

2019

CITY OF PAWNEE, OKLAHOMA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2019



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City Council

Brad Sewell	Mayor
Blade McLendon	Ward 1
Gwendolyn Williams	Ward 1
Mark Brumfield	Ward 2
Levi Edwards	Ward 2
Peggy Coleman	Ward 3
Emily Elliott	Ward 3
Alice Cottle	Ward 4
James Novotny	Ward 4

Management

Tammy Todd	City Clerk
Wesley Clymer	Chief of Police
Joyce McClellan	Municipal Court Clerk
Roy Nichols	Fire Chief
Travis Burch	Electric Superintendent
Steve Ready	Water/Sewer Superintendent

City Hall

510 Illinois
Pawnee, OK 74058
918-762-2658

INDEPENDENT AUDITOR'S REPORT



Elfrink and Associates, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pawnee, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Pawnee, Oklahoma'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 1C; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pawnee, Oklahoma, as of June 30, 2019, and the respective changes in the modified cash basis financial position, thereof for the year then ended in accordance with the basis of accounting as described in Note 1C.

Basis of Accounting

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



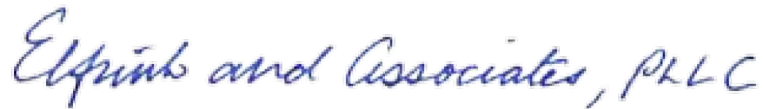
Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pawnee, Oklahoma's basic financial statements. The budgetary comparison information on page 34, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2020, on our consideration of the City of Pawnee, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pawnee, Oklahoma's internal control over financial reporting and compliance.

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Elfrink and Associates, PLLC

Tulsa, Oklahoma

June 5, 2020

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BASIC FINANCIAL STATEMENTS

Statement of Net Position (Modified Cash Basis) – June 30, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 71,708	\$ 34,432	\$ 106,140
Investments	153,634	75,273	228,907
Restricted assets:			
Cash and cash equivalents	59,700	367,221	426,921
Investments	55,215	57,301	112,516
Total current assets	<u>340,257</u>	<u>534,227</u>	<u>874,484</u>
Non-current assets			
Capital assets, net of depreciation	<u>2,299,974</u>	<u>12,768,367</u>	<u>15,068,341</u>
Total non-current assets	<u>2,299,974</u>	<u>12,768,367</u>	<u>15,068,341</u>
 Total assets	 <u>2,640,231</u>	 <u>13,302,594</u>	 <u>15,942,825</u>
 Liabilities:			
Current liabilities:			
Leases payable, current portion	25,072	6,336	31,408
Note payable, current portion	<u>2,000</u>	<u>726,131</u>	<u>728,131</u>
Total current liabilities	<u>27,072</u>	<u>732,467</u>	<u>759,539</u>
Noncurrent liabilities			
Meter deposit liability	-	112,412	112,412
Leases payable, noncurrent	49,063	3,831	52,894
Note payable, noncurrent	<u>8,000</u>	<u>8,264,094</u>	<u>8,272,094</u>
Total noncurrent liabilities	<u>57,063</u>	<u>8,380,337</u>	<u>8,437,400</u>
 Total liabilities	 <u>84,135</u>	 <u>9,112,804</u>	 <u>9,196,939</u>
 Net Position:			
Net investment in capital assets	2,215,839	3,691,457	5,907,296
Restricted for cemetery	114,915	-	114,915
Restricted for debt service	-	312,110	312,110
Unrestricted	<u>225,342</u>	<u>186,223</u>	<u>411,565</u>
Total net position	<u><u>\$ 2,556,096</u></u>	<u><u>\$ 4,189,790</u></u>	<u><u>\$ 6,745,886</u></u>

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 254,177	\$ 7,131	\$ -	\$ -	\$ (247,046)	\$ -	(247,046)
Public safety	864,920	359,161	94,500	-	(411,259)	-	(411,259)
Highways and roads	176,147	-	-	-	(176,147)	-	(176,147)
Health and welfare	18,273	-	-	-	(18,273)	-	(18,273)
Cultural, parks and recreation	203,165	57,600	-	1,900	(143,665)	-	(143,665)
Interest on long term debt	18,625	-	-	-	(18,625)	-	(18,625)
Total governmental activities	1,535,307	423,892	94,500	1,900	(1,015,015)	-	(1,015,015)
Business-type activities							
Electric and water	2,611,221	2,896,391	16,480	-	-	301,650	301,650
Wastewater and sanitation	671,982	606,317	-	-	-	(65,665)	(65,665)
Economic development	29,506	17,059	-	-	-	(12,447)	(12,447)
Parks and recreation	37,011	-	-	-	-	(37,011)	(37,011)
Total business-type activities	3,349,720	3,519,767	16,480	-	-	186,527	186,527
Total primary government	\$ 4,885,027	\$ 3,943,659	\$ 110,980	\$ 1,900	\$ (1,015,015)	\$ 186,527	(828,488)
General revenues:							
Taxes:							
Sales and use					694,348	-	694,348
Franchise					16,000	-	16,000
911 assessments					68,411	-	68,411
Intergovernmental					60,147	-	60,147
Investment income					2,447	3,768	6,215
Miscellaneous					36,700	-	36,700
Total general revenues					878,053	3,768	881,821
Change in net position before transfers					(136,962)	190,295	53,333
Transfer from (to)					242,328	(242,328)	-
Change in net position					105,366	(52,033)	53,333
Net position - beginning (restated)					2,450,730	4,241,823	6,692,553
Net position - ending					\$ 2,556,096	\$ 4,189,790	\$ 6,745,886

See accompanying notes to the basic financial statements.

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2019

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 69	\$ 71,639	\$ 71,708
Investments	153,634	-	153,634
Restricted assets:			
Cash and cash equivalents	-	59,700	59,700
Investments	-	55,215	55,215
Total assets	<u>\$ 153,703</u>	<u>\$ 186,554</u>	<u>\$ 340,257</u>
Fund Balances:			
Restricted	-	114,915	114,915
Unrestricted			
Assigned	-	71,639	71,639
Unassigned	153,703	-	153,703
Total fund balances	<u>\$ 153,703</u>	<u>\$ 186,554</u>	<u>\$ 340,257</u>

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2019

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 710,348	\$ 68,411	\$ 778,759
Intergovernmental	38,760	21,387	60,147
Licenses and permits	7,131	-	7,131
Grants	94,500	-	94,500
Donations	300	1,600	1,900
Charges for services	36,295	21,305	57,600
Fire and ambulance	336,462	-	336,462
Fines and forfeitures	22,699	-	22,699
Investment earnings	2,246	201	2,447
Miscellaneous	36,349	351	36,700
Total Revenues	<u>1,285,090</u>	<u>113,255</u>	<u>1,398,345</u>
Expenditures:			
General government	249,465	-	249,465
Public safety	771,950	28,959	800,909
Highways and roads	139,160	4,959	144,119
Cultural, parks and recreation	197,339	-	197,339
Capital outlay	183,449	-	183,449
Debt service			
Principal	66,568	-	66,568
Interest	18,625	-	18,625
Total expenditures	<u>1,626,556</u>	<u>33,918</u>	<u>1,660,474</u>
Excess (deficiency) of revenues over expenditures	<u>(341,466)</u>	<u>79,337</u>	<u>(262,129)</u>
Other financing sources (uses):			
Transfers in (out)	427,844	(185,517)	242,327
Proceeds from debt issuance	50,000	-	50,000
Net other financing sources (uses)	<u>477,844</u>	<u>(185,517)</u>	<u>292,327</u>
Net change in fund balance	136,378	(106,180)	30,198
Fund balance - beginning (restated)	17,325	292,734	310,059
Fund balance - ending	<u>\$ 153,703</u>	<u>\$ 186,554</u>	<u>\$ 340,257</u>

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds	\$ 340,257
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$5,347,266, net of accumulated depreciation of \$3,047,292 are not financial resources and, therefore, are not reported in the funds.	2,299,974
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements.	(84,135)
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Net position of governmental activities	<u>\$ 2,556,096</u>
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Net changes in fund balances - total governmental funds	\$ 30,198
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchased with cash	183,449
Depreciation expense	(124,849)
	58,600

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long term debt	(50,000)
Principal payments on long term debt	66,568
	16,568

Change in net position of governmental activities	<u>\$ 105,366</u>
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See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2019

	Pawnee Public Works Authority	Pawnee Industrial Authority	Pawnee Municipal Authority	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 208	\$ 15,912	\$ 18,312	\$ 34,432
Investments	75,273	-	-	75,273
Restricted cash and cash equivalents	367,221	-	-	367,221
Restricted investments	57,301	-	-	57,301
Total current assets	500,003	15,912	18,312	534,227
Noncurrent assets:				
Capital assets, net	12,298,904	392,945	76,518	12,768,367
Total noncurrent assets	12,298,904	392,945	76,518	12,768,367
Total assets	12,798,907	408,857	94,830	13,302,594
Liabilities				
Current liabilities:				
Lease obligation - current portion	6,336	-	-	6,336
Notes payable - current portion	713,993	12,138	-	726,131
Total current liabilities	720,329	12,138	-	732,467
Noncurrent liabilities:				
Meter deposit liability	112,412	-	-	112,412
Lease obligation - noncurrent portion	3,831	-	-	3,831
Notes payable - noncurrent portion	8,249,649	14,445	-	8,264,094
Total noncurrent liabilities	8,365,892	14,445	-	8,380,337
Total liabilities	9,086,221	26,583	-	9,112,804
Net Position				
Net investment in capital assets	3,325,095	366,362	-	3,691,457
Restricted for debt service	312,110	-	-	312,110
Unrestricted	75,481	15,912	94,830	186,223
Total net position	\$ 3,712,686	\$ 382,274	\$ 94,830	\$ 4,189,790

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Revenues, Expenses and Change in Net position (Modified Cash Basis) –
Year Ended June 30, 2019**

	Pawnee Public Works Authority	Pawnee Industrial Authority	Pawnee Municipal Authority	Total
Operating revenues:				
Charges for sales and services:				
Electric	\$ 2,272,813	\$ -	\$ -	\$ 2,272,813
Water	445,749	-	-	445,749
Sewer	219,224	-	-	219,224
Refuse	236,545	-	-	236,545
Utility improvement	150,513	-	-	150,513
Penalties	64,264	-	-	64,264
Other	113,600	17,059	-	130,659
Total operating revenues	<u>3,502,708</u>	<u>17,059</u>	<u>-</u>	<u>3,519,767</u>
Operating expenses:				
Electricity purchases	1,208,052	-	-	1,208,052
Personal services	497,633	-	-	497,633
Maintenance and operations	614,509	-	35,320	649,829
Sanitation contract	174,584	-	-	174,584
Depreciation	510,650	22,881	1,691	535,222
Total operating expenses	<u>3,005,428</u>	<u>22,881</u>	<u>37,011</u>	<u>3,065,320</u>
Operating income (loss)	<u>497,280</u>	<u>(5,822)</u>	<u>(37,011)</u>	<u>454,447</u>
Nonoperating revenue (expense):				
Grants	16,480	-	-	16,480
Transfer in (out)	(278,328)	-	36,000	(242,328)
Interest and fees expense	(277,775)	(6,625)	-	(284,400)
Investment income	3,768	-	-	3,768
Total nonoperating revenue (expense)	<u>(535,855)</u>	<u>(6,625)</u>	<u>36,000</u>	<u>(506,480)</u>
Change in net position	(38,575)	(12,447)	(1,011)	(52,033)
Net position - beginning*	<u>3,751,261</u>	<u>394,721</u>	<u>95,841</u>	<u>4,241,823</u>
Net position - ending	<u>\$ 3,712,686</u>	<u>\$ 382,274</u>	<u>\$ 94,830</u>	<u>\$ 4,189,790</u>

*Restated for capital asset correction and inclusion of Pawnee Municipal Authority

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2019

	Pawnee Public Works Authority	Pawnee Industrial Authority	Pawnee Municipal Authority	Total
Cash flows from operating activities:				
Receipts from customers	\$ 3,494,918	\$ 17,059	\$ -	\$ 3,511,977
Payments to suppliers	(1,997,145)		(35,320)	(2,032,465)
Payments to employees	(579,215)	-	-	(579,215)
Net cash provided by (used in) operating activities	918,558	17,059	(35,320)	900,297
Cash flows from noncapital financing activities:				
Transfers from (to) other funds	(306,208)	-	36,000	(270,208)
Net cash flows provided by (used in) noncapital financing activities	(306,208)	-	36,000	(270,208)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(62,186)	-	-	(62,186)
Receipts of capital grants	16,480	-	-	16,480
Principal paid on capital debt	(339,324)	(9,300)	-	(348,624)
Interest and fees paid on capital debt	(277,775)	(6,625)	-	(284,400)
Net cash used in capital and related financing activities	(662,805)	(15,925)	-	(678,730)
Cash flows from investing activities				
Interest and dividends	3,768	-	-	3,768
Proceeds from sale and maturity of investments	152,775	-	-	152,775
Net cash provided by investing activities	156,543	-	-	156,543
Net increase in cash and cash equivalents	106,088	1,134	680	107,902
Cash and equivalents - beginning of year	261,341	14,778	17,632	293,751
Cash and equivalents - end of year	<u>\$ 367,429</u>	<u>\$ 15,912</u>	<u>\$ 18,312</u>	<u>\$ 401,653</u>
Reconciliation to the Statement of Net Position:				
Cash and cash equivalents	208	15,912	18,312	34,432
Restricted cash and cash equivalents	367,221	-	-	367,221
	<u>\$ 367,429</u>	<u>\$ 15,912</u>	<u>\$ 18,312</u>	<u>\$ 401,653</u>
Reconciliation of operating income to net cash provided:				
Operating income (loss)	497,280	(5,822)	(37,011)	454,447
Adjustments to reconcile operating income to net cash provided by operating activities:				
Decrease in meter deposit liability	(7,790)	-	-	(7,790)
Decrease in payroll taxes payable	(81,582)	-	-	(81,582)
Depreciation expense	510,650	22,881	1,691	535,222
Net cash provided by operating activities	<u>\$ 918,558</u>	<u>\$ 17,059</u>	<u>\$ (35,320)</u>	<u>\$ 900,297</u>

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

As discussed further in Note 1.C, these financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government: City of Pawnee
Blended Component Units: Pawnee Public Works Authority
Pawnee Industrial Authority
Pawnee Municipal Authority
Pawnee Municipal Hospital Authority

Primary Government

The City of Pawnee's primary government is a general purpose local government formed as a statutory aldermanic form of municipal government under the laws of the State of Oklahoma. The governing body is a eight-member City Council, with the mayor elected at large and serving as the head of the City government as prescribed by law or ordinance. The City operates the general government activities of the community, including police and fire protection, public works (electric, water, sewer and refuse), street and road maintenance, municipal cemetery operation, parks and other culture and recreation, and various administrative functions.

Blended Component Units

A *blended component unit* is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The City's blended component units are presented subsequently:

<i>Component Unit</i>	<i>Brief Description/Inclusion Criteria</i>
Pawnee Public Works Authority (PPWA)	A trust that operates the electric, water, sewer, and sanitation services for the City. The City is the beneficiary of the PPWA. The City Council also serves as the governing body for the PPWA. Debt issued by the Authority requires two-thirds approval of the City Council.
Pawnee Industrial Authority (PIA)	A trust created to promote the development of industry for the City. The City is the beneficiary of the PIA. The City Council also serves as the governing body for the PIA. Debt issued by the Authority requires two-thirds approval of the City Council.

Pawnee Municipal Hospital Authority (PMHA)	A trust that was created to finance, operate, construct, administer, or lease a hospital facility for the City. The City is the beneficiary of the PMHA. The City Council also serves as the governing body for the PMHA. Debt issued by the Authority requires two-thirds approval of the City Council.
Pawnee Municipal Authority (PMA)	A trust that was created to build and operate recreational facilities and promote economic development for the City. The City is the beneficiary of the PMA. The City Council also serves as the governing body for the PMA. Debt issued by the Authority requires two-thirds approval of the City Council.

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

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position or fund balance, revenues, and expenditures or expenses. The City's funds are organized into two main categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of the category or type.
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Project Fund

Capital project funds are used to account for and report financial resources restricted, committed, or assigned for capital outlays, including the acquisition or construction of specific capital facilities or other capital items. The City currently does not have any capital project funds.

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specific purposes other than debt service or capital projects. The following special revenue funds, are reported as non-major funds:

<i>Fund</i>	<i>Brief Description</i>
Street and Alley Fund	Funded from motor vehicle tax and State shared motor fuel tax constrained by State Law for the purpose of construction, maintenance, and/or repair of streets and alleys.
911 Fund	Accounts for funds levied for emergency dispatch services
Cemetery Fund	Funded by the revenue from lot sales and interments, constrained to a separate fund by action of the City Council, committed to maintenance and provision of services for the cemetery.
Cemetery Perpetual Care Fund	Funded by 12.5% of revenue from lot sales and interments restricted to purchasing cemetery land or making cemetery capital improvements.
Pawnee Municipal Hospital Authority Fund	Accounts for lease revenue and maintenance of the hospital

Debt Service Fund

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The following fund is reported as a non-major fund:

<i>Fund</i>	<i>Brief Description</i>
Sinking fund	Accounts for the receipt of property taxes levied by the City that are restricted for the payment of principal and interest for general obligation bonds.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<i>Fund</i>	<i>Brief Description</i>
Pawnee Public Works Authority Fund	component unit, in providing electric, water, wastewater, and sanitation services to the public.
Pawnee Industrial Authority Fund	unit. Activities include leasing and maintenance of a commercial building
Pawnee Municipal Authority Fund	component unit. Activities include the operation and maintenance of a public golf course.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting is used as appropriate:

- a) All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City utilized accounting principles generally accepted in the United States of America, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented in accordance with the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of six months

or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds six months. Investments are carried at cost, which approximates fair value.

Due from Other Funds or Governments

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements as a modification to the cash basis of accounting.

Capital Assets

The City's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2001. Prior to July 1, 2001, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2001 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

- | | |
|--------------------------------------|-------------|
| • Buildings and improvements | 15-40 years |
| • Vehicles, equipment, and furniture | 5-20 years |
| • Utility systems | 15-40 years |

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-term Debt

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the governmental fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position/Fund Balance Classifications

Government-wide Statements

Net position is classified and displayed in three components:

1. **Net investment in capital assets** – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. **Restricted** – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. **Unrestricted** – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Financial Statements

Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

- **Nonspendable** – Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted** – Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the City's highest level of decision-making authority (In the City of Pawnee's case, commitments are evidenced by adoption of an ordinance by the City Council.)
- **Assigned** – Amounts constrained by the City's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the City of Pawnee, assignments are evidenced by resolution of the City Council)
- **Unassigned** – The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also the City's policy to use committed fund balance before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classification are available to be used.

The City has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Proprietary Funds

The difference among assets, deferred outflows of resources, liabilities, and deferred inflows of resources of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

E. Revenues, Expenditures, and Expenses

Sales tax

The City has levied a sales tax of 3.0 cents on each dollar of taxable sales within the City. ½ cent is restricted for debt service on the DPWA debt; ½ cent is restricted for economic development; and 1 cent is restricted for capital improvements and/or job growth if needed. The remaining 1.0 cent is recorded in the General Fund for general use of the City. In May 2019 the citizens approved an addition 0.4 cent sales tax to be used for general government purposes.

Property tax

Under State statutes, municipalities are limited in their ability to levy property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters and any court-assessed judgments.

The property tax levy, as determined by the City's debt service needs, is submitted to the County excise Board for approval. County assessors, elected officials, determine the taxable value of real estate and personal property in the County. A state Board of Equalization hears complaints on real estate values with the power to equalize assessments. Under present State law, the ratio of assessed value to true value cannot be less than 11 percent nor more than 13 ½ percent.

Property taxes levied by the City are billed and collected by the County Treasurer's Office and remitted to the City in the month following collection. Property taxes are levied normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on property in the following October. For the year ended June 30, 2019, the City did not levy a property tax.

Program revenues

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

- General government – licenses and permits
- Public Safety – fine revenue, operating and capital grants include State Department of Agriculture and US Department of Justice
- Cemetery – grave openings/closing fees and lot sales
- Culture and recreation – rental income, library fines, grants, and specific donations,

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- a) *Interfund loans* – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- b) *Interfund services* – Sales or purchases of goods and services between funds are reported as revenues and expenditures or expenses.
- c) *Interfund reimbursements* – Repayments from funds responsible for certain expenditures or expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures or expenses in the respective funds.
- d) *Interfund transfers* – Flow of assets from one fund to another when repayment is not expected and reported as transfers in and out.

Government-wide Financial Statements

Interfund activity and balances resulting from cash transactions or events, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- a) *Internal balances* – amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the “Governmental” and “Business-Type Activities” columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- b) *Internal activities* – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities, except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers-Internal Activities. The effects of interfund services between funds, if any are not eliminated in the Statement of Activities.

G. Use of Estimates

The preparation of financial statements in accordance with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

2. Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations.

3. Detail Notes – Transaction Classes and Accounts

A. Cash and Investments

For the year ended June 30, 2019, the City recognized \$6,215 of investment income. At June 30, 2019, the primary government held the following deposits and investments:

<u>Type</u>	Governmental	Business-type	Total
	<u>Activities</u>	<u>Activities</u>	
Demand deposits	\$ 131,408	\$ 89,542	\$ 220,950
Timed deposits	208,849	132,574	341,423
Government money market fund	-	312,111	312,111
Total deposits	<u>\$ 340,257</u>	<u>\$ 534,227</u>	<u>\$ 874,484</u>

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 71,708	\$ 34,432	\$ 106,140
Restricted cash and cash equivalents	59,700	367,221	426,921
Investments	153,634	75,273	228,907
Restricted investments	55,215	57,301	112,516
Total	<u>\$ 340,257</u>	<u>\$ 534,227</u>	<u>\$ 874,484</u>

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2019 all of the City's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City Council monitors the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2019, the City's deposits consisted of demand deposits and investments in a money market fund targeting short term US Treasuries. All of the City's investments had a maturity date of 12 months or less.

Investment Credit Risk – The City follows the Oklahoma state statutes that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts. As of June 30, 2019, the City did not hold any securities with credit ratings.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no policy regarding concentration of credit risk. At June 30, 2019, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for debt service.

B. Restricted Assets

The amounts reported as restricted assets are comprised of the following:

Restricted purpose:	Governmental	Business-type	Total
	Activities	Activities	
Cemetery	\$ 114,915	\$ -	\$ 114,915
Debt service funds	-	312,111	312,111
Utility deposit funds	-	112,411	112,411
	<u>\$ 114,915</u>	<u>\$ 424,522</u>	<u>\$ 539,437</u>

C. Capital Assets

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance at</u> <u>June 30, 2018*</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2019</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 134,000	-	\$ -	\$ 134,000
Total capital assets not being depreciated:	134,000	-	-	134,000
Capital assets being depreciated:				
Buildings and improvements	2,322,378	-	-	2,322,378
Furniture and movable equipment	1,943,039	183,449	-	2,126,488
Infrastructure	764,400	-	-	764,400
Total capital assets being depreciated	5,029,817	183,449	-	5,213,266
Less accumulated depreciation:				
Buildings and improvements	986,273	23,224	-	1,009,497
Furniture and movable equipment	1,647,959	82,515	-	1,730,474
Infrastructure	288,211	19,110	-	307,321
Total accumulated depreciation	2,922,443	124,849	-	3,047,292
Governmental, net capital assets	<u>\$ 2,241,374</u>	<u>58,600</u>	<u>\$ -</u>	<u>\$ 2,299,974</u>
Business-type:				
Capital assets not being depreciated:				
Land	\$ 143,735	-	\$ -	\$ 143,735
Total capital assets not being depreciated:	143,735	-	-	143,735
Capital assets being depreciated:				
Buildings/improvements	1,361,387	-	-	1,361,387
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 and movable equipment	797,198	40,096	-	837,294
Distribution system	3,145,209	22,093	-	3,167,302
Total capital assets being depreciated	20,414,936	62,189	-	20,477,125
Less accumulated depreciation				
Buildings/improvements	943,264	36,367	-	979,631
Sewer treatment facility	2,500,544	271,098	-	2,771,642
Water treatment facility	795,748	77,474	-	873,222
Electric system improvements	611,094	29,207	-	640,301
Furniture and movable equipment	727,740	21,864	-	749,604
Distribution system	1,738,881	99,212	-	1,838,093
Total accumulated depreciation	7,317,271	535,222	-	7,852,493
Business-type, net capital assets	<u>\$ 13,241,400</u>	<u>(473,033)</u>	<u>\$ -</u>	<u>\$ 12,768,367</u>

*Restated

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental activities:		Business-type activities:	
General government	\$ 4,712	Electric and water	\$ 510,650
Public safety	64,010	Sewer	22,881
Highways and roads	32,028	Recreation	1,691
Health and welfare	18,273	Total depreciation	<u>\$ 535,222</u>
Cultural, parks and recreation	5,826		
Total depreciation	<u>\$ 124,849</u>		

D. Debt Service and Coverage Requirements

For the year ended June 30, 2019, the City's long-term debt changed as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Amount Due Within One Year
Governmental Activities:					
Leases payable	\$ 90,703	\$ 50,000	\$ 66,568	\$ 74,135	\$ 25,072
Note payable	10,000	-	-	10,000	2,000
	<u>\$ 100,703</u>	<u>\$ 50,000</u>	<u>\$ 66,568</u>	<u>\$ 84,135</u>	<u>\$ 27,072</u>
Business-type:					
Lease payable	16,191	-	6,024	10,167	6,336
Settlement payable	-	225,000	7,500	217,500	45,000
Notes payable	9,332,825	20,000	580,100	8,772,725	681,131
	<u>\$ 9,349,016</u>	<u>\$ 245,000</u>	<u>\$ 593,624</u>	<u>\$ 9,000,392</u>	<u>\$ 732,467</u>

At June 30, 2019, the City had the following debt outstanding, arising from cash transactions, to be repaid from governmental activities:

City of Pawnee

Capital lease payable to First National Bank of Pawnee, dated July 29, 2015 in the amount of \$30,000 with an interest rate of 2.98%, secured by a vehicle, to be paid in 60 monthly installments of \$664.	\$ 1,438
Capital lease payable to First National Bank of Pawnee, dated June 21, 2017 in the amount of \$56,900 with an interest rate of 3.00%, secured by a loader, to be paid in 48 monthly installments of 1,260.	26,097
Capital lease payable to Armstrong Bank, dated June 20, 2017 in the amount of \$21,058 with an interest rate of 3.00%, secured by a vehicle, to be paid in 36 monthly installments of \$612.	7,494
Capital lease payable to First National Bank of Pawnee, dated August 15, 2018 in the amount of \$50,000 with an interest rate of 3.45%, secured by an ambulance, to be paid in 60 monthly installments of \$909.	39,106

Pawnee Municipal Hospital Authority

Non-recourse note payable to Pawnee County Economic Development Foundation, dated March 31, 2018 in the amount of \$10,000, bearing no interest, and is not an obligation of the City of Pawnee, to be paid in annual installments of \$1,000 beginning March 31, 2019.	<u>10,000</u>
Total to be repaid from governmental activities	<u>\$ 84,135</u>

At June 30, 2019, the City had the following debt outstanding, arising from cash transactions, to be repaid from business-type activities:

Pawnee Public Works Authority

Capital lease payable to Armstrong Bank, dated January 8, 2016 in the amount of \$29,500 with an interest rate of 2.80%, secured by a bucket truck, to be paid in monthly installments of \$528.	\$ 10,167
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Note payable to Oklahoma Water Resources Board, dated May 15, 2009 in the amount of \$1,275,000 with an interest rate of 2.39%, secured by utility assets and revenues, to be paid in semi-annual installments of \$25,500 with final payment due August 15, 2029.	464,868
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Note payable to Oklahoma Water Resources Board, dated August 15, 2013 in the amount of \$1,799,570 with an interest rate of 2.74%, secured by utility assets and revenues, to be paid in semi-annual installments with final payment due February 15, 2033.	1,302,600
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Note payable to Oklahoma Water Resources Board, dated May 4, 2011 in the amount of \$5,085,800 with an interest rate of 3.340%, secured by utility assets and revenues, to be paid in semi-annual installments with final payment due February 15, 2042.	4,644,576
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Pawnee Public Works Authority Utility System & Sales Tax Revenue Note, Taxable Series 2014, dated March 14, 2014, in the amount of \$3,005,000 with an interest rate of 3.50%, to be paid in semi-annual installments with a final payment due August 1, 2024	1,725,000
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Pawnee Public Works Authority Utility System & Sales Tax Revenue Note, Series 2014A, dated July 25, 2014, in the amount of \$755,000 with an interest rate of 2.59%, to be paid in semi-annual installments with a final payment due July 1, 2024	439,000
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Note payable to Armstrong Bank, secured by certificates of deposit, dated December 22, 2017, and to be paid in a single installment with an interest rate of 2.60%.	156,506
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Note payable to First National Bank of Pawnee, dated October 16, 2018 in the amount of \$20,000 with an interest rate of 3.75%, secured by a digger truck, to be paid in 36 monthly installments of \$588.	13,592
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Settlement payable to Lone Chimney Water Association in the amount of \$225,000 dated April 23, 2018, unsecured, payable in monthly installments of \$3,750 and bearing no interest.	217,500
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Pawnee Industrial Authority

Note payable to Central Oklahoma Economic Development District, Inc., dated March 13, 1996 in the amount of \$150,000 with an interest rate of 8.50%, secured by a commercial building, to be paid in monthly installments of \$1,16	26,583
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Total to be repaid from business-type activities	\$ 9,000,392
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Payment Requirements to Maturity:

Year ended June 30,	Governmental Activities		Business-type activities	
	Principal	Interest	Principal	Interest
2020	\$ 27,072	\$ 1,469	\$ 732,467	\$ 281,556
2021	26,075	1,253	814,138	256,334
2022	12,539	626	705,667	232,941
2023	11,640	263	722,561	211,454
2024	2,809	8	741,792	189,311
2025 to 2029	4,000	-	1,779,609	722,277
2030 to 2034	-	-	1,470,293	469,204
2035 to 2039	-	-	1,206,489	255,320
2040 to 2042	-	-	827,376	48,625
Total	<u>\$ 84,135</u>	<u>\$ 3,619</u>	<u>\$ 9,000,392</u>	<u>\$ 2,667,022</u>

E. Restatement of Prior Year Fund Balance and Net Position

The following prior year fund balance and net positions have been restated:

	Fund Balance	Net Position	
	Pawnee Municipal Hospital Fund	Pawnee Public Works Authority Fund	Business-type Activities
Fund Balance/Net Position as Reported 6/30/2018	\$ 53,367	\$ 3,801,936	\$ 4,196,657
Recharacterization of grant payable as note payable	10,000	-	-
Correction of capital assets book value		(50,675)	(50,675)
Recharacterization of Pawnee Municipal Authority as Blended Component Unit - Enterprise Fund			95,841
Fund Balance/Net Position as Restated 7/1/2018	<u>\$ 63,367</u>	<u>\$ 3,751,261</u>	<u>\$ 4,241,823</u>

4. Other Notes

A. Risk Management

The City and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The City participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

The OMAG Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State 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. A plan year

normally begins at 12:01 am on July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The City has entered into an agreement with the Plan to participate in the coverages and services that the Plan offers. The City has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the City is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The City has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

The City maintains Loss Fund balances with OMAG in respect to the City's worker's compensation retention. CompSource Oklahoma provides coverage in excess of the City's retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma to honor its obligations could result in losses to the Plan. However, OMAG's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.

B. Employee Retirement Plan Participation

Oklahoma Firefighter's Pension and Retirement System

The City participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2019, the City's annual required contribution was \$6,628 for the OFPRS plan which was equal to the City's actual contribution. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45 (the City only has volunteer firefighters)
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	None
City's contribution rate	\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by May, 1983
Death (duty, non-duty, post retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS
4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

Oklahoma Municipal Retirement Fund

The City provides a retirement plan, the Oklahoma Municipal Retirement Fund Employee Retirement System of Pawnee, Oklahoma, an agent multi-employer defined benefit plan, for all eligible employees except those covered by the OFPRS. The plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. BankOne of Oklahoma City acts as administrator and securities custodian. For 2019, the City's annual required contribution was \$55,728 for the OMRF plan which was equal to the City's actual contribution. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	Regular, full-time employees except firefighters, and other employees who are covered under an approved system
Authority establishing contribution obligations and benefit provisions	By City ordinance
Plan members' contribution rate	6% of covered pay
City's contribution rate	10.6% of covered pay
Period required to vest	7 years
Benefits	For normal retirement, 3% time the average of the five-highest consecutive annual salaries out the of last 10 calendar years of service
Eligibility for distribution	Normal retirement at age 65 with 7 years of service Early retirement at age 62 with 30 years of service (actuarially reduced based on age and years of service) Disability retirement with 7 years of service (same as normal retirement) Marital death benefit with 7 years of service (50% of employee's accrued benefit, but terminates upon spouse remarriage)
Actuarial Assumptions (last valuation July 1, 2017)	
Actuarial cost method	Entry Age Normal
Rate of Return on Investments	7.5%
Projected salary increases	Rated by age
Cost of living allowances	No
Inflation rate	2.75%
Mortality	UP 1994 tables
Asset valuation method	Actuarial method

Schedule of Pension Plan Funding Progress – OMRF Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$2,196,511	\$2,336,200	\$139,689	94.02%	\$834,357	16.74%
July 1, 2015	\$2,288,492	\$2,468,250	\$252,613	92.72%	\$865,011	29.20%
July 1, 2016	\$2,351,641	\$2,673,250	\$321,609	87.97%	\$931,567	34.52%
July 1, 2017	\$2,687,056	\$2,865,320	\$178,264	93.78%	\$963,561	18.50%
July 1, 2018	\$2,877,946	\$2,569,797	-\$308,149	111.99%	\$833,661	-36.96%

Summary of Contributions

Oklahoma Firefighter's Pension and Retirement System			Oklahoma Municipal Retirement Fund		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2017	\$ 4,476	100%	2017	\$ 89,394	100%
2018	\$ 2,991	100%	2018	\$ 87,954	100%
2019	\$ 6,628	100%	2019	\$ 55,728	100%

C. Compensated Absences

Regular, full time employees accrue vacation days per year as follows:

First Year	3.33 Hours/Month or One Week/Year
Second through Sixth Year	6.67 Hours/Month or Two Weeks/Year
Seven years and after	10 Hours/Month or Three Weeks/Year

Employees are permitted to carry vacation accruals forward from one calendar year to the next not to exceed a two year accumulation, and are paid for any unused days upon termination. In the case of death, the compensation is paid to the surviving spouse or employee's estate.

Regular full time employees also accrue paid sick leave at the rate of four hours per calendar month, not to exceed 720 hours..

Due to the modified cash basis of accounting, the City does not report a liability for compensated absences in its financial statements.

5. Commitments and Contingencies

Litigation:

From time to time, the City and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however, the City's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) The City also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:

The City of Pawnee participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the

purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

6. Subsequent Events

Subsequent to year-end the United States of America and the State of Oklahoma have declared an emergency associated with the COVID-19 pandemic. The City has been economically impacted by the event, however, the full economic effect has yet to be determined.

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through the date on which the financial statements were available to be issued and has determined that no additional disclosures are necessary.

OTHER INFORMATION

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2019 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ 30,202	\$ 30,202	\$ 17,325	\$ (12,877)
Resources (inflows)				
Taxes	768,500	768,500	710,348	(58,152)
Intergovernmental	40,000	40,000	38,760	(1,240)
Licenses and permits	41,700	41,700	7,131	(34,569)
Grants	-	3,500	94,500	91,000
Donations	18,500	18,500	300	(18,200)
Charges for services	474,000	474,000	36,295	(437,705)
Fire and ambulance	-	-	336,462	336,462
Fines and forfeitures	15,000	15,000	22,699	7,699
Investment earnings	500	500	2,246	1,746
Miscellaneous	6,500	6,500	36,349	29,849
Transfers from other funds	308,600	308,600	427,844	119,244
Total resources (inflows)	1,673,300	1,676,800	1,712,934	36,134
Amounts available for appropriation	1,703,502	1,707,002	1,730,259	23,257
Charges to appropriations (outflows):				
General government	301,000	301,000	249,465	51,535
Public safety	718,592	718,592	771,950	(53,358)
Highways and roads	141,114	141,114	139,160	1,954
Cultural, parks and recreation	208,716	208,716	197,339	11,377
Capital outlay	-	-	183,449	(183,449)
Debt service				
Principal	-	-	66,568	(66,568)
Interest	-	-	18,625	(18,625)
Transfers to other funds	278,800	278,800	-	278,800
Ending budgetary fund balance	1,648,222	1,648,222	1,626,556	21,666
	\$ 55,280	\$ 58,780	\$ 103,703	\$ 44,923

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the Mayor's approval and supplemental appropriations require the City Council's approval.

Combining Balance Sheet (Modified Cash Basis) – Non-major Governmental Funds – June 30, 2019

	SPECIAL REVENUE						DEBT SERVICE	TOTAL
	911 Fund	Cemetery Fund	Street & Alley Fund	Buffalo Theatre Fund	Cemetery Perpetual Care	Pawnee Municipal Hospital Authority	Sinking Fund	NON-MAJOR GOVERNMENTAL FUNDS
Assets								
Cash and cash equivalents	21,319	6,895	2,318	-	-	35,498	5,609	71,639
Restricted:								
Cash and cash equivalents	-	-	-	-	59,700	-	-	59,700
Investments	-	-	-	-	55,215	-	-	55,215
Total assets	<u>\$ 21,319</u>	<u>\$ 6,895</u>	<u>\$ 2,318</u>	<u>\$ -</u>	<u>\$ 114,915</u>	<u>\$ 35,498</u>	<u>\$ 5,609</u>	<u>\$ 186,554</u>
Fund Balances								
Fund balances:								
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 114,915	\$ -	\$ -	\$ 114,915
Unrestricted:								
Assigned	21,319	6,895	2,318	-	-	35,498	5,609	71,639
Total fund balances	<u>\$ 21,319</u>	<u>\$ 6,895</u>	<u>\$ 2,318</u>	<u>\$ -</u>	<u>\$ 114,915</u>	<u>\$ 35,498</u>	<u>\$ 5,609</u>	<u>\$ 186,554</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Non-major Governmental Funds – Year ended June 30, 2019

	SPECIAL REVENUE						DEBT SERVICE	TOTAL
	911 Fund	Cemetery Fund	Street & Alley Fund	Buffalo Theatre Fund	Cemetery Perpetual Care	Pawnee Municipal Hospital Authority	Sinking Fund	NON-MAJOR GOVERNMENTAL FUNDS
Revenues:								
Taxes	\$ 68,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,411
Intergovernmental	-	-	21,387	-	-	-	-	21,387
Donations	-	-	-	-	1,600	-	-	1,600
Charges for services	-	21,305	-	-	-	-	-	21,305
Interest income	-	337	-	-	-	11	3	351
Miscellaneous	-	-	201	-	-	-	-	201
Total Revenues	68,411	21,642	21,588	-	1,600	11	3	113,255
Expenditures:								
Public safety	28,959	-	-	-	-	-	-	28,959
Highways and roads	-	-	4,959	-	-	-	-	4,959
Total expenditures	28,959	-	4,959	-	-	-	-	33,918
Excess (deficiency) of revenues over expenditures	39,452	21,642	16,629	-	1,600	11	3	79,337
Other financing sources:								
Transfer from (to) other funds	(121,966)	(45,858)	(15,254)	(200)	25,641	(27,880)	-	(185,517)
Net change in fund balance	(82,514)	(24,216)	1,375	(200)	27,241	(27,869)	3	(106,180)
Fund balance - beginning*	103,833	31,111	943	200	87,674	63,367	5,606	292,734
Fund balance - ending	\$ 21,319	\$ 6,895	\$ 2,318	\$ -	\$114,915	\$ 35,498	\$ 5,609	\$ 186,554

*restated

**Combining Schedule of Net Position (Modified Cash Basis) – PPWA Accounts –
Year ended June 30, 2019**

Pawnee Public Works Authority				
Sewage				
	Water and Electric	and Solid Waste	Meter Fund	Total Combined
Assets				
Current assets:				
Cash and cash equivalents	\$ (21,265)	\$ 21,473	\$ -	\$ 208
Investments	75,273	-	-	75,273
Restricted cash and cash equivalents	153,881	158,229	55,111	367,221
Restricted investments	-	-	57,301	57,301
Total current assets	207,889	179,702	112,412	500,003
Noncurrent assets:				
Capital assets, net	4,114,936	8,183,968	-	12,298,904
Total assets	4,322,825	8,363,670	112,412	12,798,907
Liabilities				
Current liabilities:				
Lease obligation - current portion	6,336	-	-	6,336
Notes payable - current portion	539,333	174,660	-	713,993
Total current liabilities	545,669	174,660	-	720,329
Noncurrent liabilities:				
Meter deposit liability	-	-	112,412	112,412
Lease obligation - noncurrent portion	3,831	-	-	3,831
Notes payable - noncurrent portion	3,314,865	4,934,784	-	8,249,649
Total noncurrent liabilities	3,318,696	4,934,784	112,412	8,365,892
Total liabilities	3,864,365	5,109,444	112,412	9,086,221
Net Position				
Net investment in capital assets	250,571	3,074,524	-	3,325,095
Restricted for debt service	153,881	158,229	-	312,110
Unrestricted	54,008	21,473	-	75,481
Total net position	\$ 458,460	\$ 3,254,226	\$ -	\$ 3,712,686

**Combining Schedule of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) –
PPWA Accounts – June 30, 2019**

	Pawnee Public Works Authority			
	Water and Electric	Sewage and Solid Waste	Meter Fund	Total Combined
Operating revenues:				
Charges for sales and services:				
Electric	\$ 2,272,813	\$ -	\$ -	\$ 2,272,813
Water	445,749	-	-	445,749
Sewer	-	219,224	-	219,224
Refuse	-	236,545	-	236,545
Utility improvement	-	150,513	-	150,513
Penalties	64,264	-	-	64,264
Miscellaneous	113,565	35	-	113,600
Total operating revenues	2,896,391	606,317	-	3,502,708
Operating expenses:				
Electricity purchases	1,208,052	-	-	1,208,052
Personal services	437,027	60,606	-	497,633
Maintenance and operations	547,539	66,970	-	614,509
Sanitation contract	-	174,584	-	174,584
Depreciation	230,252	280,398	-	510,650
Total operating expenses	2,422,870	582,558	-	3,005,428
Operating income (loss)	473,521	23,759	-	497,280
Nonoperating revenue (expense):				
Grants	16,480	-	-	16,480
Transfer in (out)	(278,328)	-	-	(278,328)
Intrafund	218,947	(218,947)	-	-
Interest and fees expense	(188,351)	(89,424)	-	(277,775)
Investment income	2,981	787	-	3,768
Total nonoperating revenue (expense)	(228,271)	(307,584)	-	(535,855)
Change in net position	245,250	(283,825)	-	(38,575)
Net position - beginning*	213,210	3,538,051	-	3,751,261
Net position - ending	\$ 458,460	\$ 3,254,226	\$ -	\$ 3,712,686

*Restated for capital asset correction

Combining Schedule of Cash Flows (Modified Cash Basis) –
PPWA Accounts – Year Ended June 30, 2019

	Pawnee Public Works Authority			
	Water and Electric	Sewage and Solid Waste	Meter Fund	Total Combined
Cash flows from operating activities:				
Receipts from (refunds to) customers	\$ 2,896,391	\$ 606,317	\$ (7,790)	\$ 3,494,918
Payments to suppliers	(1,755,591)	(241,554)	-	(1,997,145)
Payments to employees	(518,609)	(60,606)	-	(579,215)
Net cash provided (used) by operating activities	622,191	304,157	(7,790)	918,558
Cash flows from noncapital financing activities:				
Intrafund transfers	218,947	(218,947)	-	-
Transfers to other funds	(306,208)	-	-	(306,208)
Net cash flows used in noncapital financing activities	(87,261)	(218,947)	-	(306,208)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(44,107)	(18,079)	-	(62,186)
Receipts of capital grants	16,480	-	-	16,480
Principal paid on capital debt	(167,134)	(172,190)	-	(339,324)
Interest and fees paid on capital debt	(188,351)	(89,424)	-	(277,775)
Net cash used in capital and related financing activities	(383,112)	(279,693)	-	(662,805)
Cash flows from investing activities				
Interest and dividends	2,981	787	-	3,768
Proceeds from sale and maturity of investments	93,429	59,346	-	152,775
Net cash provided by investing activities	96,410	60,133	-	156,543
Net increase (decrease) in cash and cash equivalents	248,228	(134,350)	(7,790)	106,088
Cash and equivalents - beginning of year	(115,612)	314,052	62,901	261,341
Cash and equivalents - end of year	<u>\$ 132,616</u>	<u>\$ 179,702</u>	<u>\$ 55,111</u>	<u>\$ 367,429</u>
Reconciliation to the Statement of Net Position:				
Cash and cash equivalents	\$ (21,265)	\$ 21,473	\$ -	\$ 208
Restricted cash and cash equivalents	153,881	158,229	55,111	367,221
	<u>\$ 132,616</u>	<u>\$ 179,702</u>	<u>\$ 55,111</u>	<u>\$ 367,429</u>
Reconciliation of operating income to net cash provided:				
Operating income	473,521	23,759	-	497,280
Adjustments to reconcile operating income to net cash provided by operating activities:				
Decrease in meter deposit liability	-	-	(7,790)	(7,790)
Decrease in payroll taxes payable	(81,582)	-	-	(81,582)
Depreciation expense	230,252	280,398	-	510,650
Net cash provided by operating activities	<u>\$ 622,191</u>	<u>\$ 304,157</u>	<u>\$ (7,790)</u>	<u>\$ 918,558</u>

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INDEPENDENT AUDITOR'S REPORT ON CONTROL AND
COMPLIANCE



Elfrink and Associates, PLLC

Certified Public Accountants

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

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

We 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 of the City of Pawnee, Oklahoma as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Pawnee, Oklahoma's basic financial statements, and have issued our report thereon dated June 5, 2020. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pawnee, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pawnee, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pawnee, Oklahoma's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items 2019-01 and 2019-02 that we consider to be material weaknesses.

Compliance and Other Matters

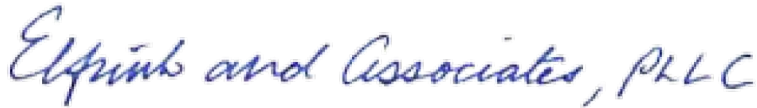
As part of obtaining reasonable assurance about whether the City of Pawnee, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and management responses as item 2019-03.

The City of Pawnee, Oklahoma's Responses to Findings

The City of Pawnee, Oklahoma's responses to the findings identified in our audit is described in the accompanying schedule of findings and management responses. The City of Pawnee, Oklahoma's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Elfrink and Associates, PLLC". The script is cursive and fluid.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

June 5, 2020

SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES

This schedule is presented as an addendum to accompany the *“Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”*. Consideration of the items listed should be made in conjunction with that report.

2019-01 – Stale Dated Checks

CRITERIA: Outstanding items on bank account reconciliations should be resolved in a timely manner to assure an accurate reported cash balance.

CONDITION: On the City’s general operating account, we noted 51 outstanding checks, totaling \$19,746, including 8 paychecks, that were older than six months and did not clear the bank in July 2019.

CAUSE OF CONDITION: Reconciling items are not being reviewed and cleared in a timely fashion.

POTENTIAL EFFECT OF CONDITION: The bank account balance may not be correctly reported. If a payroll check is issued incorrectly and not voided on the system, it could cause the W2 and 941 to be reported incorrectly. Theft could take place by redirecting an old outstanding item.

RECOMMENDATION: Outstanding items not clearing within 6 months should be researched and either reissued, escheated, or voided.

RESPONSE: Stale dated checks are being researched and will be resolved either through voiding or re-issuing.

2019-02 – Accounting Records

CRITERIA: The City should maintain accounting records that clearly indicate activity by fund where separate funds are required. The accounting system should provide a clear track to the source and use of funds by fund and department.

CONDITION: Receipts are being deposited in special revenue fund accounts and then transfers are being made to the general fund to reimburse the expenditure for a dedicated purpose from the general fund, making it difficult to track compliance as it applies to the use of the funds. The initial trial balance showed a large negative cash balance in the general fund although there were no overdrawn accounts due to the transfers being recorded as a “due from general fund” and the budgeted transfers from the PPWA fund to the general fund were not recorded. In addition, although we had general ledger detail for the City overall, we did not have general ledger detail by fund which prevented the tracking of individual transactions by fund identity.

CAUSE OF CONDITION: The City is using Quickbooks for its accounting system which does not easily adapt to fund accounting. Because of the volume of activity, it is difficult to obtain reports of the detail due to the file size limitations. In addition, the software does not provide a good audit trail as transactions may be changed at any time. The City may be too large and complex for this type of software.

POTENTIAL EFFECT OF CONDITION: Transactions could be reported in the wrong fund or department. Cash balances by fund may not be accurate. Information used for monitoring financial activity during the year may not be correct. The requirement for repetitive transfers between bank accounts creates unnecessary work for City personnel and makes bank reconciliations as well as accounting by fund more difficult.

RECOMMENDATION: The City should consider the implementation of an accounting system with good integrity that is designed to handle fund accounting.

RESPONSE: Separate accounts have been opened and will be utilized for expenditures. E-checks from the general fund for the Pawnee Public Works have been utilized in the past for expenditures. This procedure has been discontinued and Public Works expenditures will be paid directly from the new account. Due to and due from accounts will be discontinued and the strict use of classifications will allow for general ledger detail by fund. We are continuing to streamline our processes for tracking purposes.

2019-03 – Transactions with Pawnee Municipal Authority

CRITERIA: Title 62, Section 511 requires that “All funds coming into the treasurer’s possession shall be deposited daily (not later than the immediately next business day) in banks, trust companies, credit unions or savings and loan associations as designated by the State.” Title 62, Sections 310.1-310.9 address required purchasing practices and include “Purchase orders shall have written approval of a purchasing officer and an encumbering clerk prior to release.” and “The invoices, along with attached supporting documentation, shall be submitted to and examined by the governing body for review of legality. The governing body shall approve the invoices for payment in the amount determined just and correct.” A review of the Authority’s trust indenture indicates the City Council serves as the Board of Trustees for the Authority and the City is the beneficiary of the trust. Title 60 trusts are required to follow laws applicable to the handling of public funds.

CONDITION: For the month selected, the check was made out directly to the golf course manager and the assortment of bills and invoices attached did not show that they had been paid, only that they were due and often past due. It was not clear how much oversight was being given to payment of the bills and the check should not have been made to the individual. We were unable to identify where the checks made to the golf course manager or the Pawnee Municipal Authority were being deposited or verify that a bill submitted for reimbursement had been paid. We noted a total amount of checks paid of \$36,000 or \$3,000 per month.

CAUSE OF CONDITION: An agreement was in place for the golf course manager to pay the bills for the golf course. \$3,000 was to be deposited in the Pawnee Municipal Trust Authority account and the golf course manager was to pay the bills each month.

POTENTIAL EFFECT OF CONDITION: An expenditure could be determined to be unlawful. Fraud, abuse, or waste could take place and be undetected.

RECOMMENDATION: The members of the Pawnee Municipal Authority Board of Trustees should be providing oversight to the golf course management and checks should be issued to the Authority, not an individual, and the bank account the checks are deposited into should be under control of the City’s Treasurer. Purchasing procedures and the approval of invoices should follow laws applicable to public funds.

RESPONSE: New procedures and policies for the Pawnee Municipal Authority are currently being drafted. The process is to include oversight by the City Council, updating purchasing procedures and a new contract with the golf course manager.