

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2015**

CITY OF WATONGA, OKLAHOMA
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For the fiscal year ended JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Watonga
Watonga, Oklahoma

Board of Trustees
Public Works Authority
Watonga, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Watonga, State of Oklahoma, as of and for the fiscal year ended June 30, 2015, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Watonga, State of Oklahoma, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and 42–43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Watonga, Oklahoma
February 2, 2016

Within this section, the City of Watonga's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2015. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2015, the assets of the City exceeded its liabilities by \$19,998,569 (net position). Of this amount \$832,623 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compared to the previous year when assets exceeded liabilities by \$20,616,487 (restated for GASB 68).
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$18,425,575 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$740,369.
 - (3) Unrestricted net position of \$832,625 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$498,825 during the fiscal year.
- After transfers of \$869,899 from business-type activities to governmental activities, net position of governmental activities decreased \$465,431 or 5.08%, and net position of business-type activities decreased \$152,487 or 1.33%. Overall the health of the City declined when compared to prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,070,045 or 45.11% of total General Fund expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual reporting includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status and are presented to demonstrate the extent the City has met its operating objective efficiently and effectively using all the resourced available and whether the City can continue to meet it objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other financial factors such as diversification of the taxpayer base or the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year and can be used to assess the City's operating results in its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement

of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-type activities include utility services, including electricity, water, and sanitation, provided by the City.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units).

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statement is included in the basic financial statement for governmental funds deemed as major. This statement demonstrates compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has one type of proprietary fund, enterprise funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as water, sanitation, and electric utilities.

Proprietary fund statements and statements for discretely presented component units (reporting similarly to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Fiduciary funds such as the meter deposit funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. Those notes to the financial statement begin immediately following the basic financial statements.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position at June 30, 2015 is \$19,998,569. This is a \$617,918 decrease (of which \$1,531,969 is depreciation- a non-cash expense) over June 30, 2014 net position of \$20,616,487. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$8,689,824 and \$11,308,745, respectively. The City's overall financial position declined during fiscal year 2015.

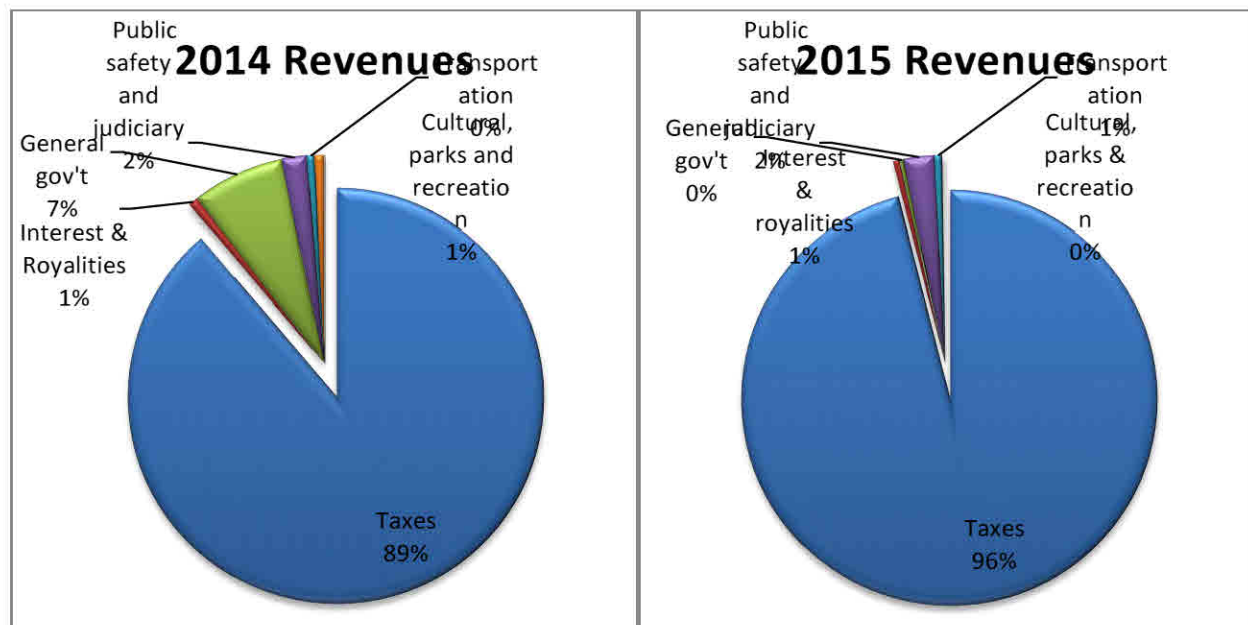
	Summary of Net Position						\$	%
	Governmental Activities		Business-Type Activities		Total			
	2015	2014	2015	2014	2015	2014		
Current assets	\$ 2,719,040	\$ 2,867,036	\$ 1,234,863	\$ 1,082,134	\$ 3,953,903	\$ 3,949,170	\$ 4,733	0%
Non-current assets	16,966	-	-	-	16,966	-	16,966	100%
Capital assets, net	9,123,001	9,819,675	10,395,794	10,662,454	19,518,795	20,482,129	(963,334)	-5%
Total assets	11,859,007	12,686,711	11,630,657	11,744,588	23,489,664	24,431,299	(941,635)	-4%
Deferred outflow s								
Deferred charges-pension	223,935	-	-	-	223,935	-	223,935	100%
Current liabilities	69,786	61,242	310,407	249,684	380,193	310,926	69,267	22%
Non-current liabilities	2,924,289	3,470,214	11,505	33,672	2,935,794	3,503,886	(568,092)	-16%
Total liabilities	2,994,075	3,531,456	321,912	283,356	3,315,987	3,814,812	(498,825)	-13%
Deferred inflow s								
Deferred charges-pension	399,043	-	-	-	399,043	-	399,043	100%
Net assets								
Invested in capital assets, net of related debt	8,063,453	8,711,192	10,362,122	10,607,693	18,425,575	19,318,885	(893,310)	-5%
Restricted	740,369	736,237	-	-	740,369	736,237	4,132	1%
Unrestricted	(113,998)	(292,174)	946,623	853,539	832,625	561,365	271,260	48%
Total net position	\$ 8,689,824	\$ 9,155,255	\$ 11,308,745	\$ 11,461,232	\$ 19,998,569	\$ 20,616,487	\$ (617,918)	-3%

Summary of Statement of Activities

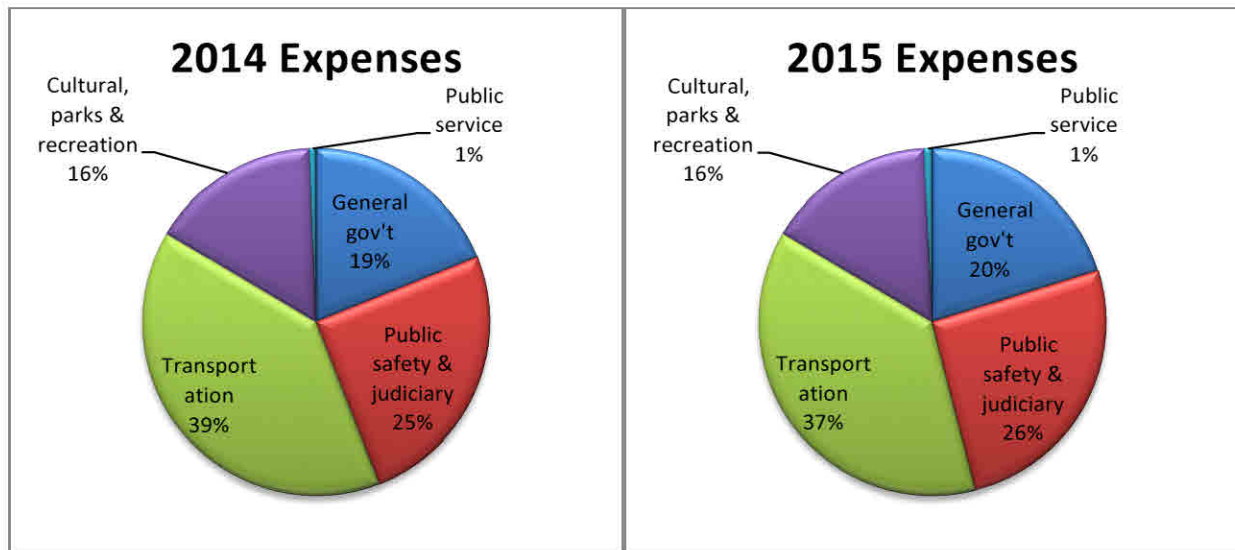
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2015	2014	2015	2014	2015	2014		
Revenues								
Program revenues	\$ 81,476	\$ 246,350	\$ 4,371,402	\$ 4,094,300	\$ 4,452,878	\$ 4,340,650	\$ 112,228	3%
Taxes and other general revenues	2,580,860	2,151,003	1,607	1,795	2,582,467	2,152,798	429,669	20%
Total revenues	2,662,336	2,397,353	4,373,009	4,096,095	7,035,345	6,493,448	541,897	8%
Expenses								
General government	666,956	591,350	-	-	666,956	591,350	75,606	13%
Public safety and judiciary	851,063	785,896	-	-	851,063	785,896	65,167	8%
Transportation	1,241,250	1,234,440	-	-	1,241,250	1,234,440	6,810	1%
Cultural, parks, and recreation	518,925	495,992	-	-	518,925	495,992	22,933	5%
Public service	24,652	18,950	-	-	24,652	18,950	5,702	100%
Economic development	-	-	-	2,272	0	2,272	(2,272)	100%
Electric	-	-	2,246,795	2,505,284	2,246,795	2,505,284	(258,489)	-10%
Water	-	-	344,330	350,603	344,330	350,603	(6,273)	-2%
Sewer	-	-	292,915	268,546	292,915	268,546	24,369	9%
Sanitation	-	-	226,134	132,138	226,134	132,138	93,996	71%
Healthcare	-	-	26,200	18,231	26,200	18,231	7,969	44%
Airport	-	-	206,617	196,834	206,617	196,834	9,783	5%
Administration	-	-	312,606	305,784	312,606	305,784	6,822	2%
Total expenses	3,302,846	3,126,628	3,655,597	3,779,692	6,958,443	6,906,320	52,123	1%
Excess (deficiency) before transfers	\$ (640,510)	\$ (729,275)	\$ 717,412	\$ 316,403	\$ 76,902	\$ (412,872)	\$ 489,774	-119%
Transfers - internal	869,899	362,904	(869,899)	(362,904)	-	-	-	0%
Transfers to lessee- healthcare	(694,820)	(683,570)	-	-	(694,820)	(683,570)	(11,250)	0%
Increase (decrease) in net assets	\$ (465,431)	\$ (1,049,941)	\$ (152,487)	\$ (46,501)	\$ (617,918)	\$ (1,096,442)	\$ 478,524	-44%

Revenues for the City increased 8.35% over the prior year. This decrease in revenues is mainly attributable to an increase in sales tax and electric, water & sanitation charges. Operating expenses increased over prior fiscal year 2014 with a .75% change.

Graphic presentations of selected data from the summary table follow to assist in the analysis of the City's activities.

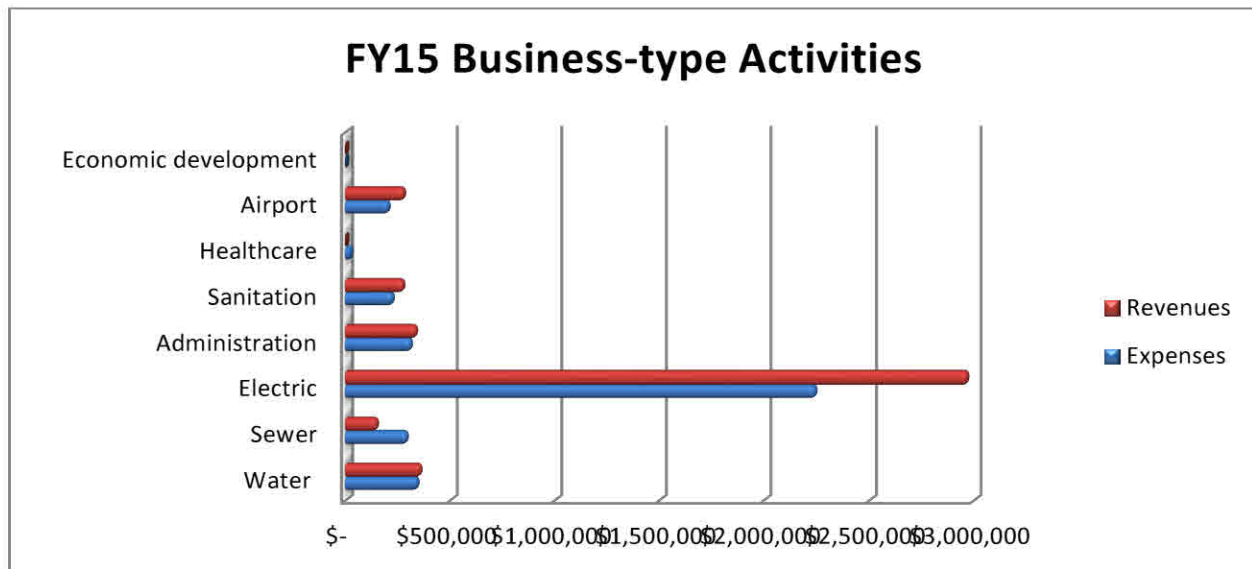


Taxes proved for 96% of the City's governmental revenues in fiscal year 2015. Public safety and judiciary followed as the second major revenue source accounting for 2% of governmental revenues.



For the year ended June 30, 2015, total expenses for governmental activities were \$3,302,846. Of this amount, transportation with \$1,241,250 was the largest operating service department at 38% of the total cost of services for governmental activities. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Light and Water fund. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2015, revenues from electric, water, sanitation and airport services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The adopted budget for the General Fund for fiscal year 2015 was \$2,445,725. Actual expenses were \$54,827 less than budgeted amounts. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the City had \$19,518,795 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 650,540	\$ 650,540	\$ 73,020	\$ 73,020	\$ 723,560	\$ 723,560
Buildings	158,190	154,026	1,990,646	1,901,054	2,148,836	2,055,080
Machinery & equipment	827,377	901,065	355,481	340,687	1,182,858	1,241,752
Utility property & improvements	7,486,894	8,114,044	7,976,647	8,347,693	15,463,541	16,461,737
Totals	\$ 9,123,001	\$ 9,819,675	\$10,395,794	\$ 10,662,454	\$ 19,518,795	\$ 20,482,129

- In Governmental Activities, the most significant additions included various computers; an air conditioning unit for the theatre, a fire brush truck and new windows for the fire department; Super Z lawnmower for the street department; remodel of the scout hut, bathroom remodel at huff Lorang, Splash pad equipment, playground equipment, and Excel Hustler mower for the parks department.
- In Business-type activities capital additions included a 2015 Chevy truck for the electric department, various transformers, John Deere gator and fencing for the airport, and Airgas equipment for the hospital.

Long-Term Debt

At year-end, the City had \$1,563,672 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Governmental		Business-type	
	Activities		Activities	
	2015	2014	2015	2014
Notes payable	-	-	33,672	54,761
Bonds payable	1,530,000	1,620,000	-	-
less current portion	-	-	(22,167)	(21,087)
Totals	\$ 1,530,000	\$ 1,620,000	\$ 11,505	\$ 33,674

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

The national economic recession resulted in economic concerns and issues for the City. Sales tax revenues increased slightly this fiscal year. Because the City has effective processes in place to deal with the economic declines, the impact of the national recession on the City has not been as detrimental as it has in other cities and other part of the country. Recent oil prices can have an impact on the local economy. A new Walmart opened in the City of Watonga in early 2015. Improvement in the economic position continues to be cautiously projected.

Fiscal Year 2015

The City falls under the Estimate of Needs budget basis. Recurring revenues, including sales and use taxes, are budgeted at 90% of prior year collections. Utility revenues were budgeted to increase by 2%. This approach will ensure that any further decline in the economic can be absorbed by the City.

Operating expenses are budgeted consistent with prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Watonga City Hall.

City of Watonga, Oklahoma
Statement of Net Position
June 30, 2015

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 461,074	\$ 683,851	\$ 1,144,925
Investments	846,514	150,000	996,514
Due from other governments	207,543	-	207,543
Accounts receivable (net)	-	398,656	398,656
Internal balances	(2,356)	2,356	-
Total current assets	<u>1,512,775</u>	<u>1,234,863</u>	<u>2,747,638</u>
Restricted assets:			
Cash and cash equivalents	1,206,265	-	1,206,265
Total restricted assets	<u>1,206,265</u>	<u>-</u>	<u>1,206,265</u>
Noncurrent Assets:			
Pension asset	16,966	-	16,966
Land and construction in progress	650,540	69,070	719,610
Other capital assets (net of accumulated depreciation)	8,472,461	10,326,724	18,799,185
Total noncurrent assets	<u>9,139,967</u>	<u>10,395,794</u>	<u>19,535,761</u>
Total assets	<u>11,859,007</u>	<u>11,630,657</u>	<u>23,489,664</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on pension obligations	\$ 223,935	\$ -	\$ 223,935
LIABILITIES			
Current liabilities:			
Accounts payable	\$ (2,079)	\$ 255,019	\$ 252,940
Wages and benefits payable	33,604	14,821	48,425
Compensated absences	38,261	9,524	47,785
Other liabilities	-	8,876	8,876
Notes payable, current	-	22,167	22,167
Total current liabilities	<u>69,786</u>	<u>310,407</u>	<u>380,193</u>
Noncurrent liabilities:			
Pension liability	1,384,755	-	1,384,755
Notes payable	-	11,505	11,505
Bonds payable, net of premium	1,539,534	-	1,539,534
Total noncurrent liabilities	<u>2,924,289</u>	<u>11,505</u>	<u>2,935,794</u>
Total liabilities	<u>2,994,075</u>	<u>321,912</u>	<u>3,315,987</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred charges on pension obligations	399,043	-	399,043
NET POSITION			
Invested in capital assets, net of related debt	8,063,453	10,362,122	18,425,575
Reserved for restricted purposes	740,369	-	740,369
Unrestricted	(113,998)	946,623	832,625
Total net position	<u>\$ 8,689,824</u>	<u>\$ 11,308,745</u>	<u>\$ 19,998,569</u>

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 666,956	\$ 4,577	\$ 2,772	\$ -
Public safety and judiciary	851,063	50,800	4,484	-
Transportation	1,241,250	12,923	-	-
Cultural, parks and recreation	518,925	-	5,920	-
Public service	24,652	-	-	-
Total governmental activities	<u>3,302,846</u>	<u>68,300</u>	<u>13,176</u>	<u>-</u>
Business-type activities:				
Water	344,330	358,498	-	-
Sewer	292,915	150,558	-	-
Electric	2,246,795	2,968,003	-	-
Administration	312,606	337,662	-	-
Sanitation	226,134	276,585	-	-
Healthcare	26,200	-	-	-
Airport	206,617	49,050	-	231,046
Economic development	-	-	-	-
Total business-type activities	<u>3,655,597</u>	<u>4,140,356</u>	<u>-</u>	<u>231,046</u>
Total primary government	<u>\$ 6,958,443</u>	<u>\$ 4,208,656</u>	<u>\$ 13,176</u>	<u>\$ 231,046</u>
				<u>\$ (2,505,565)</u>

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2015

Changes in Net Position:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense)/revenue	\$ (3,221,370)	\$ 715,805	\$ (2,505,565)
General revenues:			
Taxes:			
Sales tax	1,788,207	-	1,788,207
Use tax	166,036	-	166,036
Franchise tax	31,680	-	31,680
Property tax	135,003	-	135,003
Other taxes	110,148	-	110,148
Oil and gas royalties	1,196	-	1,196
Investment income	10,185	1,607	11,792
Pension change	297,219		297,219
Miscellaneous	41,186	-	41,186
Transfers-Internal activity	869,899	(869,899)	-
Transfers to lessee- healthcare	(694,820)	-	(694,820)
Total general revenues and transfers	<u>2,755,939</u>	<u>(868,292)</u>	<u>1,887,647</u>
Change in net position	(465,431)	(152,487)	(617,918)
Net position-beginning	10,995,371	11,461,232	22,456,603
Restatement	(1,840,116)		(1,840,116)
		-	-
Net position-ending	<u>\$ 8,689,824</u>	<u>\$ 11,308,745</u>	<u>\$ 19,998,569</u>

City of Watonga, Oklahoma
Balance Sheet
June 30, 2015

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improvement)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 183,493	\$ 33,558	\$ 92,526	\$ 37,225	\$ 201,423	\$ 1,076,514	\$ 42,600	\$ 1,667,339
Investments	846,514	-	-	-	-	-	-	846,514
Due from other governments	112,180	791	-	75,657	18,915	-	-	207,543
Total assets	<u>\$ 1,142,187</u>	<u>\$ 34,349</u>	<u>\$ 92,526</u>	<u>\$ 112,882</u>	<u>\$ 220,338</u>	<u>\$ 1,076,514</u>	<u>\$ 42,600</u>	<u>\$ 2,721,396</u>
LIABILITIES								
Accounts payable	\$ (2,079)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,079)
Wages and benefits payable	33,604	-	-	-	-	-	-	33,604
Compensated absences	38,261	-	-	-	-	-	-	38,261
Due to other funds	2,356	-	-	-	-	-	-	2,356
Total liabilities	<u>72,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,142</u>
FUND BALANCES								
Restricted	-	34,349	92,526	-	-	1,076,514	-	1,203,389
Committed	-	-	-	112,882	220,338	-	-	333,220
Assigned	-	-	-	-	-	-	42,600	42,600
Unassigned	1,070,045	-	-	-	-	-	-	1,070,045
Total fund balances	<u>1,070,045</u>	<u>34,349</u>	<u>92,526</u>	<u>112,882</u>	<u>220,338</u>	<u>1,076,514</u>	<u>42,600</u>	<u>2,649,254</u>
Total liabilities and fund balances	<u>\$ 1,142,187</u>	<u>\$ 34,349</u>	<u>\$ 92,526</u>	<u>\$ 112,882</u>	<u>\$ 220,338</u>	<u>\$ 1,076,514</u>	<u>\$ 42,600</u>	<u>\$ 2,721,396</u>
Total fund balance- total governmental funds								\$ 2,649,254
Amounts reported for governmental activities in the Statement of Net Position are different because:								
Land and capital assets, net of accumulated depreciation, are not financial resources and, in the funds, and therefore, are not reported								
							650,540	
							25,294,150	
							<u>(16,821,689)</u>	9,123,001
Long-term portion of liabilities are not due and payable in the current period and are not reported								
								(1,539,534)
								16,966
								223,935
								(1,384,755)
								<u>(399,043)</u>
Net assets of governmental activities								<u>\$ 8,689,824</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2015

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improve)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
REVENUES								
Sales tax	\$ 894,103	\$ -	\$ -	\$ 715,283	\$ 178,821	\$ -	\$ -	\$ 1,788,207
Use tax	166,036	-	-	-	-	-	-	166,036
Franchise tax	31,680	-	-	-	-	-	-	31,680
Other taxes	83,357	26,791	-	-	-	-	-	110,148
Property taxes	-	-	135,003	-	-	-	-	135,003
Licenses and permits	4,577	-	-	-	-	-	-	4,577
Rents & royalties	1,196	-	-	-	-	-	-	1,196
Fines and forfeitures	50,770	-	-	-	-	-	-	50,770
Charges for services	3,230	9,000	-	-	-	-	-	12,230
Intergovernmental revenues	-	-	-	-	-	-	10,404	10,404
Donations	-	-	-	-	-	-	2,772	2,772
Other revenues	41,186	725	-	-	-	-	-	41,911
Interest	7,864	27	82	157	107	1,918	30	10,185
Total revenues	1,283,999	36,543	135,085	715,440	178,928	1,918	13,208	2,365,119
EXPENDITURES								
Current								
General government:								
General government	364,322	-	-	-	-	-	23,781	388,103
Managerial	15,256	-	-	-	-	-	-	15,256
City clerk	143,983	-	-	-	-	-	-	143,983
City treasurer	16,077	-	-	-	-	-	-	16,077
City attorney	47,542	-	-	-	-	-	-	47,542
Total general government	587,180	-	-	-	-	-	23,781	610,961
Public safety and judiciary:								
Municipal court	10,497	-	-	-	-	-	-	10,497
Police	514,482	-	-	-	-	-	-	514,482
Fire	244,718	-	-	-	-	-	-	244,718
Code enforcement	24,272	-	-	-	-	-	-	24,272
Total public safety and judiciary	793,969	-	-	-	-	-	-	793,969
Transportation:								
Street	501,582	52,206	-	-	-	-	-	553,788
Total transportation	501,582	52,206	-	-	-	-	-	553,788
Cultural, parks and recreation:								
Library	222,300	-	-	-	-	-	8,337	230,637
Park	226,859	-	-	-	2,048	-	-	228,907
Total cultural, parks and recreation	449,159	-	-	-	2,048	-	8,337	459,544
Public services:								
Airport	24,652	-	-	-	-	-	-	24,652
Total public service	24,652	-	-	-	-	-	-	24,652
Capital outlay	15,443	7,730	-	-	80,549	-	13,947	117,669
Debt service								
Principal	-	-	90,000	-	-	-	-	90,000
Interest	-	-	46,155	-	-	-	-	46,155
Fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	2,371,985	59,936	136,155	-	82,597	-	46,065	2,696,738
Excess (deficiency) of revenues over expenditures	(1,087,986)	(23,393)	(1,070)	715,440	96,331	1,918	(32,859)	(331,619)
OTHER FINANCING SOURCES (USES)								
Transfers in	1,007,995	-	1,969	23,858	60,842	-	51,503	1,146,167
Transfers out	(98,379)	-	-	(74,524)	(30,914)	(33,887)	(38,564)	(276,268)
Transfers out to lessee- healthcare	-	-	-	(694,820)	-	-	-	(694,820)
Premium on bonds	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Total other financing sources and uses	909,616	-	1,969	(745,486)	29,928	(33,887)	12,939	175,079
Net change in fund balances	(178,370)	(23,393)	899	(30,046)	126,259	(31,969)	(19,920)	(156,540)
Fund balances - beginning	1,248,415	57,742	91,627	142,928	94,079	1,108,483	62,520	2,805,794
Fund balances - ending	\$ 1,070,045	\$ 34,349	\$ 92,526	\$ 112,882	\$ 220,338	\$ 1,076,514	\$ 42,600	\$ 2,649,254

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2015

Reconciliation of the change in fund balances - total governmental funds
to the change in net position of governmental activities:

Net change in fund balances - total governmental funds \$ (156,540)

Amounts reported for governmental activities in the Statement of Activities are
different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital asset purchases capitalized	117,669	
Depreciation expense	<u>(814,343)</u>	(696,674)

Government-Wide Statement of Activities report the cost of pension benefits
earned net of employee contributions is reported as an element of pension. 297,219
The fund financial statements report pension contributions as expenditures.

The proceeds of debt issuances provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the statement of net position.
Repayment of debt principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net position.

Debt principal payments	90,000	
Premium on bonds	564	<u>90,564</u>

Change in Net Position of Governmental Activities \$ (465,431)

City of Watonga, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2015

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 666,108	\$ -	\$ 17,743	\$ 683,851
Investments	150,000	-	-	150,000
Accounts receivable, net	398,656	-	-	398,656
Due from other funds	2,356	-	-	2,356
Total current assets	<u>1,217,120</u>	<u>-</u>	<u>17,743</u>	<u>1,234,863</u>
Noncurrent assets:				
Capital assets (net)	8,290,393	317,873	1,787,528	10,395,794
Total noncurrent assets	<u>8,290,393</u>	<u>317,873</u>	<u>1,787,528</u>	<u>10,395,794</u>
Total assets	<u>\$ 9,507,513</u>	<u>\$ 317,873</u>	<u>\$ 1,805,271</u>	<u>\$ 11,630,657</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 255,019	\$ -	\$ -	\$ 255,019
Wages and benefits payable	24,345	-	-	24,345
Other liabilities	8,876	-	-	8,876
Notes payable, current	-	-	22,167	22,167
Total current liabilities	<u>288,240</u>	<u>-</u>	<u>22,167</u>	<u>310,407</u>
Noncurrent liabilities:				
Notes payable, non-current	-	-	11,505	11,505
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>11,505</u>	<u>11,505</u>
Total liabilities	<u>288,240</u>	<u>-</u>	<u>33,672</u>	<u>321,912</u>
NET POSITION				
Invested in capital assets, net of related debt	8,290,393	317,873	1,753,856	10,362,122
Unrestricted	928,880	-	17,743	946,623
Total net position	<u>\$ 9,219,273</u>	<u>\$ 317,873</u>	<u>\$ 1,771,599</u>	<u>\$ 11,308,745</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2015

	<u>Light and Water Fund</u>	<u>Hospital Authority Fund</u>	<u>Public Works Authority</u>	<u>Total Enterprise Funds</u>
<u>Operating revenues:</u>				
Charges for services:				
Water charges	\$ 358,498	\$ -	\$ -	\$ 358,498
Sewer charges	150,558	-	-	150,558
Electric charges	2,968,003	-	-	2,968,003
Sanitation charges	276,585	-	-	276,585
Sale of fuel	-	-	23,800	23,800
Penalties	57,205	-	-	57,205
Total charges for services	<u>3,810,849</u>	<u>-</u>	<u>23,800</u>	<u>3,834,649</u>
Lease and rental income	-	-	25,250	25,250
Other fees and charges	280,457	-	-	280,457
Total operating revenues	<u>4,091,306</u>	<u>-</u>	<u>49,050</u>	<u>4,140,356</u>
<u>Operating expenses:</u>				
Cost of sales	2,021,882		-	2,021,882
Personal services	503,188		-	503,188
Materials and supplies	194,913	-	7,443	202,356
Other services and charges	166,411	-	41,872	208,283
Depreciation and amortization	536,386	26,200	155,040	717,626
Total operating expenses	<u>3,422,780</u>	<u>26,200</u>	<u>204,355</u>	<u>3,653,335</u>
Net operating income	668,526	(26,200)	(155,305)	487,021
<u>Nonoperating revenue (expense):</u>				
Grants operating	-	-	231,046	231,046
Investment income	1,586	-	21	1,607
Interest expense	-	-	(2,262)	(2,262)
Total nonoperating revenue/(expense)	<u>1,586</u>	<u>-</u>	<u>228,805</u>	<u>230,391</u>
Net income before contributions and transfers	670,112	(26,200)	73,500	717,412
<u>Contributions and transfers:</u>				
Transfers from other funds	74,521	31,918	47,082	153,521
Transfers to other funds	(1,020,120)	-	(3,300)	(1,023,420)
Change in net position	(275,487)	5,718	117,282	(152,487)
Net position-beginning of year	9,494,760	312,155	1,654,317	11,461,232
Net position-end of year	<u>\$ 9,219,273</u>	<u>\$ 317,873</u>	<u>\$ 1,771,599</u>	<u>\$ 11,308,745</u>

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 4,106,758	\$ -	\$ 49,050	\$ 4,155,808
Payments to suppliers	(2,335,160)	-	(49,315)	(2,384,475)
Payments to employees	(493,945)	-	-	(493,945)
Net cash provided (used) by operating activities	1,277,653	-	(265)	1,277,388
Cash flows from non-capital financing activities:				
Operating grants and contributions	-	-	231,046	231,046
Transfers from other funds	74,521	31,918	47,082	153,521
Transfers to other funds	(1,020,120)	-	(3,300)	(1,023,420)
Transfers to lessee- healthcare	-	-	-	-
Net cash provided (used) by non-capital financing activities	(945,599)	31,918	274,828	(638,853)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(160,764)	(31,918)	(258,284)	(450,966)
Principal paid on capital debt	-	-	(21,089)	(21,089)
Interest paid on capital debt	-	-	(2,262)	(2,262)
Net cash provided (used) by capital and related financing activities	(160,764)	(31,918)	(281,635)	(474,317)
Cash flows from investing activities:				
Investment income	1,586	-	21	1,607
Net cash provided (used) by investing activities	1,586	-	21	1,607
Net increase (decrease) in cash and cash equivalents	172,876	-	(7,051)	165,825
Cash & cash equivalents, June 30, 2014	493,232	-	24,794	518,026
Cash & cash equivalents, June 30, 2015	<u>\$ 666,108</u>	<u>\$ -</u>	<u>\$ 17,743</u>	<u>\$ 683,851</u>
Cash, including time deposits	<u>\$ 666,108</u>	<u>\$ -</u>	<u>\$ 17,743</u>	<u>\$ 683,851</u>
Total cash and cash equivalents, end of year	<u>\$ 666,108</u>	<u>\$ -</u>	<u>\$ 17,743</u>	<u>\$ 683,851</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 668,526	\$ (26,200)	\$ (155,305)	\$ 487,021
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	536,386	26,200	155,040	717,626
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	15,452	-	-	15,452
(Increase) decrease in due from other funds	(2,356)	-	-	(2,356)
Increase (decrease) in accounts payable	53,694	-	-	53,694
Increase (decrease) in wages and benefits payable	9,243	-	-	9,243
Increase (decrease) in other liabilities	(3,292)	-	-	(3,292)
Total adjustments	609,127	26,200	155,040	790,367
Net cash provided (used) by operating activities	\$ 1,277,653	\$ -	\$ (265)	\$ 1,277,388

City of Watonga, Oklahoma
Statement of Fiduciary Net Position
June 30, 2015

	Agency Funds	Total Fiduciary Funds
ASSETS		
Cash and cash equivalents	\$ 119,175	\$ 119,175
Investments	127,000	127,000
Total assets	\$ 246,175	\$ 246,175
LIABILITIES		
Bonds and deposits subject to refund	\$ 246,175	\$ 246,175
Total liabilities	246,175	246,175

City of Watonga, Oklahoma
Statement of Changes in Fiduciary Net Position
June 30, 2015

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 97,303	\$ 21,872	\$ 119,175
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 224,303</u>	<u>\$ 21,872</u>	<u>\$ 246,175</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 224,303	\$ 21,872	\$ 246,175
Total liabilities	<u>\$ 224,303</u>	<u>\$ 21,872</u>	<u>\$ 246,175</u>

City of Watonga, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2015

	Grant Fund	Library Fund	Total Non-Major Funds
ASSETS			
Cash and cash equivalents	\$ 35,145	\$ 7,455	\$ 42,600
Total assets	<u>\$ 35,145</u>	<u>\$ 7,455</u>	<u>\$ 42,600</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Assigned	35,145	7,455	42,600
Total fund balances	<u>35,145</u>	<u>7,455</u>	<u>42,600</u>
Total liabilities and fund balances	<u>\$ 35,145</u>	<u>\$ 7,455</u>	<u>\$ 42,600</u>

City of Watonga, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2015

	Grant Fund	Huff Savings	Library Fund	Total Non-Major Funds
REVENUES				
Intergovernmental revenue	\$ 4,484	\$ -	\$ 5,920	\$ 10,404
Donations	-	2,772	-	2,772
Interest income	-	30	-	30
Total revenues	<u>4,484</u>	<u>2,802</u>	<u>5,920</u>	<u>13,206</u>
EXPENDITURES				
General government:				
General government	23,781	-	-	23,781
Total general government	<u>23,781</u>	<u>-</u>	<u>-</u>	<u>23,781</u>
Cultural, parks and recreation:				
Library	-	-	8,337	8,337
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>8,337</u>	<u>8,337</u>
Capital outlay	5,050	-	8,897	13,947
Total expenditures	<u>28,831</u>	<u>-</u>	<u>17,234</u>	<u>46,065</u>
Excess (deficiency) of revenues over expenditures	<u>(24,347)</u>	<u>2,802</u>	<u>(11,314)</u>	<u>(32,859)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	37,642	-	13,861	51,503
Transfers out	(13,861)	(24,703)	-	(38,564)
Total other financing sources and uses	<u>23,781</u>	<u>(24,703)</u>	<u>13,861</u>	<u>12,939</u>
Net change in fund balances	(566)	(21,901)	2,547	(19,920)
Fund balances - beginning	35,711	21,901	4,908	62,520
Fund balances - ending	<u>\$ 35,145</u>	<u>\$ -</u>	<u>\$ 7,455</u>	<u>\$ 42,600</u>

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of the City of Watonga, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2015.

A. Reporting Entity

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Street and Alley Fund

Accounts for the legally restricted gasoline and commercial vehicle taxes. Funds are used for maintenance and repair of streets and street equipment.

Debt Service Fund

Accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt.

Hospital Special Revenue Fund

Accounts for the 2% sales tax restricted for the Hospital Authority's capital expenditures and the transfer to the Hospital Authority.

Sales Tax (Capital Improvement) Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax.

General Obligation Bonds

Accounts for the proceeds of the General Obligation Hospital Funding Bonds of 2013 which were issued June 1, 2013 to pay obligations incurred in the operations, equipping and maintenance of the Watonga Municipal Hospital as well as for all legal, financial and other costs relating to the issuance of the bonds.

Non-Major Governmental Funds

Grant Fund

Established as a special revenue fund to account for the City's grant programs

Huff Savings Fund

Established as a special revenue fund to account for assigned donations.

Library Fund

Established as a special revenue fund to account for the operations of the municipal library.

Major Proprietary Funds

Light and Water Fund

Accounts for the operating activities of the electric, water, sewer, and sanitation utilities of the City.

Public Works Authority

Accounts for the operating activities of the municipal airport.

Watonga Hospital Authority

Accounts for the leasing activities of the municipal hospital to Mercy.

Fiduciary Component Units (reported in fiduciary financial statements)

Meter Deposit Fund

Accounts for utility deposits received by customers.

Municipal Court Bond Fund

Accounts for bonds held by the City related to the municipal court operations.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City follows the Estimate of Needs based budgeting. The budget is submitted on the required form no later than August 27. Revenues estimated for the General Fund are limited to 90% of the prior year recurring revenues plus any unreserved fund balance carry-over. The Council approves the budget.

Compliance

At June 30, 2015, the City was in material compliance with Oklahoma budgeting regulations.

D. Policies Related to Assets, Liabilities, and Fund Equity

Cash and Investments

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates of deposits or short-term investments (including restricted assets) with an original maturity of three months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

Due from other governments

Significant receivables include sales tax, use tax, gasoline and motor vehicle tax receivables due from the state of Oklahoma and Blaine County. Sales and Use Tax are considered fully collectible.

Accounts Receivable

Significant receivables include amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 90 days. At June 30, 2015, the City has estimated an allowance of \$150.

Restricted Assets

Restricted assets include assets legally restricted for capital projects at the hospital funded through sales tax directives. Restricted assets are current in nature and are reported with current assets in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Interfund Balances

Generally, outstanding balances between funds reported as due to/due from other funds include outstanding charges by one fund to another for services for goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost of \$1,000 or more as purchase and construction outlay occur.

The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

- Buildings 20-50 years
- Other improvements 10 years
- Machinery, furniture & equipment 5-25 years
- Infrastructure 20-40 years

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. An example of an item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category would be unavailable revenue from property taxes and special assessments. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. Those amounts would be deferred and recognized as an inflow of resources in the period that the amounts become available. The City does not currently have any items that qualify as a deferred inflow of resources.

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees at 1 day per month with a specified maximum of 65 days. Sick leave is not payable at the termination of employment. Employees are entitled to all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability.

Fund Equity

Fund Balance

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes beyond the restrictions applicable to the fund.

Net Position

Both proprietary fund financial statements and government-wide financial statements report net position. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net position.

Invested in capital assets, net of related debt

The amount restricted 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 improvement of those assets.

Restricted net position

Amounts reported as restricted consist of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reporting amounts and disclosures; accordingly, actual results could differ from those estimates.

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, park charges, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Grants and Contributions

Governmental grants and contributions primarily consist of grants from Federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from Federal and state agencies.

General Revenues

General revenues reported with governmental activities include tax revenues and unrestricted investment income.

Sales Tax

Effective January 2012, the City increased the sales tax levy from 4% to 5% based upon a vote of the citizens. The sales tax is levied on taxable sales within the City and is collected by the Oklahoma Tax Commission. Tax collections is remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax levied is restricted as to the use.

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One percent (1%) is restricted and recorded as sales tax revenue in the Hospital Special Revenue Fund for capital improvements at the Hospital. One half percent (1/2 %) is restricted and recorded in the Sales Tax (Capital Improvement) Fund to development of the Huff-Lorang Park, other park improvements, police and fire department use, and other capital improvements. One percent (1%) is restricted and reported as healthcare transfer to Mercy Hospital in accordance with the lease dated June 22, 2012 (See note (5)C. for further information).

The remaining two percent (2 1/2%) is unrestricted and is recorded as sales tax revenue within the General Fund.

(2) ASSETS AND LIABILITIES

A. Assets

Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Investments

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

<u>Types of Investments</u>	Primary Government			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 996,514	\$ 996,514	N/A	134
Total investments	<u>996,514</u>	<u>996,514</u>		
Total primary government investments	<u>\$ 996,514</u>	<u>\$ 996,514</u>		

RECONCILIATION TO STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ 846,514	\$ 150,000	\$ 996,514
Total investments	<u>\$ 846,514</u>	<u>\$ 150,000</u>	<u>\$ 996,514</u>

(1) Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

(2) **Interest rate risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

Restricted Assets

	<u>Cash</u>
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 92,526
Hospital sales tax	37,225
GO bonds- hospital	1,076,514
Total Governmental Activities	<u>1,206,265</u>
Total Restricted Assets	<u>\$ 1,206,265</u>

CITY OF WATONGA, OKLAHOMA
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Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
<u>Governmental Activities</u>				
Land	\$ 650,540	\$ -	\$ -	\$ 650,540
Buildings & structures	2,981,567	61,955	-	3,043,522
Machinery, furniture, & equipment	3,033,779	55,714	-	3,089,493
Infrastructure & improvements	19,161,135	-	-	19,161,135
Total	25,827,021	117,669	-	25,944,690
Less accumulated depreciation	16,007,346	814,343	-	16,821,689
Governmental fixed assets, net	\$ 9,819,675	\$ (696,674)	\$ -	\$ 9,123,001
<u>Business-type Activities</u>				
Land	\$ 73,020	\$ -	\$ -	\$ 73,020
Buildings & structures	6,700,680	254,153	-	6,954,833
Machinery, furniture, & equipment	1,365,900	72,631	-	1,438,531
Infrastructure & improvements	18,113,227	124,182	-	18,237,409
Total	26,252,827	450,966	-	26,703,793
Less accumulated depreciation	15,590,373	717,626	-	16,307,999
Business-type fixed assets, net	\$ 10,662,454	\$ (266,660)	\$ -	\$ 10,395,794
Total primary government	\$ 20,482,129	\$ (963,334)	\$ -	\$ 19,518,795
	Light & Water Fund	Watonga Hospital Authority	Public Works Authority	Total Business- Type
<u>Business-type Activities</u>				
Land	\$ 48,070	\$ 3,950	\$ 21,000	\$ 73,020
Buildings & structures	222,856	886,809	5,845,168	6,954,833
Machinery, furniture, & equipment	1,119,177	28,618	290,736	1,438,531
Infrastructure & improvements	18,237,409	-	-	18,237,409
Total	19,627,512	919,377	6,156,904	26,703,793
Less accumulated depreciation	(11,337,119)	(601,504)	(4,369,376)	(16,307,999)
Business-type fixed assets, net	\$ 8,290,393	\$ 317,873	\$ 1,787,528	\$ 10,395,794

CITY OF WATONGA, OKLAHOMA
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Depreciation Expense

Primary Government					
Governmental Activities			Business-type Activities		
General government	\$	10,406	Water	\$	213,255
Public safety & judiciary		57,094	Sewer		218,726
Transportation		687,462	Electric		72,234
Cultural, parks & recreation		59,381	Administration		12,179
Total depreciation expense	\$	814,343	Sanitation		19,992
			Hospital		26,200
			Airport		155,040
			Total depreciation expense	\$	717,626

B. Liabilities

Notes Payable

Governmental Activities

The City of Watonga issued General Obligation Hospital Funding Bonds of 2013 dated June 1, 2013 in the amount of \$1,700,000 to be used for obligations incurred in the operations, equipping and maintenance of Watonga Municipal Hospital as well as all legal, financial, and other costs relating to the issuance of the bonds. Payments are made semi-annually with a variable interest rate ranging from 2.00% to 3.6%. The bonds mature June 1, 2032.

\$ 1,530,000

\$ 1,530,000

Business-Type Activities

In October 2009, PWA entered into an agreement with John Deere credit for the purchase of a wheel loader in the amount of \$133,783. The loan carries a fixed interest rate of 5.87% for 84 months, maturing September 2016.

33,671

\$ 33,671

Changes in Long-Term Debt

Type of Debt	Balance at July 1, 2014	Amount Issued	Amount Retired	Balance at June 30, 2015	Due Within One Year
Governmental activities:					
General Obligation bonds	\$ 1,620,000	\$ -	\$ 80,000	\$ 1,540,000	\$ -
Business-type activities:					
John Deere Credit	54,761	-	21,089	33,672	22,167
Total business-type activities	\$ 54,761	\$ -	\$ 21,089	\$ 33,672	\$ 22,167
Total primary government	\$ 1,674,761	\$ -	\$ 101,089	\$ 1,573,672	\$ 22,167

Annual Debt Service Requirements

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
	2016	\$ 90,000	\$ 44,055	\$ 22,167
2017	90,000	41,805	11,505	168
2018	90,000	39,555	-	-
2019	90,000	37,305	-	-
2020	90,000	35,055	-	-
2021-2025	450,000	141,165	-	-
2026-2030	450,000	76,680	-	-
2031-2033	180,000	9,630	-	-
Totals	<u>\$ 1,530,000</u>	<u>\$ 425,250</u>	<u>\$ 33,672</u>	<u>\$ 1,347</u>

C. Interfund Balances

	<u>Transfers In</u>	<u>Transfers Out</u>
GENERAL FUND		
Light and Water Fund	\$ 1,007,120	\$ 74,521
Hospital Special Revenue Fund	743	23,858
Sales Tax (Capital Improvement) Fund	132	-
Total General Fund	<u>1,007,995</u>	<u>98,379</u>
HOSPITAL SPECIAL REVENUE FUND		
General Fund	23,858	743
Sales Tax (Capital Improvement) Fund	-	50,000
Grant Fund	-	23,781
Total Hospital Special Revenue Fund	<u>23,858</u>	<u>74,524</u>
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	-	132
Public Works Authority	-	30,782
Hospital Special Revenue Fund	50,000	-
Huff Savings	10,842	-
Total Sales Tax (Cap Improve) Fund	<u>60,842</u>	<u>30,914</u>
GENERAL OBLIGATION BOND FUND		
Hospital Sinking Fund	-	1,969
Public Works Authority	-	3,300
Hospital Authority	-	28,618
Total General Obligation Bond Fund	<u>-</u>	<u>33,887</u>
GRANT FUND		
Hospital Special Revenue	23,781	-
Huff Savings	13,861	-
Library Special Revenue Fund	-	13,861
Total Grant Fund	<u>37,642</u>	<u>13,861</u>
LIBRARY SPECIAL REVENUE		
Grant Fund	13,861	-
Total Library Special Revenue	<u>13,861</u>	<u>-</u>
HOSPITAL SINKING FUND		
General Obligation Bond Fund	1,969	-
Total Hospital Sinking Fund	<u>1,969</u>	<u>-</u>
HUFF SAVINGS		
Sales Tax (Capital Improvement) Fund	-	10,842
Grant Fund	-	13,861
Total Huff Savings	<u>-</u>	<u>24,703</u>
LIGHT AND WATER FUND		
General Fund	74,521	1,007,120
Public Works Authority	-	13,000
Total Light and Water Fund	<u>74,521</u>	<u>1,020,120</u>
PUBLIC WORKS AUTHORITY		
Sales Tax (Capital Improvement) Fund	30,782	-
General Obligation Bond Fund	3,300	-
Light & Water Fund	13,000	-
Hospital Authority	-	3,300
Total Public Works Authority	<u>47,082</u>	<u>3,300</u>
HOSPITAL AUTHORITY		
Public Works Authority	3,300	-
General Obligation Bond Fund	28,618	-
Total Hospital Authority	<u>31,918</u>	<u>-</u>
GRAND TOTAL	<u>\$ 1,299,688</u>	<u>\$ 1,299,688</u>

(3) REVENUES AND EXPENSES

Interfund Transfers

Refer to Note (2)C. Interfund Balances

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
Oklahoma Municipal Retirement Fund	Agent Multiple Employer – Defined Benefit Plan
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan
Oklahoma Firefighter Pension and Retirement Fund	Cost Sharing Multiple Employer – Defined Benefit Plan

A. Oklahoma Municipal Retirement Fund- Defined Benefit Plan

Plan Description

Substantially all of the City's full-time employees, except police and firefighters, participate in a defined benefit pension plan adopted by the City and administered by the Oklahoma Municipal Retirement System (OMRF), which was established to administer pension plans for municipal employees. OMRF issues a publically available financial report that can be obtained at www.okmrf.org.

Benefits Provided

OMRF provides retirement, disability, and death benefits. Retirement benefits are determined as 3 percent of the employee's final average compensation multiplied by the employee's years of service; final average compensation is the average of the 5 highest consecutive years of salaries out of the last 10 years of service. Vesting requires 7 years of service. Members are eligible for normal retirement at age 65 with 7 years of vested service. The benefit is payable immediately. Early retirement is available after age 55 with 7 years of vested service. Early retirement benefits are paid at the normal retirement age, or reduced 5% per year for commencement prior to the normal retirement age.

Disability retirement is provided for member's total and permanent disability after 7 or more years of service. The accrued benefit is payable upon disablement without reduction for early payment.

In-service death benefits are payable after vesting at 50% of the accrued benefit until the death of the spouse or remarriage. If the member was not vested at the time of in-service death, member contributions are returned, if any, with interest.

Contributions

Required contribution rates are actuarially measured each year and authorized through City Ordinance. Employees are required to contribute 4.0% of paid salary. For the year ended June 30, 2015, the City's contribution was 18.80%. Contributions to the pension plan from the City were \$174,306 for the year ended June 30, 2015.

Membership

Membership in the plan is as follows:

	<u>As of July 1, 2014</u>
Inactive employees & beneficiaries receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	4
Active participants	28
Total	52

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPPRS

At June 30, 2015, the City reported a liability of \$881,434 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined.

Changes to the actuarial valuation between the measurement date of the net pension liability and the City's reporting dates are not expected to have a significant effect on the net pension liability.

For the year ended June 30, 2015, the City recognized pension expense of \$127,288. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	255,586
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	174,306	-
Total	<u><u>\$ 174,306</u></u>	<u><u>\$ 255,586</u></u>

Other amounts reported deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 63,897
2017	63,897
2018	63,896
2019	63,896
	<u><u>\$ 255,586</u></u>

Actuarial assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	5.07 percent, average
Investment rate of return	7.55 percent, net of pension plan investment expense and inflation

Mortality rates were based on the UP 1994 with projected mortality improvement. Valuation rates are projected for mortality improvement by the Society of Actuaries' table AA based upon the employee's year of birth.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period ended July 1, 2007 through June 30, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2014 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Large cap stocks - S&P 500	25%	5.40%	1.35%
Small/mid cap stocks - Russell 2500	10%	7.50%	0.75%
Long/short equity - MSCI ACWI	10%	6.10%	0.61%
International stocks - MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds - Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate - NCREIF	5%	4.80%	0.24%
Cash equivalents - 3 month Treasury	0%	0.00%	0.00%
	100%		
		Average Real Return	4.75%
		Inflation	3.00%
		Long term expected return	<u><u>7.75%</u></u>

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent, as the plan's net fiduciary position is projected to be sufficient to make projected benefit payments. The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of the member's working career. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have

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been contributed to the trust before those benefits are payable. Therefore, no separate cash flow projection is required to determine the sufficiency of the plan assets. The 20 year tax free bond yield of 3.29% was used in the analysis.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2013	4,502,384	3,318,441	1,183,943
Changes for the year:			
Service cost	94,016	-	94,016
Interest	344,182	-	344,182
Differences between expected and actual experience	-	-	-
Contributions - employer	-	174,211	(174,211)
Contributions - employee	-	37,065	(37,065)
Net investment income	-	537,354	(537,354)
Benefit payments, including refunds of employee contributions	(316,592)	(316,592)	-
Administrative expense	-	(7,923)	7,923
Other changes	-	-	-
Net changes	<u>121,606</u>	<u>424,115</u>	<u>(302,509)</u>
Balances at June 30, 2014	<u>\$ 4,623,990</u>	<u>\$ 3,742,556</u>	<u>\$ 881,434</u>

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	1,370,907	881,434	463,035

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued OMRF financial report.

B. Oklahoma Police Pension and Retirement System

Plan Description

The City of Watonga, as the employer, participates in the Oklahoma Police Pension and Retirement System, a statewide, cost-sharing, multiple-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publically available financial report that can be obtained at www.ok.gov/OPPRS.

Benefits Provided

OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability

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benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.25% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

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

Contributions

The State of Oklahoma has the authority to establish contribution obligations and benefits per state statute 11 O.S. Section 550-101 et seq. Employees are required to contribute 8% of paid base salary; the City contributes 13% of the employee's paid base salary. Contributions to the pension plan from the City were \$18,326 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPPRS

At June 30, 2015, the City reported an asset of \$16,966 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined. At June 30, 2015, the City's proportion was 0.0504 percent.

For the year ended June 30, 2015, the City recognized pension expense of \$20,540. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 7,624
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	59,644
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	20,540	-
Total	\$ 20,540	\$ 67,268

Other amounts reported deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 16,489
2017	16,489
2018	16,489
2019	16,489
2020	1,312
	\$ 67,268

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

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JUNE 30, 2015

Inflation	3 percent
Salary increases	4.5% to 17% average, including inflation
Investment rate of return	7.5% net of pension plan investment expense, per annum, compound annually
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 yrs with full generational improvement using Scale AA.
	Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.
	Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward with fully generational improvement using scale AA.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period ended July 1, 2007 through June 30, 2012. There have been no changes to actuarial assumptions since the prior valuation.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Long-Term Expected Asset Class</u>	<u>Real Rate of Return</u>
Fixed income	2.83%
Domestic equity	6.47%
International equity	6.98%
Real Estate	5.50%
Private Equity	5.96%
Other assets	3.08%

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability/(asset)	100,942	(16,966)	(116,336)

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2013	1,073,519	995,735	77,784
Changes for the year:			
Service cost	26,733	-	26,733
Interest	80,265	-	80,265
Differences between expected and actual experience	(9,202)	-	(9,202)
Contributions - employer	-	17,916	(17,916)
Contributions - employee	-	11,154	(11,154)
Contributions - State of Oklahoma (non-employer)		15,790	(15,790)
Net investment income	-	148,628	(148,628)
Benefit payments, including refunds of employee contributions	(60,097)	(60,097)	-
Administrative expense	-	(942)	942
Other changes	-	-	-
Net changes	37,699	132,449	(94,750)
Balances at June 30, 2014	\$ 1,111,218	\$ 1,128,184	\$ (16,966)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued OPPRS financial report which can be located at www.ok.gov/OPPRS.

C. Oklahoma Firefighters Pension and Retirement System

Plan Description

The City of Watonga, as the employer, participates in the Firefighters Pension & Retirement- a statewide, cost-sharing, multiple-employer defined benefit plan administered by the Oklahoma Firefighters Pension and Retirement System (FPRS). FPRS issues a publically 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 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 State of Oklahoma has the authority to establish contribution obligations per state statute 11 O.S. Section 49.100 thru 49.143 et seq and are not based on actuarial calculations. Volunteer members have no contribution requirements; the City contributes \$60 per year for each volunteer. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$18,293.

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPPRS

At June 30, 2015, the City reported a liability of \$503,321 for its proportionate share of the net pension liability. The net pension net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. The City's proportion was 0.0489%.

For the year ended June 30, 2015, the City recognized pension expense of \$17,097. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 11,992	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	76,189
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	17,097	-
Total	\$ 29,089	\$ 76,189

Other amounts reported deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$	16,816
2017		16,816
2018		16,816
2019		16,816
2020		(2,231)
Thereafter		(836)
	\$	64,197

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

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

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

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.48%
Domestic equity	37%	9.61%
International equity	20%	9.24%
Real Estate	10%	7.76%
Other assets	13%	6.88%

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	656,632	503,321	373,943

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	1,507,048	928,659	578,389
Changes for the year:			
Service cost	28,745	-	28,745
Interest	112,006	-	112,006
Differences between expected and actual experience	14,213	-	14,213
Contributions - employer	-	17,655	(17,655)
Contributions - employee	-	38,898	(38,898)
Contributions - State of Oklahoma (non-employer)	-	10,786	(10,786)
Net investment income	-	164,109	(164,109)
Benefit payments, including refunds of employee contributions	(84,766)	(84,766)	-
Administrative expense	-	(1,416)	1,416
Other changes	-	-	-
Net changes	70,198	145,266	(75,068)
Balances at June 30, 2014	\$ 1,577,246	\$ 1,073,925	\$ 503,321

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

Other Post-Employment Benefits

For the year ended June 30, 2015, the City provided no post-employment benefits (other than pension) to terminated employees.

(5) COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

B. Grant Program Involvement

In the normal course of operations, the City 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. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

C. Mercy Hospital Watonga Inc. Lease

On June 22, 2012 the Watonga Municipal Hospital Authority entered into an agreement to sublease the hospital for a seven year period commencing July 1, 2012 (initial term). The lease will be extended for thirteen additional one year terms unless the lessee gives written notice to the Authority at least 180 days prior to the end of the initial term or any renewal term of its desire to terminate the lease. The consideration for the lease is \$1 per year (for leasing the premises).

The Authority transferred cash and equivalents, patient accounts receivable and supplies inventory, all equipment used in the operation of the hospital. No consideration was provided. The lessee (Mercy) also assumed the Authority's accruals for salary expense, accrued employee benefits, and accrued compensated absences. The building and improvements remain property of the Authority and is leased by Mercy Hospital Watonga Inc. as noted above.

The lessee is permitted to terminate the lease, either during the initial term or any renewal term, at any time upon 120 days written notice to the Authority. Upon this sublease being terminated, the Authority will be obligated to purchase all of the lessee's property and equipment, inventory and supplies, and any other leased property on the date of termination.

(6) RESTATEMENT OF BEGINNING NET POSITION

Net position of the Government-Wide Governmental Activities financial statements has been restated to include the pension liability at the beginning of the period in accordance with GASB 68. As a result of the restatement, total beginning net position has decreased by \$1,840,116. The prior period financial statements were not reissued or restated as a result of this change in accounting principle.

City of Watonga, Oklahoma
General Fund
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Sales tax	\$ 753,500	\$ 100,000	\$ 853,500	\$ 867,026	\$ 13,526
Use tax	100,000	60,000	160,000	162,946	2,946
Cigarette tax	17,725	2,000	19,725	20,142	417
Franchise Tax	31,389		31,389	31,680	291
Alcoholic beverage tax	50,926	5,000	55,926	62,766	6,840
Police Fines & Court Fees	36,966	12,500	49,466	50,801	1,335
Insure OK	13,741	(12,500)	1,241	1,417	176
Rentals, sales, miscellaneous	47,482	(15,000)	32,482	35,471	2,989
Oil & gas income	2,054	(1,000)	1,054	1,196	142
Licenses & permits	3,256		3,256	4,577	1,321
Interest Income	8,869	(869)	8,000	7,864	(136)
Grants	76		76	-	(76)
Watonga Housing Authority		-	-	7,496	7,496
Total revenues	1,065,984	150,131	1,216,115	1,253,382	37,267
EXPENDITURES					
<u>General government:</u>					
General government:	376,250	15,000	391,250	403,925	(12,675)
Managerial:	14,700	800	15,500	15,246	254
City Clerk:	153,450	-	153,450	147,038	6,412
City Treasurer:	19,825	-	19,825	16,273	3,552
City Attorney:	25,600	24,400	50,000	47,531	2,469
Total General government:	589,825	40,200	630,025	630,013	12
<u>Public safety and judiciary:</u>					
Municipal Court:	10,450	-	10,450	10,473	(23)
Police Department:	514,300	7,500	521,800	506,163	15,637
Fire Department:	264,450	(5,000)	259,450	241,684	17,766
Code Enforcement:	-	25,000	25,000	24,271	729
Total	789,200	27,500	816,700	782,591	34,109
<u>Transportation:</u>					
Street:	526,250	-	526,250	505,956	20,294
Total	526,250	-	526,250	505,956	20,294
<u>Culture and recreation:</u>					
Library:	215,000	5,000	220,000	220,976	(976)
Park:	222,750	5,000	227,750	226,710	1,040
Total Culture and recreation:	437,750	10,000	447,750	447,686	64
<u>Public services</u>					
Airport:	23,000	2,000	25,000	24,652	348
Total Public services	23,000	2,000	25,000	24,652	348
Total expenditures	2,366,025	79,700	2,445,725	2,390,898	54,827
Revenue over (under) expenditures	(1,300,041)	70,431	(1,229,610)	(1,137,516)	92,094

City of Watonga, Oklahoma
 General Fund
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Operating transfers in/(out)		(200,000)	(200,000)	909,616	1,109,616
Net other financing sources (uses)	-	(200,000)	(200,000)	909,616	1,109,616
Revenues and other financing sources over (under) expenditures and other uses	(1,300,041)	(129,569)	(1,429,610)	(227,900)	1,201,710
Fund balance at beginning of year (Non-GAAP budgetary basis)	1,220,847	1,220,847	1,220,847	1,257,506	36,659
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ (79,194)</u>	<u>\$ 1,091,278</u>	<u>\$ (208,763)</u>	<u>\$ 1,029,606</u>	<u>\$ 1,238,369</u>
<u>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</u>					
Revenue and transfer accruals				40,439	
Fund balance at end of year (GAAP basis)				<u>\$ 1,070,045</u>	

Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Oklahoma Police Pension Retirement Plan

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.0504%
City's proportionate share of the net pension liability (asset)	\$ (16,966)
City's covered-employee payroll	\$ 140,969
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-12.04%
Plan fiduciary net position as a percentage of the total pension liability	101.53%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previ

SCHEDULE OF CITY CONTRIBUTIONS

Oklahoma Police Pension Retirement Plan

	<u>2015*</u>
Contractually required contribution	\$ 18,326
Contributions in relation to the contractually required contribution	<u>(18,326)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 140,969
Contributions as a percentage of covered-employee payroll	13.00%

Schedules of Required Supplementary Information

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Oklahoma Fire Pension Retirement Plan

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.0489%
City's proportionate share of the net pension liability (asset)	\$ 503,321
City's covered-employee payroll	\$ 130,664
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	385%
Plan fiduciary net position as a percentage of the total pension liability	68.12%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previ

SCHEDULE OF CITY CONTRIBUTIONS

Oklahoma Fire Pension Retirement Plan

	<u>2015*</u>
Contractually required contribution	\$ 18,293
Contributions in relation to the contractually required contribution	<u>(18,293)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 130,664
Contributions as a percentage of covered-employee payroll	14.00%

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

**Oklahoma Municipal Retirement Fund
SINCE INITIAL APPLICATION**

	<u>2015*</u>
Total pension liability	
Service cost	\$ 318,193
Interest	766,152
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(567,102)</u>
Net change in total pension liability	\$ 517,243
Total pension liability - beginning	<u>9,845,902</u>
Total pension liability - ending (a)	<u><u>\$ 10,363,145</u></u>
Plan fiduciary net position	
Contributions - employer	299,965
Contributions - employee	127,630
Net investment income	1,614,704
Benefit payments, including refunds of employee contributions	(567,102)
Administrative expense	(23,876)
Other	-
Net change in plan fiduciary net position	<u>1,451,321</u>
Plan fiduciary net position - beginning	<u>9,877,199</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 11,328,520</u></u>
City's net pension liability - ending (a) - (b)	<u><u>\$ (965,375)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	109.32%
Covered-employee payroll	\$ 2,191,279
City's net pension liability as a percentage of covered-employee payroll	-44.06%

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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

To the City Council
City of Watonga
Watonga, Oklahoma

Board of Trustees
Public Works Authority
Watonga, 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Watonga, State of Oklahoma, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Watonga, State of Oklahoma's basic financial statements, and have issued our report thereon dated February 2, 2016.

Internal Control over Financial Reporting

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

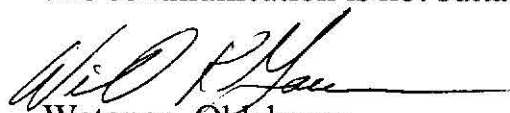
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Watonga, State of 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.


Watonga, Oklahoma
February 2, 2016