrued liabilities	149,830	-			149,830
<i>Total Liabilities</i>	<u>201,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,638</u>
Deferred Inflows of Resources:					
Police fines unavailable	18,348	-			18,348
<i>Total Deferred Inflows of Revenue</i>	<u>18,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,348</u>
Fund Balances					
Nonspendable	35,610	-	-	-	35,610
Restricted	722,385	-	75,000	-	797,385
Committed	-	-	-	-	-
Assigned	-	4,928	32,133	1,394	38,455
Unassigned	553,350	-	-	-	553,350
<i>Total Fund Balances</i>	<u>1,311,345</u>	<u>4,928</u>	<u>107,133</u>	<u>1,394</u>	<u>1,424,800</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,531,331</u>	<u>\$ 4,928</u>	<u>\$ 107,133</u>	<u>\$ 1,394</u>	<u>\$ 1,644,786</u>

CITY OF PAULS VALLEY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund Accounts
For the Year Ended June 30, 2017

	General Fund Account	Rose Garden Fund Account	Wacker Park Fund Account	Beautification Fund Account	Total General Fund
Revenues					
Taxes	\$ 5,180,634	-	-	-	\$ 5,180,634
Intergovernmental	406,413	-	-	-	406,413
Charges for services	1,053,280	-	-	-	1,053,280
Fines and forfeitures	146,648	-	-	-	146,648
Licenses and permits	26,086	-	-	1,075	27,161
Investment income	2,247	2	51	-	2,300
Miscellaneous	74,599	-	77,398	910	152,907
<i>Total Revenues</i>	<u>6,889,907</u>	<u>2</u>	<u>77,449</u>	<u>1,985</u>	<u>6,969,343</u>
Expenditures					
Current:					
Administration	647,026	-	-	-	647,026
Police	1,281,762	-	-	-	1,281,762
Fire	871,441	-	-	-	871,441
Streets	492,347	-	-	-	492,347
Shop	101,607	-	-	-	101,607
Park	144,013	-	510	1,775	146,298
Cemetery	177,451	-	-	-	177,451
Golf	333,661	-	-	-	333,661
Library	139,317	-	-	-	139,317
Senior center	79,566	-	-	-	79,566
Airport	22,656	-	-	-	22,656
Aquatic	436,543	-	-	-	436,543
Recreation	705,586	-	-	-	705,586
Animal control	126,539	-	-	-	126,539
Capital outlay	688,545	-	-	-	688,545
Debt service					
Principal Payments	648,014	-	-	-	648,014
Interest Payments	273,245	-	-	-	273,245
<i>Total Expenditures</i>	<u>7,169,319</u>	<u>-</u>	<u>510</u>	<u>1,775</u>	<u>7,171,604</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>(279,412)</u>	<u>2</u>	<u>76,939</u>	<u>210</u>	<u>(202,261)</u>
Other Financing Sources (Uses)					
Transfers in	1,942,463	48	48	-	1,942,559
Transfers out	(2,045,066)	-	-	-	(2,045,066)
Capital lease/loan proceeds	285,353	-	-	-	285,353
Payments to/for Hospital Authority	(81,563)	-	-	-	(81,563)
Transfers to component units	(21,600)	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>79,587</u>	<u>48</u>	<u>48</u>	<u>-</u>	<u>79,683</u>
Net Change in Fund Balances	(199,825)	50	76,987	210	(122,578)
Fund Balances - beginning	<u>1,511,170</u>	<u>4,878</u>	<u>30,146</u>	<u>1,184</u>	<u>1,547,378</u>
Fund Balances - ending	<u>\$ 1,311,345</u>	<u>\$ 4,928</u>	<u>\$ 107,133</u>	<u>\$ 1,394</u>	<u>\$ 1,424,800</u>

CITY OF PAULS VALLEY, OKLAHOMA
Schedule of Federal and State Awards
For the Year Ending June 30, 2017

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:					
<u>Department of Libraries</u>					
ERATE	\$ 11,674	\$ -	\$ 11,674	\$ -	\$ 11,674
Department of Transportation	571,805	-	54,887	-	259,907
Total Federal Awards	\$ <u>583,479</u>	\$ <u>-</u>	\$ <u>66,561</u>	\$ <u>-</u>	\$ <u>271,581</u>
State Awards:					
Department of Transportation	\$ 142,951	\$ -	\$ 13,722	\$ -	\$ 64,977
OWRB Loan CWSRF - ORF 17 0013 CW	875,000	-	871,665	-	871,665
Okla. Aeronautics Commission PVJ-14-FSA	92,736	84,916	-	88,869	-
Oklahoma Department of Humanities	1,838	-	1,838	-	1,838
Senior Citizen CENA - 44 CENA 16	636	-	636	-	636
Dept. Libraries State Aid	13,962	5,715	8,247	5,715	8,247
Dept. of Agriculture- Fire Operations	3,817	-	3,817	-	3,817
Total State Awards	\$ <u>1,130,940</u>	\$ <u>90,631</u>	\$ <u>899,925</u>	\$ <u>94,584</u>	\$ <u>951,180</u>

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

Members of the City Council
City of Pauls Valley, Oklahoma

We have audited audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, 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 February 20, 2018. We issued an adverse opinion on the major enterprise fund, the Pauls Valley Hospital Authority, and qualified our opinions on the Business-type activity, due to the omission of the Pauls Valley Hospital Authority and the major enterprise fund, the Pauls Valley Municipal Authority due to omission of debt and related assets on an asset purchase that the valuation has not been established.

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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 17-001 and 17-002.

Compliance and Other Matters

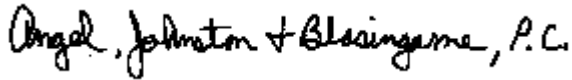
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 17-001 and 17-002.

City of Pauls Valley's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma
February 20, 2018

CITY OF PAULS VALLEY, OKLAHOMA
Schedule of Findings and Responses
Year Ended June 30, 2017

- 17-001. Criteria – Meter deposit cash and cash equivalents and investments are restricted and should be sufficient to cover meter deposits held for customers.

Condition – There is insufficient cash and investments to cover meter deposits. Meter deposits liability is \$141,241 and cash held in checking and certificates of deposit are \$83,233 leaving insufficient cash balance of \$58,008.

Cause -- On September 20, 2016 the City transferred \$100,000 to the One Cent Fund to pay hospital expenses.

Effect – There is a receivable in the Meter Deposit fund for the \$100,000. The meter deposit accounts are considered to be custodial funds held by the City on behalf of customers. To faithfully meet the City's fiscal responsibility these funds should not be borrowed from a custodial account.

Recommendation – The City should transfer enough funds to cover the meter deposit liability and in the future not use custodial funds for any other purposes.

Management response – See the City's corrective action plan E-5.

- 17-002. Criteria – Utility rate increases should agree with rates input into the computer system.

Condition – In checking water and sewer rates effective June 1, 2017 we noted that several bills were not calculated correctly.

Cause – The rates were setup incorrectly in the computer utility billing system.

Effect – Water and some sewer bills were not correctly calculated and billed starting with the June 1, 2017 usage.

Recommendation – The City should correct the rates setup in the utility billing system. In the future rate increases should be manually checked after being setup in the billing system to confirm the system's billing calculations.

Management response – See the City's corrective action plan E-5.

CITY OF PAULS VALLEY, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2017

Deficiencies of Internal Control, Compliance and Other Matters

- 16-1. Criteria – The OWRB debt requires revenue debt service coverage of 125%.
- Condition – The debt service coverage for the year is 119%.
- Disposition – This was not noted a problem during the 2016-17 fiscal year.
- 16-2. Criteria – Purchase orders are to be used to initiate the purchasing process. The purchase order should be signed by the encumbrance clerk to verify budgeted funds are available.
- Condition – In our expenditure testing, we noted five of thirty-three purchase orders/purchase requisitions tested were prepared after date of invoice.
- Disposition – This was improved in 2016-17 and so was only noted in a management letter.
- 16-3. Criteria – Monthly payments are made on various notes. Procedures need to be in place to make sure payments are for the correct amounts.
- Condition – During testing of notes it appears a note's interest was overpaid by approximately \$8,000.
- Disposition – This was not a finding during 2016-17 fiscal year.

City of Pauls Valley

Phone: (405) 238-3308 Post Office Box 778 Pauls Valley, Okla. 73075

February 1, 2018

To: Chris Angel
From: James Frizell
Re: 2017 Audit (Schedule of Findings)

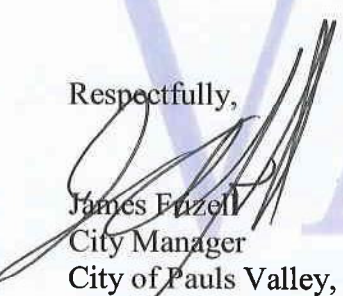
Chris,

I have read the findings and agree with those findings.

Management has taken steps and corrected the problem as listed in 17-002.

Management is taking steps to correct the condition listed in 17-001. Funds will be transferred back into the water meter funds.

Respectfully,


James Frizell
City Manager
City of Pauls Valley, Ok. 73075
(405) 238-3308