

City of Pawnee
Pawnee, Oklahoma

Audit Report
Year ended June 30, 2018

**CITY OF PAWNEE
Pawnee, Oklahoma**

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Independent Auditor's Report

The Honorable City Council
City of Pawnee
Pawnee, Oklahoma 74058

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information prepared on a modified cash basis of the City of Pawnee, State of Oklahoma, (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pawnee, State of Oklahoma, as of June 30, 2018, and the respective changes in financial position-modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Other Matters

Other Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements of individual non-major financial statements and the schedule of federal expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

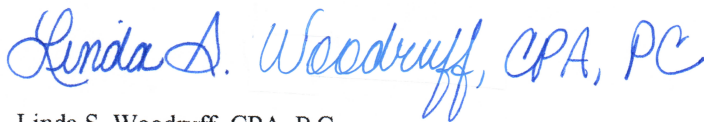
The combining of individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information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

Disclaimer of Opinion on Supplementary Information

The budgetary comparison information (pages thirty-three to thirty-five) and the notes on page thirty-six, which are the responsibility of the management, are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I do not express an opinion or provide any assurance it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 10, 2019, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and 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's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Linda S. Woodruff, CPA, P.C." The signature is written in a cursive, flowing style.

Linda S. Woodruff, CPA, P.C.

Oklahoma City, Oklahoma 73172
January 10, 2019

CITY OF PAWNEE
Pawnee, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2018

CITY OF PAWNEE
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 223,126	\$ -	\$ 223,126	\$ 17,632
Investments, at cost	60,821	228,048	288,869	-
Due to/from other funds	27,880	(27,880)	-	-
Restricted assets:				
Insurance deposit	1,578	-	1,578	-
Cash & cash equivalents (Note 3)	-	308,441	308,441	-
Capital assets:				
Land	134,000	82,611	216,611	61,124
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	2,107,374	13,131,257	15,238,631	17,085
Total assets	\$ 2,554,779	\$ 13,722,477	\$ 16,277,256	\$ 95,841
Deferred outflows of resources:				
Deferred amounts related to pensions	-	-	-	-
Total deferred outflows	-	-	-	-
Liabilities:				
Current liabilities:				
Accounts payable	\$ 13,346	\$ 81,582	\$ 94,928	\$ -
Cash overdraft	-	95,223	95,223	-
Payable from restricted assets:				
Interest payable	-	-	-	-
Capital lease payable	35,358	-	35,358	-
Notes payable (Note 3)	-	303,578	303,578	-
Revenue bonds payable (Notes 3 & 4)	-	280,000	280,000	-
Non-current liabilities:				
Net pension liability	-	-	-	-
Capital lease payable	55,345	-	55,345	-
Notes payable (Note 3)	-	7,040,437	7,040,437	-
Revenue bonds payable (Notes 3 & 4)	-	1,725,000	1,725,000	-
Total liabilities	104,049	9,525,820	9,629,869	-
Deferred inflows of resources:				
Deferred amounts related to pensions	-	-	-	-
Total deferred inflows	-	-	-	-
Net position:				
Net investment in capital assets	2,150,671	3,864,853	6,015,524	78,209
Restricted	303,132	308,441	611,573	-
Unrestricted	(3,073)	23,363	20,290	17,632
Total net position	\$ 2,450,730	\$ 4,196,657	\$ 6,647,387	\$ 95,841

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 122,581	\$ -	\$ -	\$ -	\$ (122,581)
City mayor	72,312	-	-	-	(72,312)
City treasurer	-	-	-	-	-
General government	59,414	8,378	-	-	(51,036)
Total general government	254,307	8,378	-	-	(245,929)
Public safety and judiciary:					
Animal control	49,408	-	-	-	(49,408)
Code enforcement	1,800	-	-	-	(1,800)
911 fund	41,649	82,871	-	-	41,222
City attorney	14,136	-	-	-	(14,136)
Fire and ambulance	367,244	418,991	40,043	-	91,790
Municipal court	7,761	13,600	-	-	5,839
Police	306,939	-	-	-	(306,939)
Total public safety and judiciary	788,937	515,462	40,043	-	(233,432)
Transportation:					
Streets	120,098	-	-	22,589	(97,509)
Total transportation	120,098	-	-	22,589	(97,509)
Cultural, parks and recreation:					
Cemetery	36,509	26,445	3,125	-	(6,939)
Lake	-	33,590	-	-	33,590
Library	66,309	-	-	-	(66,309)
Buffalo Theatre	-	-	-	-	-
Parks & bath house	103,902	6,596	-	-	(97,306)
Total cultural, parks and recreation	206,720	66,631	3,125	-	(136,964)
Hospital/economic development					
Hospital activities	125,615	-	116,521	-	(9,094)
Economic development	-	-	-	-	-
Total hospital/economic development	125,615	-	116,521	-	(9,094)
Unallocated depreciation*	116,279	-	-	-	(116,279)
Total governmental activities	1,611,956	590,471	159,689	22,589	(839,207)
Business-type activities					
General & administrative	-	-	-	-	-
Personal services	431,766	-	-	-	(431,766)
Electric service	1,115,649	2,222,306	6,673	-	1,113,330
Water service	559,937	383,718	-	-	(176,219)
Sewer & refuse service	268,525	578,286	-	-	309,761
Industrial authority expense	25,766	13,934	-	-	(11,832)
Financing costs	313,756	-	-	-	(313,756)
Unallocated depreciation*	507,799	-	-	-	(507,799)
Total business-type activities	3,223,198	3,198,244	6,673	-	(18,281)
Total primary government	\$ 4,835,154	\$ 3,788,715	\$ 166,362	\$ 22,589	\$ (857,488)
Component units:					
Golf course expense	\$ 39,788	\$ 37,500	\$ -	\$ -	\$ (2,288)
Total component units	\$ 39,788	\$ 37,500	\$ -	\$ -	\$ (2,288)

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
Year Ended June 30, 2018

	Net (Expense) Revenue and Changes in Net Position			Component Units
	Governmental Activities	Business-Type Activities	Total	
Net (expense)/revenue	(839,207)	(18,281)	(857,488)	(2,288)
General revenues:				
Taxes:				
Sales and use taxes	698,433	-	698,433	-
Cigarette taxes	7,739	-	7,739	-
Franchise taxes	16,801	-	16,801	-
Intergovernmental	45,149	-	45,149	-
Investment earnings	509	3,332	3,841	4
Miscellaneous	5,945	138,581	144,526	-
Property sales	-	-	-	-
Net pension changes	-	-	-	-
Late charges	-	34,352	34,352	-
Transfers	298,156	(298,156)	-	-
Total general revenues and transfers	<u>1,072,732</u>	<u>(121,891)</u>	<u>950,841</u>	<u>4</u>
Change in net position	233,525	(140,172)	93,353	(2,284)
Net position - beginning of year	2,112,949	4,484,927	6,597,876	98,125
Prior period adjustment	<u>104,256</u>	<u>(148,098)</u>	<u>(43,842)</u>	<u>-</u>
Net position - end of year	<u>\$ 2,450,730</u>	<u>\$ 4,196,657</u>	<u>\$ 6,647,387</u>	<u>\$ 95,841</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
June 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments:			
Cash & cash equivalents	\$ 19,093	\$ 204,033	\$ 223,126
Investments, at cost	-	60,821	60,821
Due from other funds	-	27,880	27,880
Restricted assets:			
Insurance deposit	1,578	-	1,578
Total assets	<u>\$ 20,671</u>	<u>\$ 292,734</u>	<u>\$ 313,405</u>
Liabilities:			
Payroll taxes payable	\$ 3,346	\$ -	\$ 3,346
Grant payable		10,000	10,000
Cash overdraft	-	-	-
Total liabilities	<u>3,346</u>	<u>10,000</u>	<u>13,346</u>
Fund balance:			
Restricted for:			
Cemetery	-	87,674	87,674
Debt service	-	58,973	58,973
Capital projects	-	-	-
Other purposes	-	136,087	136,087
Committed to:			
Fire & ambulance	20,398	-	20,398
Unassigned	<u>(3,073)</u>	<u>-</u>	<u>(3,073)</u>
Total fund balance	<u>17,325</u>	<u>282,734</u>	<u>300,059</u>
Total liabilities and fund equity	<u>\$ 20,671</u>	<u>\$ 292,734</u>	<u>\$ 313,405</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF ASSETS, LIABILITIES AND FUND
BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2018

Total Fund Balances - Total Governmental Funds	\$	300,059
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Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Capital leases payable		(90,703)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	134,000	
Buildings & Improvements		2,322,378	
Major movable equipment		2,039,858	
Infrastructure		667,581	
Accumulated Depreciation		<u>(2,922,443)</u>	
Total			<u>2,241,374</u>

Net position of governmental activities	\$	<u>2,450,730</u>
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The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
Year Ended June 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Charges for services	\$ 481,190	\$ -	\$ 481,190
Licenses and permits	3,985	-	3,985
Lot sales	8,700	-	8,700
Miscellaneous revenue	5,946	-	5,946
Franchise fees	16,801	-	16,801
Fines and forfeitures	13,600	-	13,600
Sales and use taxes	698,433	-	698,433
Cigarette taxes	7,739	-	7,739
Intergovernmental programs	25,641	19,508	45,149
Donations	40,043	3,125	43,168
Interest	76	433	509
Rental	-	125	125
Property sales	-	-	-
Special assessments	-	82,871	82,871
Grants	22,590	116,521	139,111
Total revenues	<u>1,324,744</u>	<u>222,583</u>	<u>1,547,327</u>
Expenditures:			
Current:			
General government	254,307	-	254,307
Public safety	742,472	41,649	784,121
Highways & roads	104,147	15,951	120,098
Cultural, parks & recreation	206,670	50	206,720
Health & welfare	-	125,615	125,615
Economic development	-	-	-
Lease payments	30,984	-	30,984
Capital outlay	-	-	-
Total expenditures	<u>1,338,580</u>	<u>183,265</u>	<u>1,521,845</u>
Excess of revenues over (under) expenditures	(13,836)	39,318	25,482
Other financing uses:			
Operating transfers in (out)	298,156	-	298,156
Loan proceeds	-	-	-
Excess of revenues over (under) expenditures & transfers	284,320	39,318	323,638
Fund balance - beginning of year	82,361	250,056	332,417
Prior period adjustment	(349,356)	(6,640)	(355,996)
Fund balance - end of year	<u>\$ 17,325</u>	<u>\$ 282,734</u>	<u>\$ 300,059</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION
MODIFIED CASH BASIS
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 323,638
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period.	26,166
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	<u>(116,279)</u>
Change in Net Position of Governmental Activities	\$ <u><u>233,525</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
MODIFIED CASH BASIS
June 30, 2018

	Business-type Activities - Enterprise Funds			
	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	Totals
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ (270,263)	\$ 160,262	\$ 14,778	\$ (95,223)
Investments, at cost	168,702	59,346	-	228,048
Restricted assets:				
Cash & cash equivalents (Note 3)	154,651	153,790	-	308,441
Capital assets:				
Land	10,000	-	72,611	82,611
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	4,342,564	8,445,478	343,215	13,131,257
Total assets	<u>\$ 4,405,654</u>	<u>\$ 8,818,876</u>	<u>\$ 430,604</u>	<u>\$ 13,655,134</u>
Liabilities:				
Current liabilities:				
Payroll taxes payable	\$ 81,582	\$ -	\$ -	\$ 81,582
Due to other funds	27,880	-	-	27,880
Notes payable (Note 3)	118,090	172,189	13,299	303,578
Revenue bonds payable (Note 3)	280,000	-	-	280,000
Non-current liabilities:				
Notes payable (Note 3)	1,908,408	5,109,445	22,584	7,040,437
Revenue bonds payable (Note 3)	1,725,000	-	-	1,725,000
Total liabilities	<u>4,140,960</u>	<u>5,281,634</u>	<u>35,883</u>	<u>9,458,477</u>
Net position:				
Net investment in capital assets	321,066	3,163,844	379,943	3,864,853
Restricted	154,651	153,790	-	308,441
Unrestricted	(211,023)	219,608	14,778	23,363
Total net position	<u>\$ 264,694</u>	<u>\$ 3,537,242</u>	<u>\$ 394,721</u>	<u>\$ 4,196,657</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
MODIFIED CASH BASIS
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds			
	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	Totals
Revenues:				
Electric	\$ 2,222,306	\$ -	\$ -	\$ 2,222,306
Water	383,718	-	-	383,718
Sewer	-	198,484	-	198,484
Refuse	-	223,123	-	223,123
Late charges	34,352	-	-	34,352
Rental	-	-	13,934	13,934
Sales and fees	-	2,778	-	2,778
Utility improvement	-	153,901	-	153,901
Miscellaneous	138,323	258	-	138,581
Total revenues	2,778,699	578,544	13,934	3,371,177
Operating expenses:				
General & administrative	-	-	-	-
Personal services	364,966	66,800	-	431,766
Electric service	1,115,649	-	-	1,115,649
Water service	559,937	-	-	559,937
Sewer & refuse service	-	268,525	-	268,525
Depreciation	228,455	279,344	22,881	530,680
Total operating expenses	2,269,007	614,669	22,881	2,906,557
Income before non-operating revenues, expenses & transfers	509,692	(36,125)	(8,947)	464,620
Non-operating revenues (expenses):				
Interest income	1,917	1,415	-	3,332
Interest expense	(131,589)	(180,479)	(2,885)	(314,953)
Grant revenue	6,673	-	-	6,673
Trustee fees	(1,688)	-	-	(1,688)
Total non-operating	(124,687)	(179,064)	(2,885)	(306,636)
Income (loss) before operating transfers	385,005	(215,189)	(11,832)	157,984
Transfers in (out)	(422,900)	124,744	-	(298,156)
Change in net position	(37,895)	(90,445)	(11,832)	(140,172)
Net position at beginning of year	478,923	3,599,451	406,553	4,484,927
Prior period adjustments	(176,334)	28,236	-	(148,098)
Net position at end of year	\$ 264,694	\$ 3,537,242	\$ 394,721	\$ 4,196,657

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
MODIFIED CASH BASIS
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds			
	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	Totals
Cash flows from operating activities:				
Cash received from customers & service users	\$ 2,640,376	\$ 578,544	\$ 13,934	\$ 3,232,854
Cash payments for goods & services & employees	(1,981,339)	(342,620)	-	(2,323,959)
Other operating revenues	138,323	-	-	138,323
Net cash provided by operating activities	797,360	235,924	13,934	1,047,218
Cash flows from noncapital financing activities:				
Change in due to/from	27,880	-	-	27,880
Operating transfers in/(out) to other funds	(422,900)	124,744	-	(298,156)
Net cash provided (used) for noncapital financing activities	(395,020)	124,744	-	(270,276)
Cash flows from capital and related financing activities:				
Principal paid on debt	(420,689)	(168,847)	(8,727)	(598,263)
Interest paid on debt	(131,589)	(180,479)	(2,885)	(314,953)
Loan proceeds	156,506	-	-	156,506
Acquisition & construction of capital assets	(34,000)	-	-	(34,000)
Trustee fees	(1,688)	-	-	(1,688)
Net cash provided (used) for capital and related financing activities	(424,787)	(349,326)	(11,612)	(785,725)
Cash flows from investing activities:				
(Purchase) liquidation of investments - unrestricted	(239)	(285)	-	(524)
Interest on investments	1,917	1,415	-	3,332
Net cash provided by investing activities	1,678	1,130	-	2,808
Net increase (decrease) in cash & cash equivalents	(20,769)	12,472	2,322	(5,975)
Cash and cash equivalents - beginning of year	(94,843)	301,580	12,456	219,193
Cash and cash equivalents - end of year	\$ (115,612)	\$ 314,052	\$ 14,778	\$ 213,218
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 509,692	\$ (36,125)	\$ (8,947)	\$ 464,620
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	228,455	279,344	22,881	530,680
Change in assets and liabilities:				
Increase (decrease) in payroll taxes payable	59,213	(7,295)	-	51,918
Total adjustments	287,668	272,049	22,881	582,598
Net cash provided by operating activities	\$ 797,360	\$ 235,924	\$ 13,934	\$ 1,047,218

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
STATEMENT OF FIDUCIARY NET POSITION
MODIFIED CASH BASIS
June 30, 2018

	Agency Funds
Assets:	
Cash and equivalents	\$ 62,901
Investments at cost	<u>57,301</u>
Total assets	\$ <u>120,202</u>
Liabilities:	
Deposits	\$ <u>120,202</u>
Total liabilities	\$ <u>120,202</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pawnee, Oklahoma (the City) accounting policies and financial statement presentation conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles and are recommended by the Government Financial Officers Association (GFOA) small government annual financial report model. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

If the City utilized the basis of accounting recognized as generally accepted by GASB, the government-wide financial statements would be presented on the accrual basis of accounting, the governmental funds would utilize the modified accrual basis of accounting, and the proprietary funds would utilize the accrual basis of accounting.

The more significant accounting policies established in the modified cash basis of accounting and used by the City as well as a further description of departures from governmental GAAP are discussed below.

A. Reporting Entity

The City of Pawnee, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a statutory aldermanic form of government in which the citizens elect a mayor at large and eight council members by wards. The City provides the following services as authorized by state statutes: general government, public safety (fire, police and ambulance), streets, public works (electric, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Pawnee, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units:

The Pawnee Public Works Authority (PPWA) was created pursuant to a Trust Indenture dated July 2, 1979, to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the City of Pawnee, Oklahoma. The public works systems owned by the City have been leased to the PPWA. The PPWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PPWA is exempt from State and Federal Income taxes. The PPWA is reported as an enterprise fund and includes the Water and Electric Fund and the Sewage and Solid Waste Fund.

The Pawnee Industrial Authority (PIA) was created pursuant to a Trust Indenture dated June 22, 1966, to promote the development of industry for the benefit of the City of Pawnee, Oklahoma. The PIA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PIA is exempt from State and Federal Income taxes. The PIA is reported as an enterprise fund.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Pawnee Municipal Hospital Authority (PMHA) was created pursuant to a Trust Indenture dated March 3, 1975, to finance, operate, construct, regulate, administer or lease any hospital and related facilities for the benefit of the City of Pawnee, Oklahoma. The hospital facilities owned by the City have been leased to the PMHA, which in turn has sub-leased the facilities to an independent operating company. The PMHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PMHA is exempt from State and Federal Income taxes. The PMHA is reported as a debt service fund.

Discretely Presented Component Unit:

The Pawnee Municipal Authority (PMA) was created pursuant to a Trust Indenture dated July 8, 1983, to finance, operate, and administer the Pawnee Municipal Golf Course for the benefit of the City of Pawnee, Oklahoma. The golf course owned by the City has been leased by the PMA to outside interests. The PMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees appointed by the City Council. The PMA is exempt from State and Federal Income taxes. The PMA is presented as a component unit of the City of Pawnee.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's financial statements consist of government-wide statements, including a statement of net position and a statement of revenues, expenses and changes in net position, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are normally prepared using the accrual basis of accounting but the City of Pawnee's presentation is on a modified cash basis.

Government-wide Financial Statements – The statement of net position and the statement of revenues, expenses and changes in net position display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

The discretely presented component unit is presented in a single column on the face of the government-wide financial statements.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. The City of Pawnee presents its governmental activities on the modified cash basis of accounting rather than generally accepted accounting principles (GAAP). GAAP requires that governmental fund types would use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under that basis of accounting, revenues would be recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. GAAP provides that all revenues are available if they are collected within 60 days after year-end. For GAAP, expenditures would be recorded when the fund liability is incurred with certain exceptions (general long-term debt and certain compensated absences, claims and judgments).

The City of Pawnee records governmental fund expenditures as they are paid rather than when the obligation is incurred.

Sales and use taxes, cigarette taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual under GAAP but are not recognized as revenue until received under the modified cash basis. Other receipts and taxes (franchise taxes, licenses, etc.) are recognized as revenue when received by the government.

Entitlements and shared revenues are recorded at the time of receipt. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the main operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue funds - account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Cemetery Fund, 911 Fund, American Flag Fund, Bath House Fund and Street & Alley Fund.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Capital Project Funds – accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Special Capital Improvement Fund.

Debt Service Funds – accounts for and report financial resources that are restricted, committed, or assigned to principal and interest payments. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding. The City's Debt Service Funds are the Pawnee Municipal Hospital Authority and the Sinking Fund.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Perpetual Care Fund.

Proprietary funds – Proprietary funds are classified as enterprise funds. In the City's modified cash basis financial statements revenues are recorded when received and expenditures are recorded when paid with the exception of payroll taxes withheld, other withholdings, and accrued compensated absences which the City records as a modification to the cash basis of accounting. The accrual amounts are not material to the financial statement presentation. Proprietary funds are classified as enterprise funds.

Enterprise funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability.

The following are the City's major enterprise funds:

Water & Electric Fund – accounts for the operations of providing public works (electric & water).

Sewage and Solid Waste Fund – accounts for the operations of providing public works (sewer & refuse).

The other enterprise funds of the City do not meet the percentage criteria for major funds but the City has elected to treat the following two non-major funds as though they were major funds for purposes of presentation within the proprietary funds of the financial statements rather than aggregating this information separately solely for the benefit of user understandability of the financial statements.

Pawnee Industrial Authority – accounts for the operations of providing building rentals to industrial businesses. The City has elected this fund to be treated as a major fund.

Fiduciary funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is composed of customer deposit funds.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted cash and investments are the result of financial requirements of Utility System Revenue Bonds issued by the Pawnee Public Works Authority and consist of funds held in a Debt Service Fund and a Bond Reserve Fund. Under the terms and provisions of the promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bonds are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds.

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life or not are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings & Improvements	40 - 100 years	40 - 100 years
Plants & Facilities	40 - 100 years	40 - 100 years
Furniture & Major Movable Equipment	10 - 40 years	10 - 40 years
Distribution systems	10 - 40 years	10 - 40 years
Infrastructure	40 - 100 years	40 - 100 years

The City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental and Business-Type Activities is not readily determinable.

8. Compensated Absences

City employees are entitled to vacation and sick leave benefits in varying amounts based on their length of employment. It is the City's policy to permit employees to accumulate earned but unused absences to specified maximums. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Generally employees are entitled to all accrued vacation leave upon termination. Employees are not compensated for unused sick leave upon termination. At the option of the employee, compensatory time off may be taken in lieu of cash payment for overtime worked.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

9. Post-Employment Healthcare Benefits

The City does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs.

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

11. Net Position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on its use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2018, the City held deposits of approximately \$864,625 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. 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.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2018 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	4.50	N/A	\$ 346,170	\$ 346,170
Total investments			<u>\$ 346,170</u>	<u>\$ 346,170</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 60,821
Business-type activities	228,048
Fiduciary funds	57,301
	<u>\$ 346,170</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 100% in Certificates of deposit (\$346,170).

B. Restricted Cash and Investments

Under terms and provisions of the Bond Indenture, special accounts and reserve funds of the Pawnee Public Works Authority (PPWA) are maintained with the Trustee Bank for the benefit of the holders of the Bonds and are not subject to lien or attachment by any creditors of the PPWA. These accounts and reserve funds are to be maintained so long as any Bonds are outstanding.

Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

	Balance 6/30/17	Additions	Disposals	Balance 6/30/17
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 134,000	\$ -	\$ -	\$ 134,000
Total non-depreciable assets	<u>134,000</u>	<u>-</u>	<u>-</u>	<u>134,000</u>
Depreciable assets:				
Buildings & improvements	2,322,378	-	-	2,322,378
Furniture & major movable equipment	1,943,039	-	-	1,943,039
Distribution systems	96,819	-	-	96,819
Infrastructure	667,581	-	-	667,581
Total depreciable assets	<u>5,029,817</u>	<u>-</u>	<u>-</u>	<u>5,029,817</u>
Less accumulated depreciation:				
Buildings & improvements	(963,049)	(23,224)	-	(986,273)
Furniture & major movable equipment	(1,574,013)	(73,946)	-	(1,647,959)
Distribution systems	(79,876)	(2,420)	-	(82,296)
Infrastructure	(189,226)	(16,689)	-	(205,915)
Total accumulated depreciation	<u>(2,806,164)</u>	<u>(116,279)</u>	<u>-</u>	<u>(2,922,443)</u>
Net depreciable assets	<u>2,223,653</u>	<u>(116,279)</u>	<u>-</u>	<u>2,107,374</u>
Net governmental activities capital assets	<u>\$ 2,357,653</u>	<u>\$ (116,279)</u>	<u>\$ -</u>	<u>\$ 2,241,374</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capital Assets (Continued)

Business-Type Activities:	Balance 6/30/17	Additions	Disposals	Balance 6/30/18
Non-depreciable assets:				
Land	\$ 82,611	\$ -	\$ -	\$ 82,611
Construction in process	-	-	-	-
Total non-depreciable assets	<u>82,611</u>	<u>-</u>	<u>-</u>	<u>82,611</u>
Depreciable assets:				
Buildings & improvements	1,135,914	34,000	-	1,169,914
Sewer treatment facility	10,843,900	-	-	10,843,900
Water treatment facility	3,098,967	-	-	3,098,967
Electric system improvements	1,168,275	-	-	1,168,275
Furniture & major movable equipment	797,198	-	-	797,198
Distribution systems	3,136,536	-	-	3,136,536
Total depreciable assets	<u>20,180,790</u>	<u>34,000</u>	<u>-</u>	<u>20,214,790</u>
Less accumulated depreciation:				
Buildings & improvements	(734,802)	(34,074)	-	(768,876)
Sewer treatment facility	(2,229,446)	(271,098)	-	(2,500,544)
Water treatment facility	(718,274)	(77,474)	-	(795,748)
Electric system improvements	(581,887)	(29,207)	-	(611,094)
Furniture & major movable equipment	(705,839)	(21,900)	-	(727,739)
Distribution systems	(1,582,605)	(96,927)	-	(1,679,532)
Total accumulated depreciation	<u>(6,552,853)</u>	<u>(530,680)</u>	<u>-</u>	<u>(7,083,533)</u>
Net depreciable assets	<u>13,627,937</u>	<u>(496,680)</u>	<u>-</u>	<u>13,131,257</u>
Net business-type activities capital assets	<u>\$ 13,710,548</u>	<u>\$ (496,680)</u>	<u>\$ -</u>	<u>\$ 13,213,868</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs. Only depreciation on the Industrial Authority was allocated as a direct program expense.

D. Leased Facilities

Pawnee Industrial Authority

On August 19, 2002, the Pawnee Industrial Authority has entered into a lease agreement with the Pawnee Development Foundation, Inc. for the lease of certain land and facilities. The lease is for a period of 16 years. The terms of the lease agreement call for basic rental payments of \$1,161 per month. The Authority collected \$13,934 on the lease during the year.

Under the terms of the contract dated June 1, 1967, between the City of Pawnee, Oklahoma, and the Trustees of the Pawnee Industrial Authority, all lease payments were to be made to the City after all secured debt had been retired. During the year ended June 30, 1997, the governing board of the City transferred its rights to the rental income to the Pawnee Industrial Authority.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Leased Facilities (Continued)

Pawnee Municipal Authority

The Pawnee Municipal Authority has entered into a lease agreement in which the Pawnee Municipal Golf Course will be operated as a public golf course. Under the current lease, which provides for renewal options, the facility is leased for minimal payments. The Pawnee Municipal Authority is a component unit of the City of Pawnee in accordance with the provisions of *Governmental Accounting Standards* Statement No. 14.

E. Long-term Debt

The Pawnee Public Works Authority issued its \$3,075,000 Utility System Revenue Bonds, Series 1993, dated December 1, 1993. The proceeds of the issue were to be used: (i) to construct improvements to the City's water treatment facility, water distribution system, sanitary sewer collection system, electrical distribution system and closure of its landfill; (ii) to currently refund the Authority's existing indebtedness with the Farmers Home Administration; (iii) to establish a Bond Reserve Account; (iv) to provide capitalized interest; and (v) to pay certain costs of issuance.

On July 19, 1999, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$3,995,000 Utility System Refunding Revenue Bonds. The bonds were used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue were to be used to provide funds for capital improvements.

In July, 2004, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$4,675,000 Utility System Refunding Revenue Bonds, Series 2004, dated August 1, 2004. The bonds will be used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue will be used to provide funds for capital improvements.

In March, 2014, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$3,005,000 Utility System Refunding Revenue Bonds, Series 2014, dated August 1, 2014. The bonds will be used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue will be used to provide funds for capital improvements.

The Bonds are secured pursuant to the terms of the Indenture, which includes a pledge of the gross revenues of the water, sanitary sewer, and electrical systems of the City, which are leased to and operated by the Pawnee Public Works Authority. The Bonds are further secured by all funds and accounts established by the Indenture, except as specifically provided therein.

During the current fiscal year the Pawnee Hospital Authority, a public trust, entered into a unsecured promissory note with Pawnee County Economic Development Foundation to repay \$10,000.00 at 0%. The repayment is scheduled to begin on March 31, 2019 with an annual payment of \$1,000 until March 31, 2028.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

E. Long-term Debt (Continued)

The following is a summary of bonds payable transactions of the City for the year:

Revenue Bonds	Date Issued	Date of Last Maturity	Balance Outstanding 6/30/17	Issued During Year	Retired During Year	Balance Outstanding 6/30/18	Current Portion 6/30/18
PPWA	3/1/14	8/1/24	\$ 2,275,000	\$ -	\$ 270,000	\$ 2,005,000	\$ 280,000
Total			<u>2,275,000</u>	<u>-</u>	<u>270,000</u>	<u>2,005,000</u>	<u>280,000</u>

The annual requirements to amortize bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Totals
2019	\$ 280,000	\$ 67,725	\$ 347,725
2020	290,000	57,837	347,837
2021	300,000	47,600	347,600
2022	310,000	37,012	347,012
2023	320,000	26,075	346,075
2024-2025	505,000	17,762	522,762
Total	<u>\$ 2,005,000</u>	<u>\$ 254,011</u>	<u>\$ 2,259,011</u>

The following is a summary of long-term debt transactions in the Proprietary Funds of the City for the year:

	Balance July 1, 2017	Additions	Payments and Cancellations	Balance June 30, 2018
Notes payable	\$ 7,515,771	\$ 156,506	\$ 328,262	\$ 7,344,015
Total	<u>\$ 7,515,771</u>	<u>\$ 156,506</u>	<u>\$ 328,262</u>	<u>\$ 7,344,015</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

The Proprietary Fund long-term debt is as follows:

(1) Pawnee Public Works Authority: Note payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by the bucket truck. Note is dated January 2016 with monthly payments of \$528 through February 2021 with interest at 3.35% until maturity.	\$ 16,191
(2) Note payable to Oklahoma Department of Commerce, collateralized by sewer plant and sewer service revenues. The note is to be paid in 240 monthly installments of \$521 beginning November 1, 1998 with final maturity on October 1, 2018. The note is non-interest bearing.	3,130
(3) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning February 1, 2010 in semi-annual installments of \$25,500 including interest at 2.39%.	502,186
(4) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning August 15, 2013 in semi-annual installments including interest at 2.74%.	1,377,800
(5) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning February 15, 2013 in semi-annual installments including interest at 3.34%.	4,776,319
(6) Note payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by CDs. Note is dated December 22, 2017 with one installment with interest at 2.6% until maturity.	156,506
(7) A note payable to Bancfirst, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning January 1, 2015 in semi-annual installments including interest at 2.59%.	476,000
(8) Pawnee Industrial Authority: Note payable to Central Oklahoma Economic Development District, Inc., Shawnee, Oklahoma, collateralized by a building. Monthly payments of \$1,161 through September, 2020 with interest at 8.5% are required by the contract.	<u>35,883</u>
Total Proprietary Fund long-term debt	<u>\$ 7,344,015</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

The annual requirements to retire the Proprietary Funds long-term debt are as follows:

Year Ending June 30,	Proprietary Funds		
	Principal	Interest	Totals
2019	\$ 303,579	\$ 230,078	\$ 533,657
2020	502,053	219,446	721,499
2021	350,665	204,941	555,606
2022	347,098	193,991	541,089
2023	357,561	183,677	541,238
2024-2028	1,645,967	764,515	2,410,482
2029-2033	1,585,271	518,552	2,103,823
2034-2038	1,166,647	295,162	1,461,809
2039-2042	1,085,174	84,275	1,169,449
Total	<u>\$ 7,344,015</u>	<u>\$ 2,694,637</u>	<u>\$ 10,038,652</u>

Total interest incurred on long-term debt in the Proprietary Funds was \$314,953, which was charged to expense.

G. Operating Lease

On May 5, 1988, the City of Pawnee entered into an amended 38-year lease of a sanitary landfill with Herbert Berg, which began April 3, 1984. The terms of the lease agreement call for basic rent payments of \$250 per month adjusted annually for any percentage Consumer Price Index increase as determined by the U.S. Department of Labor. During the year ended June 30, 2018, \$6,807 was paid for the lease of the property. The rental expense was reported in the Pawnee Public Works Authority.

H. Capitalized Leases

The City entered into capitalized leases for the acquisition of equipment and vehicles. The lease agreements met the criteria of a capital lease as defined by *FASB Accounting Standards Codification (ASC) 840-10, Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements. The capital lease is described below.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

H. Capitalized Leases (Continued)

(1) Lease payable to First National Bank for the lease purchase of a pickup. 60 monthly payments of \$664 plus interest.	\$ 12,418
(2) Lease payable to First National Bank for the lease purchase of a charger. 60 monthly payments of \$597 plus interest.	11,176
(3) Lease payable to First National Bank for the lease purchase of a loader. 48 monthly payments of \$1,260 plus interest.	52,607
(4) Lease payable to First National Bank for the lease purchase of a truck. 36 monthly payments of \$612 plus interest.	14,502
(5) Lease payable to First National Bank for the lease purchase of an ambulance. 60 monthly payments of \$1,036 plus interest. Paid off in current year.	-
Total	<u>\$ 90,703</u>

The following is a summary of capitalized lease transactions for the year:

	Balance July 1, 2017	Additions	Payments and Cancellations	Balance June 30, 2018
Capital lease obligations	\$ 116,870	\$ -	\$ 26,168	\$ 90,702

The annual debt service requirements to maturity, including principal and interest, for capital leases are as follows:

Year Ending June 30,	Principal	Interest	Totals
2019	\$ 35,358	\$ 2,268	\$ 37,626
2020	30,330	1,192	31,522
2021	14,844	544	15,388
2022	10,171	117	10,288
Total	<u>\$ 90,703</u>	<u>\$ 4,121</u>	<u>\$ 94,824</u>

3. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the City. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

On June 16, 1997, the City participated with other area cities in the creation of The Oklahoma Municipal Employee Benefit Trust (OMEBT) as provided by the Interlocal Cooperation Act of the Oklahoma Statutes (Section 1001 through 1008 of Title 74 of the Oklahoma Statutes). OMEBT is a public entity risk management and insurance program for several member cities.

The City withdrew participation in OMEBT effective July 1, 2000. While a member, the City paid monthly premiums to an administrator designated by OMEBT for employee health and life insurance coverage. The agreement establishing the OMEBT provided that each participating agency would pay for all costs, premiums, or other fees attributable to its respective participation in any plan, policy or service established under the agreement. Additionally, each participant was responsible for its obligations under any contract entered into with the group. Reinsurance with commercial companies was provided for life insurance and for individual medical claims in excess of \$50,000 and aggregate monthly claims in excess of \$121,987. As discussed in note 3C, OMEBT officials could not determine the amount of charges, if any, that would be assessed in the future against the City as a result of accumulated losses while a participant in the plan.

B. Contingent Liabilities

Pending Litigation:

The City is a defendant in legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City. The City is the defendant in litigation that as of the audit release date was ongoing. The Governmental Tort Claims Act limits the City's potential liability in the litigation.

Public Entity Risk Pool, Health Insurance:

As further explained in Note 3A, the City was a participant through June 30, 2000 in a Public Entity Risk Pool (PERP) for employee health and life insurance. The Oklahoma Municipal Employee Benefit Trust (OMEBT) had incurred an operating deficit estimated to be \$550,000 at June 30, 1999. Trust management could not provide an estimate of operating deficits, if any, at June 30, 2018. As a previously participating member of the PERP, the city could be assessed its share of accumulated operating losses. OMEBT has not provided operating statements to the City but does continue to operate. During FY 2017, Trust management adjusted the rates charged participating municipal governments in an attempt to recover the estimated deficit. No provision for loss has been reflected in the City's financial statements.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

3. OTHER INFORMATION (Continued)

Grant Awards:

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Landfill:

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Closure and post-closure care costs, are not presently determinable, and it is not known if these matters will have a material adverse effect on the financial condition of the City.

C. Employee Retirement System and Other Benefit Plans

The City participates in two employee pension systems as follows:

Oklahoma Firefighters Pension and Retirement Plan - Cost Sharing Multiple Employer - Defined Benefit Plan

Oklahoma Municipal Retirement Fund (OkMRF) Agent Multiple Employer – Defined Benefit Plan

Oklahoma Firefighters Pension & Retirement Plan

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

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have 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 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 service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per 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

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

of service and is \$7.53 per year of service. For volunteer firefighters, the 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 contributions 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. The required contribution from the City for this plan was \$2,991, \$4,476 and \$8,388 for 2018, 2017 and 2016, respectively.

Oklahoma Municipal Retirement Fund - Defined Benefit Plan

Plan Description – The City provides pension benefits for substantially all of its full-time employees (excluding firemen who are covered under a separate state retirement system) through a defined benefit cost-sharing plan with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple employer defined benefit plan. An employee includes any person who, if last hired after July 1, 1971, had not reached his 60th birthday at the time of hiring. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. An employee becomes fully vested after ten years. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. For the year ended June 30, 2018, 2017 and 2016, the City recognized \$87,954, \$89,394 and \$65,232 of employer contributions to the plan, respectively, which equals the actuarially determined amount based on covered payroll.

4. CHANGE IN ACCOUNTING PRINCIPLE

For the period of the year ending June 30, 2018, the City has adopted the modified cash basis of accounting. The City believes this method of accounting will better present the financial position of the City. The change will cause a restatement of fund balance on the government-wide presentation and within the individual funds. The government-wide governmental fund presentation increased in the amount of \$104,256. Individually, the general fund decreased by \$349,356, the 911 fund decreased by \$1,638, the street & alley fund decreased by \$4,948 and the cemetery perpetual care decreased by \$54. The business-type fund presentation decreased in the amount of \$148,098, and individually, the water and electric decreased by \$176,334 and the sewer and refuse increased by \$28,236.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

5. SUBSEQUENT EVENTS

Water Purchase Commitments

The City has settled a dispute with Lone Chimney Water Association regarding the City not being able to use the water provided by Lone Chimney due to a change in the chemicals used by the Association for water treatment not being compatible with the City's water plant. The terms of the tentative settlement agreement are as follows:

- City of Pawnee will pay Lone Chimney Water Association \$225,000 over a five year period in monthly installments of \$3,750 per month with no interest.
- City of Pawnee is released from the water contracts noted above.
- City of Pawnee no longer has a seat on the Lone Chimney Water Association's board.
- This issue cannot be re-visited in the future.

Payments on this settlement began in November, 2018.

CITY OF PAWNEE
Pawnee, Oklahoma

OTHER SUPPLEMENTARY INFORMATION
June 30, 2018

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (MODIFIED CASH BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2018
(Unaudited)

GENERAL FUND

	Budgeted Amounts			Variance with
	Original	Final		Final Budget
	Budget	Budget	Actual	Over (Under)
Revenues:				
Charges for services	\$ 426,000	\$ 443,000	\$ 481,190	\$ 38,190
Licenses & permits	40,000	40,000	12,685	(27,315)
Interest	500	500	76	(424)
Franchise fees	27,000	27,000	16,801	(10,199)
Fines & forfeitures	15,000	15,000	13,600	(1,400)
Taxes	711,000	745,000	731,813	(13,187)
Intergovernment programs	90,000	25,000	22,590	(2,410)
Donations	6,000	37,000	40,043	3,043
Sales of property	-	-	-	-
Miscellaneous	120,500	5,100	5,946	846
Total revenues	<u>1,436,000</u>	<u>1,337,600</u>	<u>1,324,744</u>	<u>(12,856)</u>
Expenditures:				
Current:				
General government	266,182	270,382	254,307	16,075
Public safety	938,175	790,370	742,472	47,898
Highways, roads, & airport	145,815	128,115	104,147	23,968
Cultural & recreational	249,556	250,357	206,670	43,687
Leases payable	41,500	41,500	30,984	10,516
Capital outlay	-	-	-	-
Total expenditures	<u>1,641,228</u>	<u>1,480,724</u>	<u>1,338,580</u>	<u>142,144</u>
Excess of revenue over				
(under) expenditures	(205,228)	(143,124)	(13,836)	129,288
Other financing sources (uses):				
Operating transfers in (out)	221,400	221,400	298,156	76,756
Loan proceeds	-	-	-	-
Net changes in fund balance	16,172	78,276	284,320	206,044
Fund balance at beginning of year	82,361	82,361	82,361	-
Prior period adjustments	-	-	(349,356)	-
Fund balance at end of year	<u>\$ 98,533</u>	<u>\$ 160,637</u>	<u>\$ 17,325</u>	<u>\$ 206,044</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (MODIFIED CASH BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2018
(Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts			Variance with
	Original	Final		Final Budget
	Budget	Budget	Actual	Over (Under)
Revenues:				
Intergovernmental programs	\$ 21,000	\$ 21,000	\$ 19,508	\$ (1,492)
Donations	-	-	-	-
Interest	200	200	412	212
Rental	300	300	125	(175)
Miscellaneous	-	-	-	-
Special assessments	50,000	70,000	82,871	12,871
Total revenues	<u>71,500</u>	<u>91,500</u>	<u>102,916</u>	<u>11,416</u>
Expenditures:				
Current:				
General government	35,000	40,000	-	40,000
Public safety	75,000	85,000	41,649	43,351
Highways, roads & airport	21,000	21,000	15,951	5,049
Cultural, parks & recreation	-	-	50	(50)
Capital outlay	-	-	-	-
Total expenditures	<u>131,000</u>	<u>146,000</u>	<u>57,650</u>	<u>88,350</u>
Excess of revenue over				
(under) expenditures	(59,500)	(54,500)	45,266	99,766
Other financing sources (uses):				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balance	(59,500)	(54,500)	45,266	99,766
Fund balance at beginning of year	97,407	97,407	97,407	
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(6,586)</u>	<u>6,586</u>
Fund balance at end of year	<u>\$ 37,907</u>	<u>\$ 42,907</u>	<u>\$ 136,087</u>	<u>\$ 106,352</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (MODIFIED CASH BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2018
(Unaudited)

CAPITAL PROJECTS FUND

	Budgeted Amounts			Variance with
	Original	Final		Final Budget
	Budget	Budget	Actual	Over (Under)
Revenues:				
Intergovernment programs	\$ 70,000	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Total revenues	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Economic development	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenue over				
(under) expenditures	70,000	-	-	-
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Net changes in fund balance	70,000	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2018
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Mayor (an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City does not utilize encumbrance accounting.

CITY OF PAWNEE
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
June 30, 2018

	Special Revenue				
	911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
Assets:					
Cash and equivalents	\$ 103,833	\$ 31,111	\$ -	\$ 943	\$ 200
Investments at cost	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 103,833</u>	<u>\$ 31,111</u>	<u>\$ -</u>	<u>\$ 943</u>	<u>\$ 200</u>
Liabilities:					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted	103,833	31,111	-	943	200
Total fund balances	<u>103,833</u>	<u>31,111</u>	<u>-</u>	<u>943</u>	<u>200</u>
Total liabilities and fund balances	<u>\$ 103,833</u>	<u>\$ 31,111</u>	<u>\$ -</u>	<u>\$ 943</u>	<u>\$ 200</u>

CITY OF PAWNEE
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
June 30, 2018

	Capital Projects	Debt Service		Permanent Funds	Total Non-Major Governmental Funds
	Capital Projects	Sinking Fund	Municipal Hospital Authority	Cemetery Perpetual Care	
(Continued)					
Assets:					
Cash and equivalents	\$ -	\$ -	\$ 35,487	\$ 32,459	\$ 204,033
Investments at cost	-	5,606	-	55,215	60,821
Interest receivable	-	-	27,880	-	27,880
Total assets	<u>\$ -</u>	<u>\$ 5,606</u>	<u>\$ 63,367</u>	<u>\$ 87,674</u>	<u>\$ 292,734</u>
Liabilities:					
Grant payable	\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
Total liabilities	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Fund balances:					
Unreserved	-	5,606	53,367	87,674	282,734
Total fund balances	<u>-</u>	<u>5,606</u>	<u>53,367</u>	<u>87,674</u>	<u>282,734</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 5,606</u>	<u>\$ 63,367</u>	<u>\$ 87,674</u>	<u>\$ 292,734</u>

CITY OF PAWNEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For the Year Ended June 30, 2018

	Special Revenue				
	911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
Revenues:					
Intergovernmental programs	\$ -	\$ -	\$ -	\$ 19,508	\$ -
Donations	-	-	-	-	-
Interest	-	412	-	-	-
Miscellaneous revenues	-	-	-	-	-
Rental	-	125	-	-	-
Special assessments	82,871	-	-	-	-
Grants	-	-	-	-	-
Total revenues	\$ 82,871	\$ 537	\$ -	\$ 19,508	\$ -
Expenditures:					
Public safety	\$ 41,649	\$ -	\$ -	\$ -	\$ -
Highways & roads	-	-	-	15,951	-
Cultural, parks & recreation	-	50	-	-	-
Economic development	-	-	-	-	-
Health & welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	41,649	50	-	15,951	-
Excess of revenues over (under) expenditures	41,222	487	-	3,557	-
Transfers in (out)	-	-	-	-	-
Fund balance - beginning of year	64,249	30,624	-	2,334	200
Prior period adjustments	(1,638)	-	-	(4,948)	-
Fund balance - end of year	\$ 103,833	\$ 31,111	\$ -	\$ 943	\$ 200

CITY OF PAWNEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
For the Year Ended June 30, 2018

	Capital Projects	Debt Service		Permanent Funds	Total Non-Major Governmental Funds
	Capital Projects	Sinking Fund	Municipal Hospital Authority	Cemetery Perpetual Care	
(Continued)					
Revenues:					
Intergovernmental programs	\$ -	\$ -	\$ -	\$ -	\$ 19,508
Donations	-	-	-	3,125	3,125
Interest	-	3	18	-	433
Miscellaneous revenues	-	-	-	-	-
Rental	-	-	-	-	125
Special assessments	-	-	-	-	82,871
Grants	-	-	116,521	-	116,521
Total revenues	\$ -	\$ 3	\$ 116,539	\$ 3,125	\$ 222,583
Expenditures:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 41,649
Highways & roads	-	-	-	-	15,951
Cultural, parks & recreation	-	-	-	-	50
Economic development	-	-	-	-	-
Health & welfare	-	-	125,615	-	125,615
Capital outlay	-	-	-	-	-
Total expenditures	-	-	125,615	-	183,265
Excess of revenues over (under) expenditures	-	3	(9,076)	3,125	39,318
Transfers in (out)	-	-	-	-	-
Fund balance - beginning of year	-	5,603	62,443	84,603	250,056
Prior period adjustments	-	-	-	(54)	(6,640)
Fund balance - end of year	\$ -	\$ 5,606	\$ 53,367	\$ 87,674	\$ 282,734

CITY OF PAWNEE
Pawnee, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expend- itures</u>
None				
<u>State Grants:</u>				
<u>Passed through the Oklahoma Department of Commerce:</u>				
2016-2017 REAP Fund 16 (Closed 9/29/17)		<u>75,000</u>	<u>26,037</u>	<u>26,037</u>
<u>Oklahoma Department of Environmental Quality</u>				
Brownfield (Hospital for Cleanup of Hazardous Materials)		<u>116,521</u>	<u>116,521</u>	<u>116,521</u>
Total Expenditures of Federal Awards		\$ <u>191,521</u>	\$ <u>142,558</u>	\$ <u>142,558</u>

Note A - Basis of Presentation - The accompanying schedule of expenditures of federal awards (the Schedule) include under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Financial Management* for Federal Awards (Uniform Guidance). Because the Schedule presents only selected portion of the operations and does not present the financial position, changes in net assets, or cash flows of the City.

CITY OF PAWNEE
Pawnee, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2018

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in Accordance with *Government Auditing Standards***

The Honorable City Council
City of Pawnee
Pawnee, Oklahoma 74058

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as listed in the table of contents of the City of Pawnee, State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Pawnee, State of Oklahoma's, basic financial statements and have issued my report thereon dated January 10, 2019.

Internal Control over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, therefore, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that I consider to be material weaknesses (items 2018-01; 2018-02; 2018-04)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pawnee, State of Oklahoma's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-02.

City of Pawnee, State of Oklahoma's Response to Findings

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

Purpose of this Report

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



Linda S. Woodruff, CPA,
A Professional Corporation

Oklahoma City, Oklahoma 73172
January 10, 2019

City of Pawnee
Pawnee, Oklahoma

Schedule of Findings and Responses
for the year ended June 30, 2018

2018-01 Segregation of Duties

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties. This finding was also noted in the prior year.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the City

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the City strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: City Council concurs with the recommendation, although the cost to correct this situation might exceed the benefits.

2018-02 Payroll Tax Deposits

Condition: The City of Pawnee has not complied with payroll tax deposit requirements.

Criteria: Controls should be in place to ensure that payroll reporting is completed and paid on a timely schedule according to Internal Revenue Service.

Effect: Due to payments not being made on a timely basis, substantial penalties could be incurred.

Recommendation: I recommend that the City adheres to the deposit requirements set forth by the Internal Revenue Service which is normally a semi-monthly deposit schedule. The City has an outside payroll service who prepares all the reports and oversees the payroll process. The City Clerk receives reports from the payroll service and should promptly make the payments as presented.

Response: The City will make sure that funds are set aside to pay the back payroll taxes and keep current on all future payroll liabilities.

2018-03 Payment Documentation/Signatures

Condition: Purchase orders are being completed for each payment, but signatures of the individual that requested and received the materials is not on most of the invoices.

Criteria: Payments could be made to nonexistent or incorrect vendors without management's knowledge. Also, materials could be paid for but not received since the individual ordering is not signing that the products were received and delivered to the City.

Effect: Expenses could be overstated in the financials and cash flow could be decreased due to excessive payments.

Recommendation: The voucher packet should include signatures of individual ordering and receiving the goods or services

Response: Management concurs and will require the appropriate signatures be included in the packet.

City of Pawnee
Pawnee, Oklahoma

Schedule of Findings and Responses
for the year ended June 30, 2018

2018-04 Reconciliation of Revenue

Condition: Revenue from the billing register cannot be reconciled to the money deposited in the Bank.

Criteria: Internal controls should be in place to provide assurance that the revenue from billing system is recorded correctly to Quickbooks and revenue can be traced to deposited funds.

Effect: If reconciliation of the revenue from the billing register and the bookkeeping system is not completed, incorrect revenue could be recorded which could materially affect the financial statements.

Recommendation: A monthly comparison of the amount billed according to the utility system and the total deposited for the month should be maintained. Separate bank accounts should be used for the Pawnee Public Works Authority and the City General Fund for ease of reconciliation. The difference between the utility system register and deposits should be the fluctuation of the accounts receivable balances. If this is not the case, the reason for the difference should be documented.

Response: Management will discuss this recommendation and take appropriate action.